**TELESSO TECHNOLOGIES LIMITED**
(ACN 072 178 977)

Notice of General Meeting

Explanatory Memorandum

and

Related Documentation

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**THE MATTERS RAISED IN THIS DOCUMENT WILL AFFECT YOUR SHAREHOLDING IN THE COMPANY. YOU ARE ADVISED TO READ THIS DOCUMENT IN ITS ENTIRETY BEFORE THE GENERAL MEETING REFERRED TO BELOW IS HELD.**

IF YOU ARE IN ANY DOUBT ABOUT THE ACTION YOU SHOULD TAKE, PLEASE CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER

# CHAIRMAN'S LETTER

Dear Shareholder,

Please find enclosed the Notice of General Meeting to be held on Thursday 29 August 2013.

On behalf of the Directors of the Company, I am pleased to advise that on 14 March 2013 the Company entered into a conditional agreement with the shareholders and option holders of Mimetica Pty Ltd (**Mimetica**) to acquire all the issued shares in that company and for the cancellation of its existing options. Mimetica is a private Australian company focused on the development of products for the treatment of acne.

Acne is a common skin disorder affecting most people at some point in their life. It is especially prevalent amongst people aged 15 to 24 years. In our modern world, where the importance of physical appearance tends to be over-emphasised in any social setting, acne sufferers are frequently embarrassed or withdrawn. The psychological and emotional consequences of acne can therefore be devastating.

The major cause of acne is the excessive production of sebum, the oily secretion made by the skin's sebaceous glands. Sebum combines with dead skin cells forming a plug which, in association with other pathologic processes, develops into acne lesions.

Currently the most effective marketed treatment is an orally administered drug, isotretinoin (known commercially as Accutane® or Roaccutane® among other brand names), that works by inhibiting sebum secretion. Isotretinoin is generally only prescribed for individuals with severe acne and is strictly regulated by many government agencies due to its high potential to cause birth defects. There are also other side effects of isotretinoin which further limit its use.

Mimetica's lead drug, MTC896, is a novel small molecule that is designed to reduce sebum in a different manner to isotretinoin. MTC896 works by blocking the Melanocortin-5 receptor (MC5R), a novel target for the treatment of acne. MC5R is located on the surface of sebocytes, the cells that make sebum. It is proposed that in binding to MC5R, MTC896 prevents the receptor from signaling, and thereby causing a reduction in the production of sebum.

Initial human clinical trials with a topical formulation of Mimetica's MTC896 have shown the drug displays a favourable safety profile and has shown positive indications that it could significantly enhance the treatment options for acne.

Our objective is to complete the acquisition of Mimetica and conduct further clinical development of MTC896 to demonstrate clinical effectiveness in humans with acne. If the trials are successful MTC896 Gel is expected to be the first topically administered product of this type and will offer a new approach to the way acne is treated.

The attached Notice of General Meeting and Explanatory Memorandum detail the resolutions to be put to the meeting in order for the acquisition to move to completion. The Directors of the Company believe that the intended acquisition is a positive step for the Company and fully endorse it to Shareholders.

Yours sincerely

Michael Hoy
**Chairman**

# NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a general meeting of Telesso Technologies Limited (**Company**) will be held at Level 5, 207 Kent Street, Sydney, New South Wales, 2000 at 10.00am on Thursday, 29 August 2013.

Members should refer to the Explanatory Memorandum accompanying this Notice for further information concerning the business to be transacted at this meeting and for terms defined in this Notice.

## 1. Approval of consolidation of shares

Resolution 1:

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

*That, subject to the passing of Resolutions 2 to 5 (inclusive), in accordance with section 254H(1) of the Corporations Act the ordinary fully paid shares of the Company be consolidated through the conversion of every 6.68358 shares held by a shareholder into one share with any resulting fractions of a share rounded up to the next whole number of shares and the consolidation to take effect on completion of the purchase by the Company of all the issued shares in Mimetica Pty Ltd pursuant to the Share Purchase Agreement described in the Explanatory Memorandum.*

## 2. Approval of acquisition of Mimetica and change of activities

Resolution 2:

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

*That, subject to the passing of Resolutions 1 and 3 to 5 (inclusive), for the purposes of ASX Listing Rule 11.1.2 and for all other purposes, the Company is authorised to:*

*(a) acquire all the issued shares in Mimetica on the terms and conditions agreed in the Share Purchase Agreement described in the Explanatory Memorandum; and*

*(b) change the nature and scale of the Company's activities as described in the Explanatory Memorandum.*

## 3. Issue of Shares and Options to Mimetica shareholders

Resolution 3:

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

*That, subject to the passing of Resolutions 1 and 2 and Resolutions 4 and 5, for the purposes of ASX Listing Rule 7.1 and for all other purposes, the Company is authorised to issue and allot up to 63,000,000 fully paid ordinary shares to the Mimetica Shareholders and grant 3,000,000 Options to the Mimetica Optionholders on the terms and conditions set out in the Explanatory Memorandum no later than three months after*

*this general meeting in consideration for the Company's acquisition of all of the issued shares in the capital of Mimetica.*

**4. Acquisition of a relevant interest by Mimetica shareholders**

Resolution 4:

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

*That, subject to the passing of Resolutions 1 to 3 (inclusive) and Resolution 5, for the purposes of section 611, item 7 of the Corporations Act 2001 and for all other purposes approval be given for the acquisition by each of the Mimetica Shareholders described in the Explanatory Memorandum of a relevant interest in fully paid ordinary shares in the Company as set out in the Explanatory Memorandum representing in aggregate 87.50% of the issued voting shares in the Company prior to completion of the Public Offer described in the Explanatory Memorandum.*

**5. Issue of Shares and Options under Prospectus**

Resolution 5:

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

*That, subject to the passing of Resolutions 1 to 4 (inclusive), for the purposes of Listing Rule 7.1 and for all other purposes the Company is authorised to issue and allot up to 32,000,000 fully paid ordinary shares at 25 cents per share payable in full on application and grant up 1,600,000 Options on the terms and pursuant to the Public Offer described in the Explanatory Memorandum no later than three months after this general meeting.*

**6. Change of name**

Resolution 6:

To consider and, if thought fit, to pass the following resolution as a special resolution:

*That, subject to the passing of Resolutions 1 to 5 (inclusive), the name of the Company be changed to Mimetica Limited to take effect on completion of the purchase by the Company of all the issued shares in Mimetica pursuant to the Share Purchase Agreement described in the Explanatory Memorandum.*

**Notes:**

- A detailed explanation of the Resolutions is contained within the Explanatory Memorandum accompanying this Notice.
- With respect to Resolutions 2 to 5 (inclusive), the Company intends to issue the Shares and Options referred to in those resolutions as soon as practicable on or after completion of the Capital Raising.
- With respect to Resolution 4, for the purposes of item 7 of section 611 of the Corporations Act, an Independent Expert's Report prepared by Pitcher Partners Corporate Finance Limited in relation to the Transaction is enclosed with this Notice.
- A copy of this Notice and the Explanatory Memorandum which accompanies this Notice has been lodged with the Australian Securities and Investments Commission pursuant to Australian Securities and Investments Commission Regulatory Guide 74.

**Voting Exclusions:**

The Company will disregard any votes cast on Resolutions 2, 3, 4 and 5 by:

(a) any Mimetica Shareholder or their associates;

(b) any other person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities in the Company, if the Resolution is passed and by any associates of those persons.

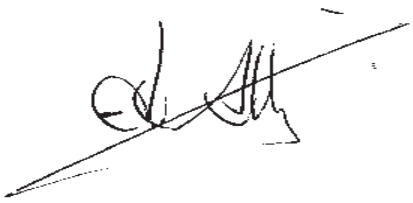
The Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the general meeting as proxy for a person who is entitled to vote in accordance with the direction on the proxy form to vote as the proxy decides.

Voting restrictions will apply specifically to (but are not necessarily limited to) the following parties:

- Start-Up Australia Ventures Pty Limited ACN 095 498 632;
- Fishfingers Pty Ltd as nominee for AustralianSuper Investments Pty Ltd ACN 002 899 961 in its capacity as trustee of the AustralianSuper Private Equity Trust;
- National Nominees Limited as nominee for MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd ACN 122 988 587 in its capacity as trustee of the MTAA Superannuation (Companion Funds) Private Equity Trust;
- Starfish Ventures Pty Ltd ACN 095 333 663 in its capacity as responsible entity of the Starfish Pre-Seed Fund;
- Starfish Ventures Pty Ltd ACN 095 333 663 in its capacity as trustee of the Starfish IIFF Trust;
- TeQstart Pty Ltd ACN 093 912 862;
- IMBCom Pty Ltd ACN 094 733 909; and
- Peter Joseph Cassidy.

By order of the Board



.....
Ian Atkin
Company Secretary
Dated 29 July 2013

## PROXIES AND CORPORATE REPRESENTATIVE

A member who is entitled to vote at this meeting may appoint a proxy who need not be a member of the Company. A member is entitled to appoint up to two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. A proxy appointment form is enclosed. The proxy form must be received by the Company no later than 48 hours before the commencement of the meeting.

The proxy form may be delivered in any one of the following ways:-

- By mail to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001 or

- By facsimile to Computershare Investor Services Pty Limited on 1800 783 447

A member which is a body corporate, or a body corporate appointed as proxy, may appoint an individual as a representative to exercise the body corporate's voting rights at the meeting of members pursuant to section 250D of the Corporations Act. Representatives will be required to present documentary evidence of their appointment on the day of the meeting.

For the purpose of the Corporations Act, the Company has determined that all securities of the Company that are on issue at 7.00pm, 27 August 2013 will be taken, for the purpose of voting at the general meeting, to be held by the persons who were registered holders at that time.

# EXPLANATORY MEMORANDUM

## 1. INTRODUCTION

This Explanatory Memorandum is provided to Shareholders to explain the Resolutions to be put to Shareholders at a general meeting of the Company to be held at Level 5, 207 Kent Street, Sydney, New South Wales, 2000 at 10.00am on 29 August 2013 (**General Meeting**).

The Directors recommend that Shareholders read the Notice, this Explanatory Memorandum, the Independent Expert's Report and all accompanying documentation in full before making any decision in relation to the Resolutions.

Terms used in this Explanatory Memorandum are defined in section 5.

## 2. OVERVIEW OF PROPOSED TRANSACTION

### 2.1 Summary of proposed Transaction

As announced on 15 April 2013, the Company has entered into the Share Purchase Agreement to acquire all the issued shares in Mimetica.

The Company proposes to change the nature and scale of its activities to those currently undertaken by Mimetica. The Directors and the directors of Mimetica have discussed, examined and negotiated a transaction to effect this change (the **Transaction**).

There are several components to the Transaction. The Company intends to:

- undertake a Share consolidation through the conversion of every 6.68358 existing Shares to one Share;
- acquire all of the issued share capital of Mimetica from the Mimetica Shareholders in exchange for the issue of 63,000,000 Shares (on a post-consolidation basis) to the Mimetica Shareholders;
- grant 3,000,000 Options to the Mimetica Optionholders in return for the cancellation of their options to acquire shares in Mimetica;
- undertake a public capital raising to raise a minimum of $6,500,000.00 and a maximum of $8,000,000.00 through the offer of not less than 26,000,000 and not more than 32,000,000 Shares at 25 cents per Share (on a post-consolidation basis), together with the grant of 2,000 Options to each existing shareholder of the Company who applies for at least $2,000.00 of Shares under the Public Offer; and
- change its name to "Mimetica Limited".

The Transaction will only proceed if all of the Resolutions, other than Resolution 6, are passed by Shareholders at the General Meeting and the Capital Raising is successfully completed.

The Company, the Mimetica Securityholders and Mimetica have entered into the Share Purchase Agreement in respect of the Transaction, the terms of which are summarised in this Explanatory Memorandum.

The Directors appointed Pitcher Partners Corporate Finance Limited as independent expert to provide an opinion on the fairness and reasonableness of the Transaction. The Independent Expert has concluded that the Transaction is fair and reasonable to Shareholders. In brief, the Independent Expert determined that the Transaction is fair since the value of a Share following the acquisition of Mimetica will be higher than the fair market value of a Share prior to the acquisition of Mimetica. The Independent Expert determined that the Transaction is reasonable given that the Transaction is fair, and having considered the advantages and disadvantages of the Transaction. The findings of the Independent Expert are more fully described in section 2.12 of this Explanatory Memorandum.

## 2.2 Overview of Mimetica

Mimetica is a private Australian drug development company focused on the development of novel prescription therapeutics for the treatment of *acne vulgaris* (acne). Mimetica, founded in Brisbane, Australia in 2001, was formed to develop a drug discovery platform technology based on the rational design of small molecules that mimic natural peptide hormones. Mimetica successfully applied this technology to generate novel drug candidates, and has advanced one of these, known as MTC896, into Phase 2 clinical development as a potential new topical treatment for acne. Further information regarding the business and activities of Mimetica is set out in section 2.11 of this Explanatory Memorandum.

Mimetica had eight shareholders as at the Effective Date. The Mimetica Shareholders and their respective shareholdings in Mimetica are set out in table 1(a) below.

Mimetica had five optionholders as at the Effective Date, being current or past employees or consultants of Mimetica. The Mimetica Optionholders and their respective optionholdings are set out in table 1(b) below.

Under the Share Purchase Agreement, the options held by the Mimetica Optionholders will be cancelled in exchange for the grant by the Company of Options to them under the Share Purchase Agreement (described in section 2.3 below).

**Table 1:**

**(a) Mimetica Shareholders**

| Name of shareholder | Number of Mimetica shares held | Percentage (%) of Mimetica shares |
|---|---|---|
| Start-Up Australia Ventures Pty Ltd | 3,317,758 Series B Preference Shares | 22.73% |
| | 2,463,191 Series C Preference Shares | 16.88% |
| Starfish Ventures Pty Ltd as trustee of the Starfish IIFF Trust | 1,460,192 Series C Preference Shares | 10% |
| | 1,096,892 Series C Preference Shares* | 7.57% |
| AustralianSuper Investments Pty Ltd as trustee of the AustralianSuper Private Equity Trust | 2,089,586 Series C Preference Shares | 14.32% |

| | | |
|---|---|---|
| MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd as trustee of the MTAA Superannuation Fund (Companion Funds) Private Equity Investments Trust | 1,938,531 Series C Preference Shares | 13.28% |
| Starfish Ventures Pty Ltd as responsible entity of the Starfish Pre-Seed Fund | 1,007,025 Series C Preference Shares | 6.9% |
| Peter Joseph Cassidy | 510,000 ordinary shares | 3.49% |
| IMBcom Pty Ltd | 510,000 ordinary shares | 3.49% |
| TeQstart Pty Ltd | 193,854 Series A Convertible Preference | 1.33% |

* Note: these shares will be issued following the conversion of convertible notes held by Starfish Ventures Pty Ltd as trustee of the Starfish IIFF Trust, which is to occur as a condition precedent to completion under the Share Purchase Agreement.

**(b) Mimetica Optionholders**

| Name of optionholder | Number of Mimetica options held | Percentage (%) of Mimetica options |
|---|---|---|
| Michael Thurn | 480,000 | 63.71% |
| Mark Blaskovic | 123,000 | 16.33% |
| Jay Birnbaum | 100,000 | 13.27% |
| Peter Cassidy | 45,000 | 5.97% |
| Katherine Neill | 5,400 | 0.72% |

## 2.3 Share Purchase Agreement

### 2.3.1 Overview of Share Purchase Agreement

The Company announced on 15 April 2013 that it had entered into the Share Purchase Agreement with the Mimetica Securityholders to acquire the issued share capital of Mimetica and to undertake the Capital Raising to provide, among other things, working capital to Mimetica following completion of the Acquisition.

The Share Purchase Agreement provides that the Company will acquire the issued share capital in Mimetica in consideration for the issue by the Company, subject to Shareholder approval, of:

- 63,000,000 Shares to the Mimetica Shareholders; and
- 3,000,000 Options to the Mimetica Optionholders.

The total consideration to be paid by the Company to acquire Mimetica is valued at $16,080,000, on the basis that:

- the issue of 63,000,000 Shares, if valued at $0.25 per Share (being the issue price under the Capital Raising), represents part consideration of $15,750,000; and

- the issue of 3,000,000 Options, valued by the Company at $0.11 per Option (using the Black Scholes Option Valuation Model), represents part consideration of $330,000. The Black-Scholes model is used to calculate a theoretical call price (ignoring dividends paid during the life of the option) using the five key determinants of an option's price: stock price, strike price, volatility, time to expiration, and short-term (risk free) interest rate.

The consideration payable to the Mimetica Securityholders (by way of the issue of Shares and Options) was determined through commercial negotiation, having regard to the Company's valuation of the Mimetica Shares and Mimetica Options.

The Mimetica Shareholders approved the Company's methodology for allocating the consideration between the different classes of Mimetica Shares (including the convertible notes currently on issue).

The conversion ratio for each class of Mimetica Share and the Mimetica Options from an interest in Mimetica to an interest in the Company is:

- in respect of one ordinary share in the capital of Mimetica, 0.7843 Shares;

- in respect of one A class preference share in the capital of Mimetic, 2.04865;

- in respect of one B class preference share in the capital of Mimetica, 2.04865 Shares;

- in respect of one C class preference share in the capital of Mimetica, 5.47031 Shares; and

- in respect of one Mimetica Option, 3.98195 Options.

Two Mimetica Shareholders (AustralianSuper Investments Pty Ltd as trustee of AustralianSuper Private Equity Trust and MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd as trustee of the MTAA Superannuation Fund (Companion Funds) Private Equity Investments Trust) have the right to nominate a person to hold the Shares which would otherwise be issued to them under the Share Purchase Agreement.

Each Mimetica Shareholder will be issued the following number of Shares (on a post-consolidation basis and calculated prior to the Capital Raising) in consideration for the transfer of their respective Mimetica shares on Completion of the Acquisition:

**Table 2:**

| Name of Mimetica shareholder | Number of Shares in the Company to be issued (on a post consolidation basis) |
|---|---|
| Start-Up Australia Ventures Pty Ltd | 20,271,355 |
| Starfish Ventures Pty Ltd as trustee of the Starfish IIFF Trust | 13,987,707 |
| Fishfingers Pty Ltd, as nominee for AustralianSuper Investments Pty Ltd as trustee of the AustralianSuper Private Equity Trust | 11,430,688 |
| National Nominees Pty Ltd as nominee for MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd as trustee of the MTAA Superannuation Fund (Companion Funds) Private Equity Investments Trust | 10,604,370 |
| Starfish Ventures Pty Ltd as responsible entity of the Starfish Pre-Seed Fund | 5,508,741 |
| TeQstart Pty Ltd | 397,139 |
| Peter Joseph Cassidy | 400,000 |
| IMBcom Pty Ltd | 400,000 |

Each Mimetica Optionholder will be issued the following number of Options in consideration for the cancellation of their existing Mimetica Options on Completion of the Acquisition:

**Table 3:**

| Name of Mimetica Optionholder | Number of Options to be issued by the Company |
|---|---|
| Michael Thurn | 1,911,335 |
| Mark Blaskovic | 489,780 |
| Jay Birnbaum | 398,195 |
| Peter Cassidy | 179,188 |
| Katherine Neill | 21,503 |

The key terms of each new Option will be:

- issue price: nil;
- exercise price: 27.5 cents;
- term: five years;
- vesting: over three years (vesting 33% per annum) with accelerated vesting on a takeover or trade sale; and
- forfeiture risk: if the option holder is a current Mimetica employee or consultant, they must continue to be employed or engaged by Mimetica at the time of vesting.

A comparison of the terms of the new Options with the existing Mimetica Options held by the Mimetica Optionholders is set out in section 2.7 of this Explanatory Memorandum.

### 2.3.2 Conditions precedent to Completion

The Share Purchase Agreement provides that Completion is conditional upon the following key events:

(a) the Company completing a capital raising by way of the Public Offer at the price of 25 cents per Share and raising at least $6,500,000.00;

(b) the Company obtaining the Shareholder approvals detailed in the Resolutions;

(c) the Company complying with the ASX Listing Rules and any requirements in the Corporations Act in respect of the acquisition of shares in Mimetica and the issue of Shares to the Mimetica Shareholders;

(d) Mimetica obtaining the consent of the Commonwealth to the change in control of Mimetica as a result of the transactions contemplated by the Share Purchase Agreement (as required by the Commercial Ready Agreement described below in section 2.11.3);

(e) each Mimetica Shareholder entering into a restriction agreement with the Company in relation to the Shares issued to them on the terms set out in the Share Purchase Agreement;

(f) all convertible notes issued by Mimetica to Starfish Ventures Pty Ltd as trustee of the Starfish IIFF Trust being converted to shares in Mimetica; and

(g) the Company complying with Chapters 1 and 2 of the ASX Listing Rules to enable re-quotation of the Shares on the ASX.

If all of the above conditions are not satisfied by 31 October 2013 the Transaction will not proceed.

### 2.3.3 Restriction agreement under the Share Purchase Agreement

Under the Share Purchase Agreement, each Mimetica Shareholder has agreed to enter into an escrow agreement with the Company in relation to the Shares to be issued to them (or their nominee, if applicable).

The Mimetica Shareholders will be prohibited from disposing of the Shares that they acquire under the Share Purchase Agreement until the earlier of:

(a) in respect of all Shares (other than the Shares issued to Starfish Ventures Pty Ltd as trustee of the Starfish IIFF Trust in respect of the convertible notes that it currently holds in Mimetica), two years from Completion;

(b) in respect of the 6,000,000 Shares issued to Starfish Ventures Pty Ltd as trustee of the Starfish IIFF Trust in respect of the convertible notes that it currently holds in Mimetica, one year from Completion; or

(c) if the outcome of the Mimetica Phase II clinical trial is announced after the first anniversary of Completion, the date on which the announcement is made,

or such longer period as ASX may agree.

The Mimetica Shareholders are not prevented from accepting an offer under a takeover bid for the Company or transferring or cancelling any Shares as part of a merger of the Company by way of scheme of arrangement under Part 5.1 of the Corporations Act.

During the period in which the Mimetica Shareholders' Shares (representing the majority of all Shares) are subject to the voluntary escrow, the free float of the Shares will be limited to those remaining Shares. Accordingly, the liquidity of the Shares will be reduced during this escrow period.

#### 2.3.4 Representations and warranties in relation to Mimetica under the Share Purchase Agreement

The Company has obtained the benefit of representations and warranties under the Share Purchase Agreement.

Two categories of warranties are provided:

- warranties relating to title and capacity, provided by all Mimetica Shareholders in respect of their Mimetica Shares; and
- warranties relating to the business of Mimetica, provided by the following (**Covenantors**):
    - AustralianSuper Investments Pty Ltd in its capacity as trustee of the AustralianSuper Private Equity Trust;
    - MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd in its capacity as trustee of the MTAA Superannuation (Companion Funds) Private Equity Trust;
    - Starfish Ventures Pty Ltd in its capacity as responsible entity of the Starfish Pre-Seed Fund;
    - Starfish Ventures Pty Ltd in its capacity as trustee of the Starfish IIFF Trust; and
    - Start-Up Australia Ventures Pty Ltd.

The Share Purchase Agreement provides that, on exercise of their nomination right:

- AustralianSuper Investments Pty Ltd in its capacity as trustee of the AustralianSuper Private Equity Trust will cease to be a Covenantor and its nominee, Fishfingers Pty Ltd, will be a Covenantor; and

- MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd in its capacity as trustee of the MTAA Superannuation (Companion Funds) Private Equity Trust and its nominee, National Nominees Limited, will both be Covenantors.

The warranties provided by the Covenantors are extensive and include warranties regarding:

- incorporation and power - each Mimetica group member is duly incorporated and has been operating in accordance with its constitution;

- share capital and structure - shares to be sold under the Share Purchase Agreement constitute the entire issued share capital of Mimetica;

- solvency - Mimetica is not subject to or affected by any insolvency events;

- accounts - the audited accounts show a true and fair view of the financial position of the Mimetica group as at 30 June 2012, and the unaudited Mimetica group accounts at 30 September 2012 are accurate and have been prepared with reasonable care;

- liabilities - there are no liabilities owed to any governmental authority and there are no contingent obligations or liabilities other than as disclosed in the accounts;

- taxation - the accounts are adequate to cover tax for all periods up to the 30 June 2012 and there are no additional tax liabilities including stamp duty or failure to file a return;

- intellectual property rights - all intellectual property is either owned by Mimetica or used by it under a contract which entitles Mimetica to use the intellectual property;

- intellectual property infringements - there are no intellectual property infringements;

- real property - Mimetica does not have any freehold interest in land, it has a leasehold interest in a property in New South Wales and a licence to occupy in respect of property in Queensland and it has not received any notices of breaches of these leases;

- litigation and compliance with laws - Mimetica is not currently engaged in any litigation, investigation, or inquiry and is not subject to any order, waiver or exemption issued by the ACCC or ASIC and Mimetica has complied with all law and regulations; and

- accuracy of information - the material provided by Mimetica and its advisers to the Company is accurate and not misleading.

### 2.3.5 Representations and warranties in relation to the Company under the Share Purchase Agreement

The warranties given by the Company under the Share Purchase Agreement are extensive and include warranties regarding:

- incorporation, power and authority – the Company is duly incorporated, has been operating in accordance with its constitution and has the power and authority to enter into, deliver and perform the Share Purchase Agreement;
- share capital – as at the date of the Share Purchase Agreement there are 60,155,165 Shares in the Company (on a pre-consolidation basis) and all Shares have been validly allotted and issued and are fully paid up;
- structure - the Company holds all of the issued shares in Eiffel Research and Development Pty Ltd (ACN 093 232 805);
- solvency – the Company is not subject to or affected by any insolvency events;
- accounts - the audited accounts show a true and fair view of the financial position of the Company as at 30 June 2012, and the unaudited consolidated Company accounts at 30 September 2012 are accurate and have been prepared with reasonable care;
- post 30 June 2012 events – the Company has continued its business in the ordinary and usual course;
- liabilities - there are no liabilities owed to any governmental authority and there are no contingent obligations or liabilities other than as disclosed in the accounts;
- superannuation – the Company has paid all superannuation contributions due and payable in respect of its employees or contractors;
- taxation – the accounts are adequate to cover tax for all periods up to 30 June 2012, there are no additional tax liabilities including stamp duty or failure to file a return;
- intellectual property rights - all intellectual property is either owned by the Company or used by it under a contract which entitles the Company to use the intellectual property;
- intellectual property infringements - there are no intellectual property infringements;
- real property – the Company does not have any freehold or leasehold interest in land;
- litigation and compliance with laws – the Company is not currently engaged in any litigation, investigation, or inquiry and is not subject to any order, waiver or exemption issued by ACCC or ASIC and the Company has complied with all laws and regulations; and
- accuracy of information - the material provided by the Company and its advisers to Mimetica is accurate and not misleading.

#### 2.3.6 Limitation of liability under the Share Purchase Agreement

The potential liability of the Covenantors for the losses of the Company arising out of any breach of the Share Purchase Agreement (including a breach of warranty) by the Covenantors is limited to a maximum amount of $15,750,000.00, and the maximum amount recoverable by the Company from each Covenantor is limited to the net after tax proceeds that that Covenantor receives from the sale of the Shares issued to it as consideration under the Share Purchase Agreement.

The Covenantors will not be liable for claims which are less than $50,000.00 or loss which, when aggregated with all other losses, is less than $500,000.00.

Additionally, the Covenantors will not be liable in respect of a claim under the Share Purchase Agreement unless they are notified within eighteen months of Completion.

The Company's potential liability to the Mimetica Shareholders for breach of the Share Purchase Agreement by the Company is limited to a maximum amount of $5,000,000.00.

### 2.4 Change of activities

Completion of the Transaction will cause a significant change in the scale and nature of the Company's activities.

Under the ASX Listing Rules, ASX has determined that because of the magnitude of the change in the nature and scale of the Company's activities the Company will be required to satisfy the provisions of Chapters 1 and 2 of the ASX Listing Rules as if re-applying for admission to the Official List of the ASX.

### 2.5 Proposed Capital Raising

The Company will lodge with ASIC shortly the Prospectus for the purposes of undertaking the Capital Raising of a minimum of $6,500,000.00 and a maximum of $8,000,000.00 through the issue of up to 32,000,000 Shares at an issue price of $0.25 per Share (on a post-consolidation basis).

In addition, the Company proposes to grant 2,000 Options to each existing Shareholder (as at the date of re-quotation of the Shares on ASX following Completion of the Acquisition) who applies for at least $2,000 of Shares under the Prospectus.

The key terms of each Option to be issued under the Capital Raising will be:

- issue price: nil
- exercise price: 25 cents per Share; and
- term: two years.

ASX has determined that the Options to be issued under the Capital Raising are restricted securities for the purposes of the ASX Listing Rules. Accordingly, an optionholder will not be entitled to dispose of or encumber the Options, or the Shares issued to it upon exercise of the Options, for a period of 12 months following the issue of the Options. The Options to be issued under the Capital Raising, and any Shares issued to a Shareholder upon exercise of those Options, will be held by nominee entity determined by the Company for and on behalf of the securityholders until the expiration of the 12 month restriction period. On the expiration of the 12 month restriction period, the Options or Shares (as applicable) will be transferred to the relevant securityholder.

The Capital Raising is not underwritten. The lead manager is Phillip Capital Limited Pty Ltd.

The Company has obtained a commitment from QIC Limited to subscribe for not less than 6,000,000 Shares under the Prospectus (subject to Completion occurring).

In the event that the minimum subscription of $6,500,000.00 is not obtained under the Prospectus:

- Completion of the Acquisition will not occur; and
- the Capital Raising will not proceed, and all Application Money received will be refunded to the investors.

In the event that the minimum subscription of $6,500,000.00 is obtained under the Prospectus, the funds raised from the Capital Raising, together with the Company's and Mimetica's existing cash reserves, will be used to:

- fund the development of the businesses of the Company and Mimetica;
- meet the ongoing administration costs of the Company and Mimetica;
- pay the costs of the Transaction; and
- otherwise contribute to working capital of the Company and Mimetica.

It is intended to allocate funds raised from the Capital Raising and existing cash reserves of the Company and Mimetica as follows (assuming only the minimum subscription of $6,500,000 is raised):

| **Funding** | **$,000** |
|---|---|
| Proceeds of the Public Offer | 6,500 |
| Cash at bank as at 30 April 2013 (the Company and Mimetica) | 1,830 |
| **Total** | **$8,330** |
| **Use of Funds** | **$,000** |
| **Research and Development** | |
| GMP manufacture of MTC896 | 846 |
| Non-clinical development of MTC896 | 805 |
| Clinical development of MTC896 | 3,784 |
| **Total Research and Development** | **5,435** |

| | |
|---|---|
| **Working Capital** | |
| General Working Capital | 1,821 |
| Protection of patent portfolio | 330 |
| Expenses of the acquisition | 125 |
| Expenses of the Public Offer | 619 |
| **Total Working Capital** | **2,895** |
| **Total** | **$8,330** |

Application Moneys received in excess of $6,500,000 will be applied as unallocated general working capital, in addition to that set out above. If the maximum of $8,000,000 is raised under the Public Offer, the total working capital of the Company will be $4,395,000.

It should be noted that the budget of the Company will be subject to modification on an on-going basis having regard to a number of factors, including:

- the results obtained from manufacturing and clinical development programs;
- collaborations and joint funding with respect to the development and commercialisation of the product candidate;
- variations in interest rates; and
- fluctuations in exchange rates, in particular the Australian dollar against the United States dollar.

The Company will accept applications under the Prospectus in excess of $6,500,000. The total applications accepted will not exceed a maximum of $8,000,000. Application Moneys in excess of $8,000,000 will be refunded in full without interest.

Further details of the Capital Raising are contained in the Prospectus. A copy of the Prospectus will be available to access and download from the investor information page on the Company's website (www.telesso.com.au) following lodgement with ASIC.

### 2.6 Effect of Transaction on Capital Structure

At the date of this Explanatory Memorandum, the Company has:

- 60,155,165 Shares (on a pre-consolidation basis) on issue; and
- no options or rights convertible to Shares on issue.

Those shareholders holding 5% or more of the Shares on issue as at the date of this Explanatory Memorandum are:

**Table 4:**

| Shareholder | Percentage |
|---|---|
| QIC | 49.70% |
| Jagen Nominees Pty Ltd | 11.66% |
| Reef Securities Ltd | 5.11% |

Immediately following the Acquisition, the Mimetica Shareholders will collectively hold 87.50% of the Shares, prior to taking into account the Shares to be issued under the Public Offer. Existing shareholders will be diluted from 100% to 12.5% (prior to the Public Offer).

The control of Company will change if the Transaction is completed. Those shareholders holding 5% or more of the Shares on issue following completion of the Public Offer (including those Shares issued to the Mimetica Shareholders on completion of the Share Purchase Agreement and, assuming that QIC has been issued shares under its subscription agreement to apply for Shares referred to in section 2.5) and assuming that no other existing substantial shareholder of the Company subscribes for and receives additional Shares pursuant to the Public Offer, are set out in the table below:

**Table 5:**

| Shareholder | Percentage - minimum subscription under the Public Offer (i.e. $6,500,000) | Percentage - 50% between minimum and maximum subscription (i.e. $7,250,000 capital raising) | Percentage - maximum subscription under the Public Offer (i.e. $8,000,000) |
|---|---|---|---|
| Start-Up Australia Ventures Pty Limited | 20.68% | 21.11% | 19.49% |
| Starfish Ventures Pty Ltd in its capacity as trustee of the Starfish IIFF Trust | 14.27% | 13.88% | 13.45% |
| Starfish Ventures Pty Ltd in its capacity as responsible entity of the Starfish Pre-Seed Fund | 5.62% | 5.46% | 5.30% |
| Fishfingers Pty Ltd as nominee for AustralianSuper Investments Pty Ltd in its capacity as trustee of the AustralianSuper Private Equity Trust | 11.66% | 11.34% | 10.99% |

| | | | |
|---|---|---|---|
| National Nominees Limited as nominee for MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd in its capacity as trustee of the MTAA Superannuation (Companion Funds) Private Equity Trust | 10.82% | 10.52% | 10.20% |
| QIC | 10.69% | 10.39% | 10.07% |

You can see from the above tables that the control of the Company changes if the Public Offer is completed. Following completion of the Public Offer the Mimetica Shareholders, between them, will hold the majority of the Shares. However, the Board of the Company has no knowledge of the Mimetica Shareholders being associated, other than through ownership of shares in Mimetica or as set out below, and has no reason to believe that they will act other than in their own individual interests.

The proposed capital structure of the Company on completion of the Transaction will be:

**Table 6**:

| | **Minimum subscription (i.e. $6,500,000) (no. of Shares)** | **Minimum subscription ($6,500,000) (% shareholding)** | **Maximum subscription ($8,000,000) (no. of Shares)** | **Maximum subscription ($8,000,000) (% shareholding)** |
|---|---|---|---|---|
| **Shares currently held by existing shareholders** | 60,155,165 | | 60,155,165 | |
| **Shares currently held by existing shareholders following share consolidation** | 9,000,441 | 9.18% | 9,000,441 | 8.6% |
| **Issue of Shares to Mimetica Shareholders** | 63,000,000 | 64.29% | 63,000,000 | 60.6% |
| **Issue of Shares under Public Offer** | 26,000,000 | 26.53% | 32,000,000 | 30.8% |

| | | | | |
|---|---|---|---|---|
| **Total** | 98,000,441 | 100% | 104,000,441 | 100% |

## 2.7 Comparison of Mimetica Options and Options

A comparison of the terms of the Mimetica Options and Options to be issued by the Company is illustrated in table 7 below.

The Options issued under the Share Purchase Agreement (in consideration for the cancellation of the Mimetica Options) may be considered less favourable than the Mimetica Options as the Options vest at a later date.

Similarly, the Options issued under the Share Purchase Agreement may be considered less favourable than the Options issued under the Public Offer, as the exercise price is higher and vesting occurs at a later date. However, the Options under the Public Offer will lapse at an earlier date if not exercised by the optionholder than those issued under the Share Purchase Agreement.

The terms of the Options are subject to the terms of ASX Listing Rules such that the Optionholders' rights may be changed to comply with the ASX Listing Rules.

**Table 7:**

| | **Mimetica Options** | **Company Options issued under the Share Purchase Agreement** | **Company Options issued under the Public Offer** |
|---|---|---|---|
| **Issued to** | Past and present employees and consultants of Mimetica | Mimetica Optionholders | Existing Shareholders who apply for the minimum number of Shares under the Public Offer |
| **Issue price** | $0.027<br>(other than the 5,400 options issued to Katherine Neill for no consideration) | Nil | Nil |
| **Entitlement attached to Option** | One ordinary share in Mimetica | One Share in the Company | One Share in the Company |
| **Vesting** | Refer to table 7 below<br>Accelerated vesting (drag-along of options and shares issued pursuant to options) where major shareholders dispose of all or majority of shares | Over three years (vesting 33% per annum) with accelerated vesting on a takeover or trade sale. | The day that the Shares are re-quoted on the ASX |

| | Mimetica Options | Company Options issued under the Share Purchase Agreement | Company Options issued under the Public Offer |
|---|---|---|---|
| | in company to new investor. | | |
| **Exercise price** | $1.50 | $0.275 | $0.25 |
| **Lapsing date** | The earlier of<br>(a) the end of the grantee's employment or consultancy with Mimetica; and<br>(b) the lapsing date noted in table 7 below. | Five years from grant, subject to forfeiture risk described below. | Two years from re-quotation of the Shares on ASX |
| **Adjustment** | Adjustment for bonus issue of shares, rights issue, reorganisation of capital of Company. | Adjustment for bonus issue of shares, rights issue, reconstruction of capital of Company. | Adjustment for bonus issue of shares, rights issue, reconstruction of capital of Company. |
| **Right to participation in new issues of underlying securities prior to exercise of option** | The Optionholder may only participate in new issues of Shares if the Optionholder has exercised the Option before the record date for determining entitlements to the issue. | The Optionholder may only participate in new issues of Shares if the Optionholder has exercised the Option before the record date for determining entitlements to the issue and the Shares in respect of that Option have been allotted or transferred to the Optionholder. | The Optionholder may only participate in new issues of Shares if the Optionholder has exercised the Option before the record date for determining entitlements to the issue and the Shares in respect of that Option have been allotted or transferred to the Optionholder. |
| **Forfeiture risk** | Forfeiture where:<br>- the employee is dismissed by Mimetica for a reason whereby Mimetica is entitled to dismiss without notice;<br>- the grantee has | In respect of the Optionholders other than Peter Cassidy:<br>- option lapses if grantee ceases to be employed (or retained as a consultant) by the Company prior to | None |

| | Mimetica Options | Company Options issued under the Share Purchase Agreement | Company Options issued under the Public Offer |
|---|---|---|---|
| | committed an act of fraud, defalcation or gross misconduct;<br><br>- the grantee has done an act which brings Mimetica into disrepute. | time of vesting; and<br><br>- after vesting, option will only lapse upon lapsing date or where employee/consultant is terminated (or resigns to avoid termination) in circumstances of misconduct, fraud, or dishonesty.<br><br>These forfeiture risks do not apply in respect of Peter Cassidy as he had ceased to be an employee or consultant of the Company. | |
| **Transferability** | Before end of employment/consultancy with Mimetica : Mimetica has right of first refusal;<br><br>For 90 days after end of employment/consultancy with Mimetica, Mimetica has 30 day call option to acquire options/option shares at open market value. | Grantee may not sell, assign, transfer or otherwise deal with or grant security over an option unless with the written consent of the Company. | Transferrable (subject to the Options being restricted securities for the purposes of the ASX Listing Rules) |
| **Quotation on ASX** | No | No | No |

The vesting and expiry of the Mimetica Options would occur as set out in table 8 below if not cancelled by Completion under the Share Purchase Agreement.

**Table 8:**

| Name of Mimetica Option holder | Number of Mimetica shares | Class | Vesting Date | Expiry Date |
|---|---|---|---|---|
| Michael Thurn | 480,000 | Ordinary | 1 December 2010 (120,000)<br>1 April 2012 (160,000)<br>1 April 2013 (100,000)<br>1 February 2014 (100,000) | 30 September 2013 (120,000)<br>1 April 2014 (160,000)<br>1 April 2015 (100,000)<br>1 February 2016 (100,000) |
| Mark Blaskovich | 123,000 | Ordinary | 1 December 2010 (63,000)<br>1 April 2012 (60,000) | 30 September 2013 (63,000)<br>1 April 2014 (60,000) |
| Katherine Neill | 5,400 | Ordinary | 1 December 2010 | 30 September 2013 |
| Jay Birnbaum | 100,000 | Ordinary | 1 December 2010 | 1 February 2016 |
| Peter Cassidy | 45,000 | Ordinary | 1 December 2010 | 30 September 2013 |

## 2.8 Effect of Transaction on financial position

The effect of the Transaction on the financial position of the Company is set out in detail in section 4 of the Independent Expert Report.

In brief, the Independent Expert has concluded that the Transaction is fair and reasonable to Shareholders. The Independent Expert determined that the Transaction is fair since the value of a Share following the acquisition of Mimetica will be higher than the fair market value of a Share prior to the acquisition of Mimetica. The Independent Expert determined that the Transaction is reasonable given that the Transaction is fair, and having considered the advantages and disadvantages of the Transaction.

Shareholders should consider the financial information contained in section 4 of the Independent Expert Report for the purposes of Resolutions 2 to 5 (inclusive).

## 2.9 Background and reasons for the proposed Transaction

The Company has historically operated in the pharmaceuticals, biotechnology and life sciences industry.

The Company has previously conducted research into various aspects of supercritical fluid technology and its various applications in the medical field. Prior to, and since, the sale of this technology to an American based pharmaceutical company, the Company has been conducting a review of various opportunities in its area of expertise.

The Board has identified Mimetica as a suitable business in which to invest, having regard to the expertise of the Board and management of Mimetica.

The Board considers that the acquisition of Mimetica will enable the Company to focus on building a dermatology business which should bring significant value to Shareholders.

## 2.10 Proposed timetable

Subject to the Corporations Act, the ASX Listing Rules and the various conditions under the Share Purchase Agreement and the Capital Raising (including obtaining Shareholder approval), the Company anticipates completion of the Transaction in accordance with the following indicative timetable (which is subject to change by the Company in consultation with its advisers and with the agreement of Mimetica):

**Table 9:**

| Milestone | Date |
|---|---|
| Date and time for eligibility to vote at the General Meeting | 7pm on Tuesday 27 August 2013 |
| Last date and time by which proxy forms for the General Meeting must be received | 10am on Tuesday 27 August 2013 |
| General Meeting of the Company's Shareholders. | Thursday 29 August 2013 |
| Public Offer opens | Friday 30 August 2013 |
| Public Offer closes | Friday 27 September 2013 |
| Consolidation of Shares | Thursday 3 October 2013 |
| Completion of Acquisition, re-quotation of Shares and quotation of Shares issued under the Capital Raising | Friday 11 October 2013 |
| Resumption of ASX trading of the Shares | Tuesday 15 October 2013 |

## 2.11 The Mimetica Business

### 2.11.1 General

Mimetica Pty Ltd is a private Australian drug development company focused on the development of novel prescription therapeutics for the treatment of *acne vulgaris* (acne).

Mimetica was formed to develop a drug discovery platform technology based on the rational design of small molecules that mimic natural peptide hormones. Mimetica successfully applied this technology to generate novel drug candidates, and has advanced one of these, known as MTC896, as a potential new topical treatment for acne into Phase 2 clinical development.

### 2.11.2 Major achievements

Mimetica's major achievements include:

| | |
|---|---|
| **Commercial** | obtained investment of approximately $14,500,000 from a consortium of Australian life science investment firms including Starfish Ventures Pty Ltd and Start-up Australia Ventures Pty Ltd. |
| | obtained a Commonwealth Commercial Ready Program Grant of approximately $1,688,766 for the preclinical and clinical development of a new acne treatment (discussed in section 2.11.3). |
| **Product development** | developed a patented drug discovery platform for the generation of small molecule mimics of peptide structures. |
| | selected a lead product candidate, MTC896, against a novel acne drug target, the melanoncortin-5 receptor (MC5R), for the treatment of acne. |
| | developed a cosmetically elegant topical gel formulation, MTC896 Gel with a long shelf-life. |
| | completed a comprehensive preclinical toxicology and manufacturing program to support clinical development. |
| **Clinical** | filed and received Investigational New Drug (IND) application with the United States of America Food and Drug Administration for MTC896 Gel. |
| | successfully completed three Phase 1 clinical safety studies with MTC896 Gel in over 260 subjects, demonstrating that the topical gel was non-irritating to the skin, was not phototoxic and did not cause allergic contact sensitization. |
| | completed a Phase 2 pilot study, obtaining efficacy signals in subjects with oily skin. |
| **Intellectual property** | obtained grant of composition of matter and method of use patent in the United State of America claiming MTC896 and related series of compounds in force until 2030. |

### 2.11.3 Commercial Ready Agreement

Mimetica received grant monies from the Commonwealth of Australia during 2008 and 2009 under the "AusIndustry Commercial Ready Program Grant" administered by the Department of Innovation, Industry, Science and Research.

The agreement entered into between the Commonwealth and Mimetica provides that Mimetica must obtain the approval of the Commonwealth to a proposed change of control of Mimetica. The Commonwealth has provided its approval to the change of control that will occur on completion of the Acquisition.

### 2.11.4 Mimetica's service providers

Mimetica conducts all product development and clinical activities through highly specialised service providers.

Contract manufacturing organizations undertake the manufacture of the MTC896 active pharmaceutical ingredient and the drug product formulation under Good Manufacturing Practice, while contract research organisations undertake Good Laboratory Practice preclinical testing and human clinical trials.

Mimetica has engaged an international contract manufacturing organisation that specialises in drug discovery research and manufacturing to provide process development and manufacturing services in relation to MTC896. The key terms of the agreement with this service provider are:

- Mimetica pays an agreed service fee in respect of each development stage; Mimetica is required to pay a further $369,000 to the service provider in respect of the remaining development stages, provided that Mimetica authorises the service provider to undertake those stages;
- all intellectual property developed by the service provider in providing the drug development services will be owned by Mimetica;
- the liability of the service provider to Mimetica under the agreement is limited to ten times the fees paid by Mimetica to the service provider, and Mimetica may not recover indirect, special or consequential loss from the service provider; and
- Mimetica may terminate the agreement at any time on 45 days' notice.

Mimetica has arrangements with other service providers which will enable Mimetica to engage those service providers as required during the development phase. However, Mimetica is not obliged to engage the services of these service providers or pay any fees to them (in the absence of any services).

## 2.12 Independent Expert Report

The Directors appointed Pitcher Partners Corporate Finance Limited as independent expert to provide an opinion on the fairness and reasonableness of the Transaction.

A copy of the Independent Expert Report is included in this Explanatory Memorandum.

The Independent Expert has concluded that the Transaction is fair and reasonable to Shareholders.

In summary, the Independent Expert determined a value of a Share prior to the Transaction using the orderly realisation of assets method on the basis that the Company currently has no business activity. On this basis the Independent Expert valued a Share at between $0.05 – $0.13 per Share (post consolidation).

In relation to Mimetica, the Independent Expert determined a value of Mimetica by considering a value of broadly comparable market transactions for companies that were at a similar stage of the biotechnology product life cycle as Mimetica. On this basis, the Independent Expert valued Mimetica in the range of $16,700,000 - $35,700,000.

The Independent Expert determined that the value of a Share after the acquisition of Mimetica by the Company will be between $0.24 - $0.51 per Share (post consolidation).

Accordingly, the Independent Expert determined that the Transaction is fair to Shareholders.

The Independent Expert determined that the Transaction was reasonable to Shareholders given that it is fair. The Independent Expert also considered the advantages and disadvantages of the Transaction to Shareholders. Shareholders should refer to section 9 of the Independent Expert Report for a more detailed discussion of the advantages and disadvantages relating to the Transaction, as well as a consideration of the position of the Shareholders if the Transaction does not proceed.

In summary, the Independent Expert found that the key advantages are:

- Shareholders will be able to participate in the possible future increases in the value of the Company if the clinical trials of MTC896 are successful, with potential upside if the business is subsequently sold to a large pharmaceutical company;
- an anticipated increase in the trading liquidity of the Shares on the ASX; and
- if the Transaction does not proceed, the Company will need to pursue another transaction or return surplus cash to Shareholders.

The Independent Expert found that the key disadvantages are:

- existing Shareholders will lose control of the Company and their interest in the Company's cash will be severely diluted;
- if the results of the clinical trials of MTC896 are unsuccessful, the value of the Shares is be likely to be negligible; and
- Shareholders will continue to be exposed to the risks associated with the biotechnology industry.

After considering the advantages, disadvantages and other considerations summarised and set out in the Independent Expert Report, the Independent Expert's view was that, in the absence of a superior proposal, the Transaction as a whole is reasonable to Shareholders. The principal factors taken into account by the Independent Expert in forming his opinion are discussed in detail in the Independent Expert Report.

## 2.13 Reasons to vote in favour of the Transaction

Reasons to vote for the Resolutions (including Resolution 4) include:

### 2.13.1 New business activity for the Company

If approved by Shareholders, the Acquisition will result in the Company changing its activities to those currently undertaken by Mimetica, details of which are set out in section 2.11.

The Acquisition provides the opportunity for Shareholders to participate in the potential growth of Mimetica from an early stage as it develops its pharmaceutical products through to the commercialisation stage.

### 2.13.2 Increased size and liquidity

As at the date of this Explanatory Memorandum, the Company's Shares are suspended from trading on the ASX in accordance with ASX Listing Rule 12.1 and 12.3.

The Transaction (including the Capital Raising) will:

- subject to ASX's approval, enable the Company to meet the requirements of the ASX Listing Rules such that the Shares can recommence trading;
- result in an increase in the market capitalisation of the Company;
- result in an increase in the number of Shareholders; and
- result in an increase in the profile of the Company.

Given this, the Company anticipates that there will also be an increase in the trading liquidity of the Shares on the ASX in due course, which will enable Shareholders (other than Mimetica Shareholders the subject of the escrow arrangements discussed in section 2.3.2 of this Explanatory Memorandum) to divest themselves of their investment should they desire to do so.

#### 2.13.3 Lack of alternative opportunities

The Board has pursued an investment in a suitable and attractive business for a considerable period.

The Board considers that Mimetica represents an attractive investment opportunity that aligns with the expertise and strategy of the Company.

The Board has not identified any suitable alternative transaction to the Acquisition. In the event that the Transaction does not proceed, the Board will continue to seek alternative acquisition or investment opportunities. However, the Company will incur costs in this process which is likely to result in a decrease in value in the Company.

#### 2.13.4 The Independent Expert has concluded that the Transaction is fair and reasonable

The Independent Expert has concluded that the Transaction is fair and reasonable to Shareholders for the reasons outlined in section 2.12 of this Explanatory Memorandum.

### 2.14 Reasons to vote against the Resolutions to implement the Transaction

Reasons to vote against the Resolutions (including Resolution 4) include:

#### 2.14.1 Dilution

As the Acquisition is funded by way of an issue of new Shares the percentage of Shares individually and collectively held by existing Shareholders will be proportionately diluted to the extent of the number of new Shares (and Options, if exercised) to be issued to the Mimetica Securityholders.

In addition, the shareholding of an existing Shareholder will be diluted as a consequence of the Capital Raising to the extent that that Shareholder does not participate in the Capital Raising to maintain its proportionate shareholding.

As noted above, following completion of the Transaction, the shareholding of the existing Shareholders, in aggregate, will be diluted from 100% of the Shares to 9.18% of the Shares (assuming the minimum amount is raised under the Public Offer) (refer to section 2.5).

Accordingly, the existing Shareholders will hold a minority share of the issued capital in the Company, and will not have the ability to control the outcome of a resolution put to Shareholders requiring the approval of either a simple majority or special majority.

Rather, the Mimetica Shareholders will, collectively, have the ability to pass any resolution put to members of the Company, and accordingly control the Company.

### 2.14.2 Risks

There are a number of risks involved in the acquisition of Mimetica. These include not only the risks inherent in any acquisition (such as that the business and assets of Mimetica are not as represented to the Company by Mimetica) but also those specific to the business of Mimetica. These latter risks include (but this list is not exhaustive):

(a) the product candidate, MTC896 Gel, must still undergo further pre-clinical and human clinical trials and those trials may show that it does not work in a safe and effective manner and so cannot proceed further;

(b) the Company intends to conduct clinical trials in the USA, but there can be no guarantee that the USA Food and Drug Administration will allow the Company to undertake the planned trials and/or the development and approval process may take longer and cost more than expected;

(c) the Company's ability to operate profitably in the future will depend in part on whether it is able to commercialise its products on appropriate terms. This will depend on the MTC896 Gel completing clinical trials, obtaining regulatory approvals and ultimately the demand for its products by consumers which cannot be guaranteed;

(d) MTC896 Gel has not yet been manufactured in a large-scale, commercial manufacturing environment and there are risks inherent in scaling-up the capacity of the equipment used by Mimetica to date, including that manufacturing may not be economically feasible;

(e) in the future the Company or Mimetica may be subjected to infringement claims or litigation arising out of patents and pending applications of their competitors, or additional proceedings initiated by third parties or intellectual property regulators to re-examine the patentability of licensed or owned patents. The defence and prosecution of intellectual property rights are costly and time-consuming to pursue, and their outcome is uncertain. If the Company or Mimetica infringes the rights of third parties, it could be prevented from selling the Mimetica products and be forced to defend against litigation and pay damages;

(f) the commercial success of the Product relies on the ability to obtain and maintain patent protection and there is no guarantee that Mimetica's claims and applications applications will be found valid and enforceable or that it will be granted all of its patent applications;

(g) in addition to its patent and licensing activities, Mimetica also relies on protecting its trade secrets. The protective measures Mimetica employs to protect its trade secrets may not always be sufficient. Although the Company will undertake all reasonable endeavours to protect the Mimetica intellectual property, there can be no assurance that these measures will be sufficient This could erode its competitive advantage;

(h) the commercial strategy for Mimetica's product includes forming partnerships with other companies that have the ability to effectively commercialise the product in key economic markets and there is no assurance that suitable partnerships will be secured;

(i) the pharmaceutical industry is highly competitive and other corporations may commercialise products that may compete with Mimetica's product or which may reach the market before the Mimetica product is launched;

(j) Mimetica outsources to consultants for expert advice and contract organisations for research, clinical and manufacturing services and there is no guarantee that such experts or organisations will be available as required or will meet expectations;

(k) additional funding may be needed to undertake further trials of the drug candidate and there is no guarantee that the Company will be able to generate sufficient revenue or raise further capital to fund ongoing development;

(l) the Company's and Mimetica's businesses expose them to potential product liability risks that are inherent in the research and development, manufacturing, marketing and use of their products; and

(m) the Company's and Mimetica's operations are also subject to laws, regulatory restrictions and certain government directives, recommendations and guidelines. There can be no assurance that future legislation will not impose further government regulation which may adversely affect the business or financial condition of the Company.

## 2.15 Proposed changes to the Board

### 2.15.1 Introduction

It is proposed that, on the successful completion of the Acquisition and the Capital Raising, the composition of the Board will change to better reflect the new business of the Company, being drug development.

It is proposed that:

- Mr Robert Crombie will be appointed as managing director and chief executive officer and Mr Nicholas Peace will be appointed as a director on or around the re-quotation of the Shares on the ASX;
- Mr Michael Hoy will resign as chairman and as a director, and Mr Lawrence Gozlan will resign as a director, on or around the re-quotation of the Shares on the ASX; and
- Ms Cherrell Hirst, a current director, will be appointed as chairperson.

### 2.15.2 Dr Robert Crombie

Dr Crombie has 17 years experience in the biotechnology sector and is currently Managing Director of Concept2Clinic Consulting, offering commercialisation advice to the biotechnology sector and more broadly in his role as a Case Manager for Commercialisation Australia, a federal initiative to help translate innovation into commercial successes.

Previously his executive appointments have included vice president of business development for listed drug development company Arana Therapeutics and chief operating officer of EvoGenix, playing a significant role in growing the company from its start up phase, through its IPO on the ASX, merger with fellow Australian company Peptech to form Arana Therapeutics culminating in Arana's $318M acquisition by Cephalon in 2009.

Dr Crombie has worked in the UK biotechnology sector, in senior business development posts with listed UK pharmaceutical company ML Laboratories and Cobra Therapeutics Limited. Dr Crombie has a degree in genetics from Trinity College, Dublin, a PhD from the Beatson Institute for Cancer Research, Scotland and postdoctoral research at Baylor College of Medicine, Houston, Texas.

### 2.15.3 Mr Nicholas Peace

Mr Peace joined Starfish Ventures Pty Ltd in May 2002, and acts as a venture partner, primarily focusing on life science and internet investments. Since joining Starfish Ventures, he has primarily been involved in identification and evaluation of prospective investments, execution of new portfolio investments and ongoing monitoring of investee companies. He has supported multiple Starfish investees through licensing, partnership and trade sale transactions. Prior to joining Starfish Ventures, Nick worked as a corporate lawyer in Melbourne at Freehills and subsequently in London at Mayer Brown Rowe & Maw, specializing in mergers and acquisitions and private equity transactions in sectors ranging from telecommunications to specialty chemicals. Nick is currently a director of Mimetica Pty Ltd.

Mr Peace holds a Bachelor of Laws (Hons) and a Bachelor of Science from the University of Melbourne and a Master of Business Administration from INSEAD.

## 2.16 Directors' shareholdings

Some of the Directors have a beneficial interest in the Shares, held either in their own names or through related family entities. Prior to the Public Offer and completion of the Acquisition the Directors or their family entities hold the following Shares:

**Table 10:**

| | Number of Shares | Percentage of the Company |
|---|---|---|
| Michael Hoy (current Director) | 192,358 | 0.32% |
| Ross Macdonald (current Director) | 100,000 | 0.17% |
| Lawrence Gozlan (current Director) | 100,000 | 0.17% |
| Cherrell Hirst (current Director) | Nil | 0% |
| Nicholas Peace (proposed Director) | Nil | 0% |
| Robert Crombie (proposed Director) | Nil | 0% |

All of the Directors that hold Shares propose to vote in favour of the Resolutions.

## 3. BACKGROUND TO APPLICABLE LISTING RULES AND PROVISIONS OF THE CORPORATIONS ACT

### 3.1 Introduction

There are a number of approvals and requirements under the ASX Listing Rules and the Corporations Act that are applicable to the Resolutions set out in the Notice. To avoid duplication throughout the Explanatory Memorandum, set out in this section 3 is a summary of the applicable provisions.

### 3.2 Section 254H of the Corporations Act – consolidation of shares

Under section 254H of the Corporations Act, a company may consolidate its shares if the consolidation is approved by an ordinary resolution of shareholders at a general meeting.

This is the purpose of Resolution 1.

### 3.3 ASX Listing Rule 11.1 - change to activities

ASX Listing Rule 11.1 provides that if a company proposes to make a significant change to the nature or scale of its activities, it must provide full details to the ASX as soon as practicable and before making the change. The following rules apply in relation to the proposed change:

- the company must give ASX information regarding the change and its effect on future potential earnings and any other information that ASX asks for;
- if ASX requires, the company must get the approval of holders of its ordinary securities and must comply with any requirements of ASX in relation to the notice of meeting; and
- if ASX requires, the company must meet the requirements in Chapters 1 and 2 of the ASX Listing Rules as if the company were applying for admission to the official list of the ASX.

ASX has advised the Company that the Company must obtain the approval of holders of its ordinary securities and must comply with any requirements of ASX in relation to the Notice and, should the Transaction proceed, the Company must re-comply with Chapters 1 and 2 of the ASX Listing Rules.

This is the purpose of Resolution 2.

### 3.4 ASX Listing Rule 7.1 - issues exceeding 15% of capital

ASX Listing Rule 7.1 limits the capacity of a company to issue Securities without the prior approval of its shareholders.

ASX Listing Rule 7.1 provides that a company may not, in a twelve month period, issue Securities equal to more than 15% of the total number of ordinary Securities on issue at the beginning of the twelve month period unless the issue is first approved by a majority of shareholders who are entitled to vote on the resolution or the issue otherwise comes within one of the exceptions to ASX Listing Rule 7.1.

The issue of Shares and Options to Mimetica Securityholders in consideration for the acquisition of the issued capital in Mimetica does not fall within one of the exceptions to ASX Listing Rule 7.1 and accordingly requires Shareholder approval.

This is the purpose of Resolutions 3 and 5.

### 3.5 Section 611 of the Corporations Act - exceptions to prohibited acquisitions

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in shares in a company if the acquisition would result in that person's or another person's voting power (as defined in the Corporations Act) in the company increasing, where the person's voting power increases from 20% or below to more than 20% or from a starting point that is above 20% and below 90%.

There are certain exceptions to the general prohibition contained in section 606 of the Corporations Act. In particular, item 7 of section 611 of the Corporations Act excepts an acquisition of a relevant interest in shares which has been agreed to by shareholders passing an ordinary resolution at a general meeting on which no votes are cast in favour of the resolutions by the person proposing to make the acquisition or its associates.

This is the purpose of Resolution 4.

### 3.5 Section 157 of the Corporations Act

Section 157 of the Corporations Act requires a company wanting to change its name to pass a special resolution of shareholders adopting the new name.

This is the purpose of Resolution 6.

## 4. RESOLUTIONS AND RECOMMENDATIONS

### 4.1 Resolution 1 - Approval of consolidation of Shares

As noted in section 3.3 of this Explanatory Memorandum, given the suspension of trading of the Shares on the ASX and the change to the Company's activities which will result from the Acquisition, the Company must comply with Chapters 1 and 2 of the ASX Listing Rules (as required by ASX Listing Rule 11.1.3).

ASX Listing Rule 2.1 requires that the Company's Shares trade at a minimum price of $0.20 on admission.

As at the date of suspension of trading in the Company's Shares (17 December 2012) the Shares were trading below the minimum price. No trading on ASX has occurred since 17 December 2012.

As a result, the Company proposes to undertake a consolidation of its Shares, subject to the approval of Shareholders.

The Company proposes to consolidate its Share capital through the consolidation of every 6.68358 Shares in the Company into one Share in the Company.

If the consolidation is approved by Shareholders, the consolidation will take effect on Completion under the Share Purchase Agreement. All Shareholdings as recorded on the Company's register at that date will be consolidated at the ratio set out above.

If the proposed Share consolidation is approved by Shareholders, the number of Shares on issue will be reduced from 60,155,165 Shares to approximately 9,000,441 Shares before Completion under the Share Purchase Agreement and the issue of Shares under the Public Offer.

Not all Shareholders will hold a number of Shares which can be evenly divided by 6.68358. Where fractional entitlement occurs, the Company will round that fraction up to the nearest whole Share.

The aggregate value of each Shareholder's holding (and the Company's market capitalisation) should not materially change as a result of the consolidation of Shares.

It is not considered that any taxation consequences will exist for Shareholders arising from the consolidation. However, Shareholders should seek their own taxation advice on the effect of the consolidation and neither the Company nor the Directors accept any responsibility for the individual taxation consequences arising from any consideration.

***Directors' recommendation***

The Directors recommend that Shareholders vote in favour of Resolution 1 as the first step towards enabling the Company to comply with the ASX Listing Rules and for the Shares to recommence trading.

### 4.2 Resolution 2 - Approval of acquisition of Mimetica and change of activities

Resolution 2 refers to the proposed acquisition of Mimetica and to a change to the nature and scale of the Company's activities, subject to the passing of Resolutions 1 and 3 to 5 (inclusive) and Completion.

As set out in section 3.3 of this Explanatory Memorandum, ASX Listing Rule 11.1 requires a company to obtain the approval of shareholders if the company proposes to change the nature and scale of its activities and if ASX requires it to do so. The proposed change in the nature and scale of the business (including the associated risks) is discussed in section 2 of this Explanatory Memorandum. In addition, the Company is required to re-comply with chapters 1 and 2 of the ASX Listing Rules. Among other things, chapters 1 and 2 of the ASX Listing Rules require the Company to:

- ensure that all of the Shares following consolidation have a price of not less than $0.20;
- satisfy the minimum spread of shareholders (it is envisaged that the Company will require at least 300 Shareholders holding a parcel of Shares with a value of at least $2,000);
- issue and lodge a prospectus with ASIC;
- demonstrate that it has an appropriate structure and operations for a listed company;
- satisfy one of the tests set down in the ASX Listing Rules in relation to the Company's profitability or the Company's asset value; and
- demonstrate that the proposed directors (Nicholas Peace and Robert Crombie) are of good fame and character.

The Company will not issue the Shares and Options under the Share Purchase Agreement and will not issue the Shares and Options under the Public Offer until the Company has received conditional confirmation from ASX that the Company has complied with chapters 1 and 2 of the Listing Rules.

There is a risk that the Company will not re-comply with chapters 1 and 2 of the ASX Listing Rules. The ASX has determined that, if this occurs, the Company's Shares will not be able to be traded on the ASX until such time as these requirements are satisfied.

If the Transaction does not proceed:

- the Company will continue to operate its existing business;
- the Board of the Company will continue to look for additional commercial activities and corporate opportunities (although Shareholders should be aware that there the Board may not be able to identify a suitable alternative business for acquisition).

The Mimetica Shareholders will be prohibited from disposing of the Shares that they acquire under the Share Purchase Agreement in the manner described in section 2.2. The Shares and Options issued to Mimetica Shareholders and Mimetica Optionholders respectively will not otherwise be restricted securities for the purposes of the ASX Listing Rules.

***Directors' recommendation***

The Directors recommend that Shareholders vote in favour of Resolution 2 as the Directors consider that the Acquisition represents a suitable and attractive business for the Company to acquire for the reasons set out in this Explanatory Memorandum.

### 4.3 Resolution 3 - Issue of Shares to Mimetica Shareholders

Resolution 3 refers to the issue of 63,000,000 Shares to Mimetica Shareholders and grant of 3,000,000 Options to the Mimetica Optionholders on the terms and conditions set out in section 2 of this Explanatory Memorandum in consideration for the transfer to the Company by the Mimetica Shareholders of all of the issued shares in the capital of Mimetica and the cancellation of the Mimetica Options by the Mimetica Optionholders.

The issue of the Shares and Options to Mimetica Securityholders will exceed the 15% limit under ASX Listing Rule 7.1 and will not fall within one of the applicable exceptions. Accordingly, the Directors are seeking Shareholder approval to this issue of Shares and Options.

If the Shareholders approve the issue of the Shares and the Options, the issue to the Mimetica Securityholders will not be counted as part of the 15% Rule, and the Company will therefore retain the right to issue Shares under the 15% Rule for any subsequent requirements that may arise.

In accordance with ASX Listing Rule 7.3, the Company advises that:

- the maximum number of Shares to be issued to the Mimetica Shareholders pursuant to Resolution 6 is 63,000,000. On issue, the Shares will rank equally with the other Shares on issue, which are summarised in section 2.6 of this Explanatory Memorandum;
- the maximum number of Options to be issued to the Mimetica Optionholders pursuant to Resolution 3 is 3,000,000. The terms of the Options are summarised in section 2.7 of this Explanatory Memorandum;
- the Shares and the Options will be issued and allotted within three months after the date of the General Meeting;

- the Shares and the Options issued to Mimetica Securityholders will not be issued for cash and will not raise any funds as the Shares are to be issued as consideration for the acquisition of the Mimetica Shares (although an Option, if exercised, will raise cash for the Company equivalent to the exercise price);
- the deemed price of Shares issued to Mimetica Shareholders is $0.25 per Share as set out in section 2.3 of this Explanatory Memorandum;
- each Mimetica Shareholder is to be issued that number of Shares set out in table 2 of section 2.3 of this Explanatory Memorandum; and
- each Mimetica Optionholder is to be issued that number of Options set out in table 3 of section 2.3 of this Explanatory Memorandum.

***Directors' recommendation***

The Directors recommend that Shareholders vote in favour of Resolution 3 as the issue of Shares is necessary in order for the Acquisition to complete. The Company does not have sufficient cash, and does not consider it prudent to obtain debt, to fund the Acquisition in cash.

## 4.4 Resolution 4 - Acquisition of a relevant interest by each of the Mimetica Shareholders

### 4.4.1 Introduction

Each Mimetica Shareholder has voting power in the Company in respect of both the Shares to be issued to it and the Shares to be issued to the other Mimetica Shareholders under the Share Purchase Agreement for the purposes of Chapter 6 of the Corporations Act. This occurs by virtue of the Mimetica Shareholders being "associates" under the Corporations Act, as the Mimetica Shareholders, in jointly negotiating and entering into the Share Purchase Agreement, are acting in concert in relation to the issue of Shares by the Company.

The Mimetica Securityholders will be issued, in aggregate, 63,000,000 Shares and 3,000,000 Options in consideration for the Company's acquisition of all of the capital of Mimetica.

The Shares issued to the Mimetica Shareholders in consideration for the Company's acquisition of the issued share capital in Mimetica will result in the Mimetica Shareholders' aggregate voting power in the Company increasing from 0% to 87.50%, prior to taking into account the Shares to be issued under the Public Offer.

As the Mimetica Shareholders are "associates", each Mimetica Shareholder will acquire voting power in the Company of 87.50% (increasing from 0%) (prior to the Public Offer), prior to taking into account the Shares to be issued under the Public Offer. As the acquisition of the Shares by each of the Mimetica Shareholders, under the Share Purchase Agreement, given they are "associates" for the purposes of Chapter 6 of the Corporations Act, is prohibited by section 611 of the Corporations Act unless a relevant exception applies, the Company therefore seeks Shareholder approval for the acquisition by each of the Mimetica Shareholders of those Shares for the purpose of item 7 of section 611 of the Corporations Act.

The Mimetica Shareholders will not be “associates” or have a “relevant interest” in each others Shares following completion of the Transaction (other than Starfish Ventures Pty Ltd in its capacity as trustee of the Starfish IIIFF Trust and the Starfish Pre-Seed Fund as described in section 4.4.3). As such, the Mimetica Shareholders will not represent a “voting block” of 87.50% of the votes able to be cast a general meeting of the Company following completion of the Transaction, but rather will each hold voting entitlements commensurate with their respective shareholding. As noted above, the Board of the Company has no reason to believe that they will act other than in their own individual interests.

### 4.4.2 Disclosure under the Corporations Act and ASX Listing Rules

The Corporations Act requires that Shareholders be informed as to:

- the identity of the persons proposing to make the relevant acquisition and their associates;
- the voting power and the maximum extent of the increase in the acquirers' voting power that would result from the Acquisition; and
- the voting power and the maximum extent of the increase in voting power of each of the acquirers' associates that would result from the Acquisition.

In addition, ASIC's Regulatory Guide 74 ("'Acquisitions approved by members") sets out information that must be disclosed by the acquirer to Shareholders.

In compliance with ASIC Regulatory Guide 74, the Directors appointed Pitcher Partners Corporate Finance Limited as an independent expert to examine the proposal and to provide an opinion as to whether the proposed acquisition of the relevant interest by the Mimetica Securityholders under Resolution 4 is fair and reasonable to the Non Associated Shareholders of the Company.

A copy of the Independent Expert Report is attached to this Notice as annexure "A". The Independent Expert has consented to the use of the Independent Expert Report in the form and context used in this Explanatory Memorandum.

### 4.4.3 Associates

As described in section 4.4.1, each Mimetica Shareholder is an associate of each other Mimetica Shareholder by virtue of the Mimetica Shareholders jointly negotiating and entering into the Share Purchase Agreement.

The Starfish IIIFF Trust and the Starfish Pre-Seed Fund are also associates by virtue of having a common trustee or responsible entity who has the power to vote the shareholdings and control the disposal of shares, being Starfish Ventures Pty Ltd.

As at the date of this explanatory memorandum, Starfish Ventures has a relevant interest in the shares held by Fishfingers Pty Ltd as nominee for AustralianSuper Investments Pty Ltd and by National Nominees Ltd as nominee for MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd in each case due to the existence of investment management agreements which provide Starfish with the ability to vote and control the disposal of the shares held by Fishfingers Pty Ltd as nominee for AustralianSuper Investments and by National Nominees Ltd as nominee for MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd.

Starfish Ventures and AustralianSuper Investments Pty Ltd and Starfish Ventures and MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd have agreed that, upon completion of the Acquisition and prior to relisting of the Company, the investment management agreements in each case will be restructured such that Starfish Ventures will not have the ability to vote or control the disposal of the shares held by Fishfingers Pty Ltd as nominee for AustralianSuper Investments or by National Nominees Ltd as nominee for MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd.

The Board has no knowledge of the Mimetica Shareholders being associated, other than by reason of the above matters, and no reason to believe that, after the Acquisition, each Mimetica Shareholder will act other than in its own interests.

#### 4.4.4 Maximum voting power

Immediately following the Acquisition, the Mimetica Shareholders will collectively have voting power of 87.50% (increasing from 0%), prior to taking into account the Shares to be issued under the Public Offer.

Immediately following the Acquisition, each Mimetica Shareholder will have the following maximum voting power in the Company, prior to taking into account the Shares to be issued under the Public Offer and disregarding the voting power each Mimetica Shareholder has by virtue of being an associate of another Mimetica Shareholder (as described above):

**Table 11:**

| Name of Mimetica Shareholder | Individual voting power |
|---|---|
| Start-Up Australia Ventures Pty Ltd | 28.15% |
| Starfish Ventures Pty Ltd as trustee of the Starfish IIFF Trust | 19.43% |
| Fishfingers Pty Ltd as nominee for AustralianSuper Investments Pty Ltd as trustee of the AustralianSuper Private Equity Trust | 15.88% |
| National Nominees Pty Ltd as nominee for MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd as trustee of the MTAA Superannuation Fund (Companion Funds) Private Equity Investments Trust | 14.73% |
| Starfish Ventures Pty Ltd as responsible entity of the Starfish Pre-Seed Fund | 7.65% |
| Peter Joseph Cassidy | 0.56% |
| IMBcom Pty Ltd | 0.56% |
| TeQstart Pty Ltd | 0.55% |

It is not possible to provide details of the shareholding and voting power of the Mimetica Shareholders after the Public Offer, as it is not known how many Shares will be applied for under the Public Offer.

### 4.4.5 Terms of acquisition

The terms of the Acquisition, under which the Mimetica Shareholders will acquire their Securities in the Company, are summarised in section 2.3.

### 4.4.6 Completion of the Acquisition

The Company proposes to issue 63,000,000 Shares and grant 3,000,000 Options to the Mimetica Securityholders on Completion of the Acquisition, which is proposed to occur, subject to Shareholder approval being obtained, in early October 2013.

### 4.4.7 The intentions of the major Mimetica Securityholders

#### (a) Introduction

The major Mimetica Securityholders, being Start-Up Australia Ventures Pty Ltd, Starfish Ventures Pty Ltd, AustralianSuper Investments Pty Ltd, MTAA Superannuation Fund (Companion Funds) Private Equity Investments Pty Ltd and Starfish Ventures Pty Ltd (**Major Mimetica Securityholders**), have provided the following information to the Company to assist the Company to meet its responsibilities under ASIC Regulatory Guide 74.

The Company takes no responsibility for any omission from, or any error or false or misleading statement in this section. The Major Mimetica Securityholders have consented to the disclosure of this information in this Explanatory Memorandum.

#### (b) Change to the business of the Company

The Major Mimetica Securityholders propose that the business of the Company change to that currently undertaken by Mimetica.

A summary of the current business of Mimetica is set out in section 2.11 of this Explanatory Memorandum.

#### (c) Injection of capital in the Company

The intention of the Major Mimetica Securityholders to subscribe for Offer Shares under the Capital Raising is not known at the date of this Explanatory Memorandum.

The Major Mimetica Securityholders do not currently propose to inject further capital into the Company or Mimetica (other than under the Capital Raising).

#### (d) Future employment of present employees

It is proposed that Dr Robert Crombie will be appointed as managing director and chief executive officer and Mr Michael Thurn will be appointed as chief operating officer of the Company following the Acquisition.

**(e) Transfer of the Company's assets to the Mimetica Securityholders**

The Major Mimetica Securityholders and the Company do not have any current intention to transfer any of the Company's assets to the Mimetica Securityholders.

**(f) Redeployment of fixed assets**

The Major Mimetica Securityholders and the Company propose that the assets of the Company be utilised in the development and commercialisation of the drug candidate MTC896, consistent with the current business of Mimetica.

**(g) Significant change to the financial or dividend distribution policies of the Company**

The Major Mimetica Securityholders and the Company do not have any current intention to make a significant change to the financial or dividend distribution policies of the Company.

***Directors' recommendation***

The Directors recommend that Shareholders vote in favour of Resolution 4 for the Acquisition to complete and to enable the Shares to recommence trading.

### 4.5 Resolution 5 - Issue of Shares and Options under the Capital Raising

The Company proposes to raise funds for the purposes set out in section 2.5.

The Capital Raising is intended to raise between $6,500,000.00 and $8,000,000.00, with minimum subscription of $6,500,000.00. Shareholder approval under ASX Listing Rule 7.1 is required before the Company is able to issue and allot the Offer Shares referred to in Resolution 5.

The specific details of the Capital Raising will be described in the Prospectus. In accordance with ASX Listing Rule 7.3, the following additional information is provided for the purposes of Resolution 5:

- a maximum of 32,000,000 Offer Shares will be issued and allotted pursuant to the Prospectus;
- the Offer Shares will be issued and allotted on completion of the Public Offer but in any event no later than three months after the date that Resolution 5 is passed;
- the Offer Shares will be offered at a price determined by the then Directors of the Company but the minimum issue price of each Offer Share will be at least $0.25;
- the allottees will be subscribers to the Public Offer and the identity of the allottees is not known at this point in time, other than QIC which has provided a commitment to subscribe $1,500,000.00;
- the terms of the Offer Shares will be set out in the Prospectus;
- on issue, the Offer Shares will rank equally with the other Shares on issue;

- 2,000 Options will be granted to each existing Shareholder (as at the date of re-quotation on ASX following completion of the Acquisition) who applies for at least $2,000 of Shares under the Prospectus; and

- funds raised under the Public Offer will be applied as set out in section 2.5 of this Explanatory Memorandum.

***Directors' recommendation***

The Directors recommend that Shareholders vote in favour of Resolution 5 in order to provide the Company with sufficient working capital to continue clinical trials and develop the business currently undertaken by Mimetica.

### 4.6 Resolution 6 - Change of name

Subject to completion of the Acquisition, the Company proposes to change its name to "Mimetica Limited" to reflect the change of business and activities of the Company and to capture the existing goodwill of Mimetica.

Under section 157 of the Corporations Act, a Company may change its name if the change is approved by special resolution of shareholders at a general meeting. As a special resolution, the change of name of the Company to Mimetica Limited must be passed by at least 75% of the votes cast by Shareholders entitled to vote on this resolution at the General Meeting.

***Directors' recommendation***

The Directors recommend that Shareholders vote in favour of Resolution 5 in order to enable Company to carry on business under Mimetica's name to capture its existing goodwill.

## 5. GLOSSARY OF TERMS

**15% Rule** means the rule set out in ASX Listing Rule 7.1 and referred to in section 3.4.

**Acquisition** means the acquisition by the Company of all of the issued share capital of Mimetica and cancellation of options granted by Mimetica.

**Application Moneys** means the funds paid by Investors for the subscription of Shares under the Capital Raising.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the market operated by that entity, as the context requires.

**ASX Listing Rules** means the rules and procedures issued and enforced by the ASX, as amended from time to time, including all guidance notes and appendices thereto

**Board** means the board of directors of the Company.

**Capital Raising** means the issue of a minimum of 26,000,000 Shares and a maximum of 32,000,000 Shares at a price of $0.25 pursuant to the Public Offer.

**Company** means Telesso Technologies Limited (ACN 072 178 977).

**Completion** means the issue and allotment of all the Shares and grant of Options pursuant to the Share Purchase Agreement as a result of the completion of the Acquisition and the Public Offer.

**Completion Date** means the date on which the Company completes the Transaction.

**Constitution** means the constitution of the Company, as varied or amended from time to time.

**Corporations Act** means the Corporations Act 2001 (Commonwealth).

**Director** means a member of the board of directors of the Company.

**Documents** means each of the Notice, Explanatory Memorandum, Proxy Form, Independent Expert Report and any or all other documents that accompany each other when sent to each Shareholder.

**Effective Date** means the date of execution of the Share Purchase Agreement, being 14 March 2013.

**Explanatory Memorandum** means the explanatory memorandum attached to the Notice.

**Group** means the Company together with Mimetica on and from Completion.

**Independent Expert** means Pitcher Partners Corporate Finance Limited of Level 30, 345 Queen Street, Brisbane, Queensland, 4000

**Independent Expert Report** means the report prepared by the Independent Expert as set out in appendix "A".

**Listing Date** means the first date after the date of Completion upon which the Shares are officially quoted by ASX.

**Mimetica** means Mimetica Pty Ltd (ACN 097 251 315).

**Mimetica Option** means an option to acquire a share in the issued capital of Mimetica.

**Mimetica Optionholder** means a holder of a Mimetica Option on the Effective Date.

**Mimetica Securityholders** means the Mimetica Shareholders and the Mimetica Optionholders.

**Mimetica Share** means a share in the issued capital of Mimetica.

**Mimetica Shareholder** means a holder of a Mimetica Share on the Effective Date.

**Non Associated Shareholder** means shareholders other than those involved in the Transaction or persons associated with such persons, who are precluded from voting at the meeting to which the Notice relates.

**Notice** means the notice of general meeting of the Shareholders that accompanies and forms part of these Documents and all disclosure made in these Documents in accordance with the requirements of the ASX Listing Rules and the Corporations Act.

**Offer Shares** means the Shares to be offered for subscription pursuant to the Public Offer and otherwise in accordance with the Prospectus.

**Option** means an option to acquire a Share.

**Prospectus** means the prospectus to be issued by the Company in relation to the offer, issue and allotment of Offer Shares under the Public Offer.

**Proxy Form** means the proxy form more particularly set out in Appendix "B".

**Public Offer** means the offer of the Offer Shares in accordance with the terms of the Prospectus to raise a minimum of $6,500,000.00 and a maximum of $8,000,000.00.

**QIC** means Limited ACN 130 539 123 in its capacity as nominee for the Innovis Investments Australia Fund, QBF No. 1 Pty Ltd as trustee of Queensland BioCapital Fund No. 1 and QBF No. 2 Pty Ltd as trustee of Queensland BioCapital Fund No. 2, unless specified otherwise in this prospectus.

**Quotation** means the official quotation by the ASX of securities on the market conducted by the ASX.

**Resolution** means any one of the resolutions set out in the Notice.

**Securities** means Shares and Options.

**Share** means a fully paid ordinary share in the issued capital of the Company.

**Shareholder** means the holder of a Share.

**Share Purchase Agreement** means the agreement dated 14 March 2013 between the Company, the Mimetica Securityholders, the Mimetica Optionholders and Mimetica in relation to the Acquisition as amended by letters dated 1 July 2013 and 23 July 2013.

**Transaction** means the Acquisition and the Capital Raising.

PITCHER PARTNERS
CORPORATE FINANCE LIMITED



# Telesso Technologies Limited

**24 July 2013**

Independent expert's report



Pitcher the **difference**

PITCHER PARTNERS
CORPORATE FINANCE LIMITED

# Financial Services Guide

**What is a Financial Services Guide?**
This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. It includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you a FSG because you have received a report or other financial services from us.

**What financial services are we licensed to provide?**
We are authorised to provide general financial product advice or to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes and government debentures, stocks or bonds.

**Our general financial product advice**
Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

**How are we and all employees remunerated?**
We will receive a fee of approximately $50,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed transaction between Telesso Technologies Limited and Mimetica Pty Ltd.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits. We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

**Associates and relationships**
We are ultimately owned by the partners of Pitcher Partners Brisbane. Please see www.pitcher.com.au for a detailed description of the firm. Pitcher Partners or Pitcher Partners Corporate Finance Limited has not provided any previous services to Telesso Technologies Limited or Mimetica Pty Ltd other than the following:

- we act as tax agents and advisors to Mimetica Pty Ltd; and
- we were engaged by Telesso Technologies Limited on a previous independent expert's report in respect of a proposed transaction which was subsequently abandoned.

**What should you do it you have a complaint?**
If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

Pitcher Partners
Complaints Office
PO Box 1144
BRISBANE QLD 4001

Financial Ombudsman Service
GPO Box 3
MELBOURNE VIC 3001
infor@fos.org.au
www.for.org.au
Tel: 1300 780 808

**What compensation arrangements do we have?**
Pitcher Partners and Pitcher Partners Corporate Finance Limited holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001.

## GLOSSARY OF TERMS

| | |
|---|---|
| A$ | Australian dollars |
| Act, the | Corporations Act 2001 |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| Directors | Directors of Telesso |
| DND | Did not disclose |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| FY | Financial year |
| k | thousands |
| m | million |
| MAP | MAP Pharmaceuticals Inc. |
| Mimetica | Mimetica Pty. Ltd. |
| Options | Granting of 3 million options to acquire shares at an exercise price of 27.5 cents each with a term of 5 years which vest equally over 3 years |
| Pitcher Partners CF | Pitcher Partners Corporate Finance Limited |
| Proposed Transaction | The proposed acquisition by Telesso of all the issued capital in Mimetica in consideration for 63m Telesso Shares and 3m Options |
| Report, this | This independent expert's report prepared by Pitcher Partners CF for Telesso, dated 24 July 2013 |
| RG | ASIC Regulatory Guide |
| Shares | Shares in Telesso |
| Shareholders | Holders of Telesso shares |
| Share Purchase Agreement | Between Telesso, Mimetica and Mimetica's Shareholders and Optionholders for the sale and purchase of all the issued capital in Mimetica |
| Telesso or the Company | Telesso Technologies Limited |
| US$ | United States dollars |
| VPI | Vascular Pathways Inc. |

PITCHER PARTNERS
CORPORATE FINANCE LIMITED

Level 30
345 Queen Street
Brisbane
Queensland 4000

Postal Address:
GPO Box 1144
Brisbane
Queensland 4001

ABN 99 054 784 619
AFS Licence No 255516

Tel: 07 3222 8444
Fax: 07 3221 7779

www.pitcher.com.au
info@pitcherpartners.com.au

Pitcher Partners is an association of independent firms
Brisbane | Melbourne | Sydney | Perth | Adelaide

24 July 2013

The Directors
Telesso Technologies Limited
Level 12, 10 Spring Street
SYDNEY NSW 2000

Dear Sirs

**INDEPENDENT EXPERT'S REPORT**

**Introduction**

On 14 March 2013 Telesso Technologies Limited ("Telesso") entered into a Share Purchase Agreement with Mimetica Pty Ltd ("Mimetica") and Mimetica's shareholders and optionholders to acquire all the issued capital in Mimetica (hereafter referred to as the "Proposed Transaction"). Prior to completion of the acquisition, it is proposed that Telesso will undertake a share consolidation to reduce its issued capital from 60,155,165 to 9,000,441 fully paid ordinary shares. The acquisition of Mimetica is to be paid by the issue of 63 million Shares, and granting 3 million Options (to replace the existing options held by certain employees of Mimetica). The acquisition is conditional on Telesso raising at least $6.5m under a prospectus, with the shares being issued at 25 cents per share.

A more detailed discussion of the Proposed Transaction and scope of our Report is set out in Section 1.1.

In this Report, Pitcher Partners Corporate Finance Limited ("Pitcher Partners CF") has expressed an opinion as to whether the Proposed Transaction is fair and reasonable to Telesso Shareholders. We understand that this Report will be provided to Shareholders to assist them to make an informed decision on whether to vote in favour of or against the Proposed Transaction. Apart from the purpose stated above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

This Report does not address circumstances specific to individual Shareholders. A Shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by their own particular circumstances, such as their risk profile. Shareholders should obtain their own professional advice in relation to their own circumstances.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to Shareholders in conjunction to this Report, including the Explanatory Memorandum and the Notice of Meeting prepared by Telesso to be dated on or about 25 July 2013.

**Summary of Opinion**

This section of the Report is a summary of our opinion and cannot be substituted for a complete reading of our Report. We recommend that Shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Notice of Meeting and Explanatory Memorandum, and consider their own specific circumstances before voting in favour of or against the Proposed Transaction.

*Basis of Evaluation*

In order to determine whether the Proposed Transaction is fair and reasonable we have:

- assessed whether the Proposed Transaction is fair by estimating the fair market value of an ordinary share in Telesso on a control basis before the Proposed Transaction, and compared that value to the estimated fair market value of a Telesso Share on a minority interest basis after the Proposed Transaction; and
- assessed the reasonableness of the Proposed Transaction by considering other relevant factors.

*Fairness of the Proposed Transaction*

Our assessment of the fairness of the Proposed Transaction is set out in Section 8 of this Report. In summary, we determined a value of a Telesso Share prior to the Proposed Transaction using the net assets method on the basis that although Telesso currently has no business activity the intention is to complete the Proposed Transaction and remain a going concern. On this basis we valued a Telesso Share at between 5.5 - 13 cents per share (post share consolidation). Refer to Section 6 of this Report for a more detailed discussion on how this value was determined for Telesso.

In regard to Mimetica, we recognise that it is difficult to ascribe a fair market value given the early stage of the company's biotechnology product lifecycle and given the uncertainty surrounding commercialisation of its lead product. In summary, we determined a value of Mimetica by considering the value of broadly comparable market transactions for companies that were at a similar stage of the biotechnology product life cycle to Mimetica. On this basis, we valued Mimetica in the range of $18.2m - $39.0m and the value of a Telesso share after the Proposed Transaction at between 20.7 – 44.6 cents per share (post share consolidation). Refer to Section 7 of this Report for more detailed discussion on how this value was determined for Mimetica and Section 8 for our assessment of a Telesso share post acquisition.

After considering the matters summarised above, and set out in the balance of this report, it is our view that, in the absence of any other information, the Proposed Transaction is **fair** as at the date of this report.

*Reasonableness of the Proposed Transaction*

In accordance with Regulatory Guide 111: Content of experts reports ("RG111"), a transaction is considered reasonable if it is fair. Notwithstanding this, we have also considered the reasonableness of the Proposed Transaction having regard to other significant factors to which Shareholders may give consideration prior to deciding whether to vote in favour of or against the Proposed Transaction. This includes comparing the likely advantages and disadvantages of the Proposed Transaction with the position of the Shareholders if the Proposed Transaction is not approved.

We have summarised below the advantages and disadvantaged of the Proposed Transaction to Shareholders.

*Advantages*

- Shareholders will be able to participate in possible future increases in the value of Telesso if the results of Mimetica's Phase 2 trials are successful, with a potential for substantial upside in value if Mimetica is eventually sold to, or joint ventures with, a large pharmaceutical company.
- Given the proposed capital raising as a condition precedent of the Proposed Transaction, the liquidity in the market for Telesso Shares may improve.
- If the Proposed Transaction does not proceed, the Directors will need to decide whether to return the surplus cash to Shareholders or identify a new project to acquire. Given the difficulty in identifying potential acquisitions to date, and the present economic environment, this process is likely to take a considerable amount of time during which administrative and investigation costs are likely to dissipate cash reserves.

*Disadvantages*

- Existing Shareholders will lose control of Telesso and their interest in the Company's cash will be severely diluted.
- If the results of the Phase 2 trials are unsuccessful, the value of a Telesso share is likely to be negligible.
- Shareholders will be exposed to the risks associated with the biotechnology industry (as summarised in Section 7.1).

Shareholders should refer to Section 9 of our Report for a more detailed discussion of the advantages and disadvantages relating to the Proposed Transaction as well as a consideration of the position of the Shareholders if the Proposed Transaction does not proceed.

After considering the advantages, disadvantages and other considerations summarised and set out in further detail in our Report, it is our view that, in absence of any other information, the Proposed Transaction is **reasonable** as at the date of this Report.

**Other matters**

Notwithstanding our view above, we note that the value of Mimetica relies on the development of compounds which are currently at an early stage of clinical trials. In our view, the value of Mimetica may increase or decrease materially over short periods depending on the ability to meet certain milestones. Refer to Section 7.1 of this Report for more information in relation to the risks specific to biotechnology companies.

**Opinion**

In our opinion, in the absence of a superior proposal, the Proposed Transaction as a whole is **fair and reasonable** to Shareholders. The principal factors we have taken into account in forming our opinion are discussed in detail in our Report. The above opinion should be considered in conjunction with, and not independently of, the information set out in our Report, including the appendices.

The opinion of Pitcher Partners CF is based on economic, market and other conditions prevailing at the date of this Report. This opinion should be read in conjunction with the attached Report and the Explanatory Memorandum forming part of the Notice of General Meeting of the Company.

Yours faithfully
**PITCHER PARTNERS CORPORATE FINANCE LIMITED**

Ross Walker
Director

# Contents

## 1. PROPOSED TRANSACTION AND SCOPE

### 1.1 Summary of Proposed Transaction

On 14 March 2013 Telesso entered into a Share Purchase Agreement to purchase all the issued capital of Mimetica from its existing shareholders and existing option holders, subject to Shareholder approval and Telesso undertaking a capital raising of at least $6.5 million. The consideration payable by Telesso to the Mimetica shareholders and option holders is to be satisfied by the issue of:

- 63,000,000 Shares, post Telesso undertaking a share consolidation; and
- 3,000,000 Options to acquire shares in Telesso at an exercise price of 27.5 cents per share (with a term of 5 years which vest equally over 3 years).

This transaction is hereafter referred to as "the Proposed Transaction". The formal process for the Proposed Transaction is set out in Resolutions 1 to 6 in the Notice of Meeting to which this Report is attached. The Resolutions deal with the following matters:

| | |
|---|---|
| Resolution 1. | Approval for the Telesso Shares to be consolidated from 60,155,165 Shares to 9,000,441 Shares. |
| Resolution 2. | Approval of the acquisition of Mimetica and change in nature of activities. |
| Resolution 3. | Approval to issue 63,000,000 Shares and 3,000,000 Options to Mimetica shareholders and Mimetica optionholders. |
| Resolution 4. | Approval for the purposes of section 611, item 7 of the Act for Mimetica shareholders to acquire a relevant interest in Telesso greater than 20% of the Company's voting power. |
| Resolution 5. | Approval for the issue of up to 32,000,000 shares in the Company at an issue price of 25 cents per share under a prospectus and the issue of up to 1,600,000 options to Shareholders who apply for at least 8,000 Shares under the Offer. |
| Resolution 6. | Approval for the name of the Company to be changed to 'Mimetica Limited'. |

## 1.2 Purpose of this Report

Under section 606 of the Act a person must not acquire a relevant interest in the issued voting shares in a company if, because of the transaction, that person's or someone else's voting power in the company increases:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

An exception to this general prohibition is set out in section 611 (item 7), whereby such an acquisition is approved by resolution at a general meeting at which no votes are cast in favour of the resolution by the acquirer or the disposer or their respective associates, and for which shareholders of the company have been given all information known to the acquirer that is material to the decision on how to vote at the meeting.

ASIC Regulatory Guide 74 "Acquisitions Approved by Members" (RG 74) suggests that the obligation to supply shareholders with all information that is material to the decision on how to vote on a resolution can be satisfied by either:

(a) the independent directors undertaking a detailed examination of the proposal themselves, if they consider that they have sufficient expertise, experience and resources; or
(b) commissioning an independent expert's report.

In addition, RG 74 provides that if the effect of the acquisition will be similar to a takeover bid, the independent expert's report should analyse whether the transaction is fair and reasonable in accordance with RG 111.

If the Proposed Transaction is approved, then the Telesso shareholdings post acquisition and post capital raising will be as follows:

*Proposed Capital Structure of Telesso*

| | Minimum subscription | | Maximum subscription | |
|---|---|---|---|---|
| | No. of Shares | % Interest | No. of Shares | % Interest |
| Shares currently on issue | 60,155,165 | | 60,155,165 | |
| Share consolidation (Existing Shareholders) | 9,000,441 | 9.2% | 9,000,441 | 8.6% |
| Issue of shares to Mimetica shareholders | 63,000,000 | 64.3% | 63,000,000 | 60.6% |
| Issue of shares under the proposed prospectus | 26,000,000 | 26.5% | 32,000,000 | 30.8% |
| Total shares on issue - on completion | 98,000,441 | 100% | 104,000,441 | 100% |

The Directors have commissioned Pitcher Partners CF to prepare this Report as part of the information which will be provided to shareholders in seeking their approval for the Proposed Transaction. Our Report should not be used for any other purpose.

### 1.3 Assessment of Fairness & Reasonableness

The Act does not provide a definition as to the meaning of fair and reasonable. However, guidance is provided by the Regulatory Guides issued by the ASIC, which establish certain guidelines in respect of independent expert reports required under the Act.

Under RG 111, which provides guidance in respect of the content of expert reports, a control transaction (which under the RG 111 definition includes the Proposed Transaction) is:

- fair, when the value of the consideration is equal to or greater than the value of the securities subject to the proposed scheme. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium if appropriate); and
- reasonable, if it is fair, or despite not being fair, after considering other significant factors, shareholders should accept the offer under the proposed scheme, in the absence of any higher bids.

To assess whether the Proposed Transaction is in the best interests of Shareholders, we have adopted the test of whether the Proposed Transaction is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in RG 111.

In determining whether the Proposed Transaction is fair and reasonable we have considered the following:

(i) Fairness
RG 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities that are the subject of the offer. The comparison must be made assuming 100% ownership of Telesso. Accordingly, we have assessed whether the Proposed Transaction is fair by comparing the value of a Telesso share before the Proposed Transaction (on a control basis) with the estimated value of a Telesso share on completion of the Proposed Transaction (on a minority interest basis).

(ii) Reasonableness
RG 111 considers an offer of a control transaction, to be reasonable if either:
- the offer is fair; or
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher offer before the close of the offer.

To assess the reasonableness of the Proposed Transaction we consider the following significant factors in addition to determining whether the Proposed Transaction is fair or not:
- Telesso has been in search of a suitable business opportunity for a number of years.
- The company's cash holdings are slowly being depleted while Telesso continues to have no business activities.
- It is unlikely that existing Shareholders will continue to fund Telesso once the existing cash is fully utilised.
- Shareholders will continue to participate in the value of Telesso if the Proposed Transaction is approved.

### 1.4 Limitations and Reliance on Information

Our opinion 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. This report should be read in conjunction with the disclaimer outlined in Appendix 4.

Our procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

## 2. PROFILE OF TELESSO

### 2.1 Background

Telesso is an ASX listed company and is currently regarded as a listed 'shell' with approximately $500k in net assets (mostly cash). Its previous core business was in chemical engineering, specifically in relation to the application of supercritical fluid technologies in pharmaceutical processing.

In September 2005 Telesso signed a development and licensing agreement with Californian-based MAP Pharmaceuticals Inc. ("MAP"), a company specialising in the development of advanced pulmonary delivery pharmaceutical products around its proprietary inhalation device technology. The agreement provided MAP with the exclusive right to apply Telesso's intellectual property to the development of certain products for inhalation. The agreement provided Telesso with funding for additional project work and provided for (undisclosed) milestone payments and royalties potentially payable to Telesso based on specified developmental and commercial progress. In June 2008, it was agreed to transfer all of the rights in relation to the intellectual property to MAP and, as a result, Telesso closed its research facility at North Ryde in Sydney.

In recognition of the fact that the Company had to shift its focus, Telesso raised funds in February 2006 to facilitate a strategic review of its options. A number of business opportunities were reviewed during calendar 2006, including the evaluation of several companies as potential acquisition targets. In March 2007, Telesso raised further funds through a share placement to Queensland BioCapital Funds Pty Ltd (QIC Limited) together with a rights issue. The funds raised were to support further evaluation of new business opportunities.

In December 2008 Telesso invested US$300k in a U.S. company Vascular Pathways Inc ("VPI") based in California. The investment assisted in funding a multi-centre clinical trial of the VPI guidewire device. Telesso also had the potential to acquire VPI. Although the acquisition did not take place, Telesso maintains an investment in VPI.

In the Company's 2012 annual report the Directors' stated that "the continued focus of the Telesso board during the year has been the search for a suitable business opportunity for the company. In summary, over the past three years the board has reviewed thirteen different opportunities and of these has conducted extensive due diligence on five which is a time consuming process. It is unfortunate that none of the opportunities reviewed has been considered of a quality to meet the investment criteria set by the board, however further initiatives are currently under review and the company will continue to actively seek and assess opportunities as they arise".

Throughout this time Telesso has continued to focus on new business opportunities and has now proposed to Shareholders the acquisition of Mimetica.

## 2.2 Trading Results

Set out below is a summary of Telesso's financial performance from July 2009 to April 2013.

| | $'000 | | | |
|---|---|---|---|---|
| | **FY10** | **FY11** | **FY12** | **Apr-13 (10 mths)** |
| *Income* | | | | |
| Interest | 141 | 114 | 84 | 36 |
| Other | - | - | 9 | - |
| | 141 | 114 | 93 | 36 |
| *Expenses* | | | | |
| Administration costs | (792) | (598) | (539) | (371) |
| Foreign currency losses | (46) | (99) | - | (9) |
| Impairment | (385) | - | - | - |
| Professional fees - Mimetica acquisition | | | | (408) |
| - prospectus costs | - | - | - | (172) |
| | (1,223) | (697) | (539) | (960) |
| Profit/(loss) | (1,082) | (583) | (446) | (924) |

Telesso has no business activities. The Company earns interest on its cash holdings and continues to incur administration and corporate costs to remain ASX listed while it searches for a potential business opportunity. Professional fees incurred during the 10 months to April 2013 relate to the Proposed Transaction and costs associated with drafting the prospectus for the proposed capital raising. These costs were expensed on the basis Shareholders have not yet approved the Proposed Transaction.

## 2.3 Financial Position

The consolidated balance sheets of Telesso at 30 June 2012 (audited) and 30 April 2013 (unaudited), are set out below.

| | | $'000 | |
|---|---|---|---|
| | Section | **Jun-12** | **Apr-13** |
| *Assets* | | | |
| Cash and cash equivalents | | 1,514 | 711 |
| Other debtors and prepayments | | 37 | 3 |
| Investment in Vascular Pathways Inc | 2.4 | - | - |
| | | 1,551 | 714 |
| *Liabilities* | | | |
| Trade and other payables | | (99) | (186) |
| Net assets | | 1,452 | 528 |
| *Equity* | | | |
| Issued capital | | 39,784 | 39,784 |
| Accumulated losses | | (38,332) | (39,256) |
| | | 1,452 | 528 |
| No. of shares on issue ('000) | 2.6 | 60,155 | 60,155 |
| Net asset value per share (cents) | | 2.4¢ | 0.9¢ |

As shown above Telesso's cash and net asset position have decreased over time as the Company continues to remain ASX listed and search for potential business opportunities.

### 2.4 Investment in Vascular Pathways Inc (VPI)

Telesso holds preferred shares in VPI, a Delaware company based in California. The investment was made in December 2008 for US$300,000 by way of a convertible promissory note. During FY11, VPI undertook a capital raising of approximately US$14.0 million by issuing Series B Preferred Stock at US$0.91 each. The proceeds are being used to complete further clinical studies and then to commercialise the technology. Under the terms of the convertible promissory note, the capital raising triggered the conversion of the note into Series B Preferred Stock. Telesso received 367,279 Series B Preferred Stock, valued at the time at US$0.91 per share or US$334,000, representing less than 3% of the total Preferred Stock on issue. Telesso did not participate in the capital raising and has not contributed to any further funding of VPI.

Since the clinical trial has not yet been completed and it is not known whether or not it will be successful, there is significant uncertainty as to whether the carrying value of the investment in VPI will be recoverable. Accordingly, the Directors have written down the investment to $nil and continue to consider that these circumstances have not yet changed.

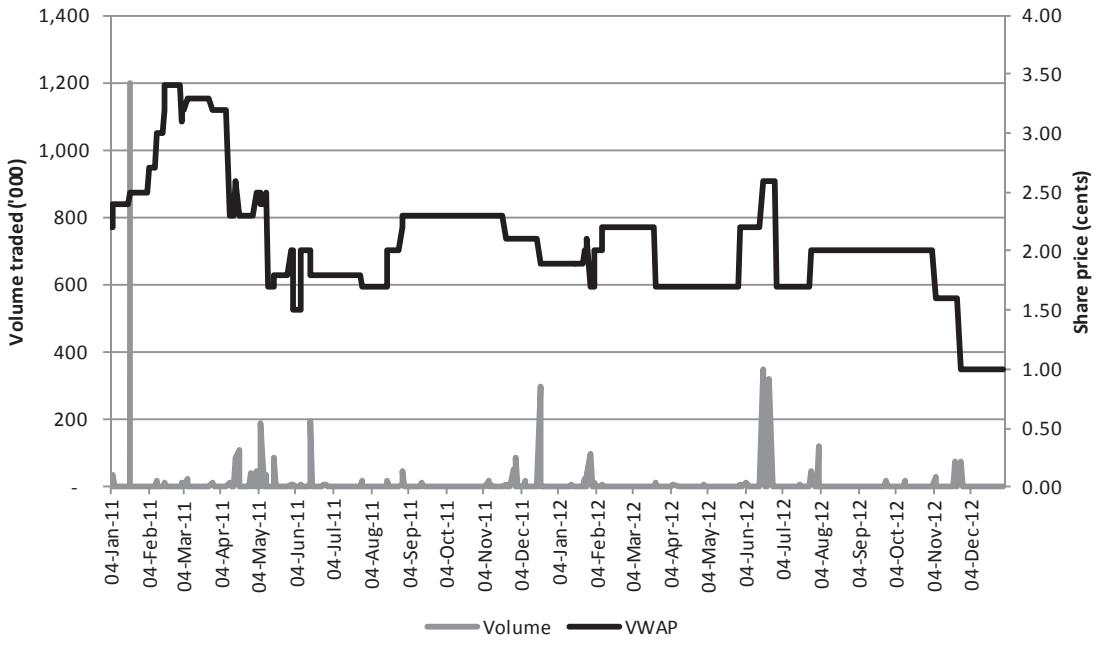
### 2.5 Share Price Performance

The table below summarises Telesso's recent share price performance by quarter for the period 1 January 2011 through to 17 December 2012 when Telesso requested ASX to suspend quotation of its securities. The suspension was requested as the Company did not comply with ASX Listing Rule 12.3 in that more than half of its assets was in cash. It is expected that suspension will end on completion of the Proposed Transaction.

| | Share Price | | Volume | Quarterly | Shares on | % of total |
|---|---|---|---|---|---|---|
| | High | Low | traded | VWAP | Issue | shares |
| Period | cents | cents | ('000) | cents | ('000) | traded |
| Jan-Mar 2011 | 3.4 | 2.4 | 1,338 | 2.6 | 60,155 | 2.2% |
| Apr-Jun 2011 | 2.6 | 1.5 | 866 | 2.2 | 60,155 | 1.4% |
| Jul-Sept 2011 | 2.3 | 1.7 | 101 | 2.1 | 60,155 | 0.2% |
| Oct-Dec 2011 | 2.3 | 1.9 | 486 | 2.0 | 60,155 | 0.8% |
| Jan-Mar 2012 | 2.2 | 1.7 | 202 | 2.0 | 60,155 | 0.3% |
| Apr-Jun 2012 | 2.6 | 1.7 | 812 | 2.4 | 60,155 | 1.4% |
| Jul-Sept 2012 | 2.0 | 1.7 | 195 | 1.9 | 60,155 | 0.3% |
| Oct-Dec 2012 | 2.0 | 1.0 | 201 | 1.5 | 60,155 | 0.3% |

## 2.5 Share Price Performance (continued)

The chart below summarises Telesso's share trading price and volume over the same period. The price is based on the daily VWAP.




As shown above, Telesso's share price has decreased over the past two years from 3.4 cents to 1.0 cents pre consolidation which equates to 23.7 cents to 6.7 cents post consolidation. The decrease in share price reflects the decrease in the Company's cash holdings. The above analysis also shows that Telesso shares were thinly traded.

## 2.6 Major Shareholders

The major shareholders in Telesso at the date of this report are summarised below:

| | No. of Shares Held | | Percentage Interest % |
|---|---|---|---|
| | Pre Consolidation | Post Consolidation | |
| Major Shareholders: | | | |
| QIC Limited | 29,896,059 | 4,472,842 | 49.7% |
| Jagen Nominees Pty Ltd | 7,013,443 | 1,049,303 | 11.7% |
| Reef Securities Ltd | 3,076,597 | 460,300 | 5.1% |
| Mr P & Mrs M Stawski | 1,000,000 | 149,614 | 1.7% |
| Mr T Hay | 951,879 | 142,414 | 1.6% |
| Other shareholders | 18,217,187 | 2,725,968 | 30.2% |
| | 60,155,165 | 9,000,441 | 100.0% |

QIC Limited, through its 49.7% shareholding, effectively controls Telesso.

## 3. PROFILE OF MIMETICA

### 3.1 Background

Mimetica was incorporated on 25 June 2001 having originated from the Institute of Molecular Biosciences at the University of Queensland. Mimetica is a private Australian biotechnology company focused on the development of novel prescription therapeutics for the treatment of *acne vulgaris* (acne). The company was initially formed to develop a drug discovery platform based on the rational design of small molecule mimics of natural peptide hormones. Mimetica has successfully applied this technology to generate novel drug candidates and has advanced one of these candidates into early clinical development of lead candidate MTC896 for the treatment of acne.

Mimetica's major achievements include:

| | |
|---|---|
| **Commercial** | Investment of approximately $15 million from a consortium of Australian life science investment firms including Starfish Ventures and Start-up Australia.<br>Obtained a $1.7 million Commonwealth Commercial Ready Program Grant for the preclinical and clinical development of a new acne treatment. |
| **Product Development** | Developed a patented drug discovery platform for generating of small molecule mimics of peptide structures.<br><br>Achieved selection of a lead candidate, MTC896, against a novel acne drug target, the melanoncortin-5 receptor (MC5R) for the treatment of acne.<br><br>Developed a cosmetically appealing topical gel formulation, MTC896 Gel with a long shelf life.<br><br>Completed a comprehensive preclinical toxicology and manufacture program to support clinical development. |
| **Clinical** | Investigational New Drug application filed and accepted by the US Food and Drug Administration (FDA) for MTC896 Gel.<br><br>Successful completion of three Phase 1 clinical safety studies with MTC896 Gel in over 260 subjects demonstrating the topical gel was non-irritating to the skin, was not phototoxic and did not cause allergic contact sensitization.<br><br>Completed a Phase 2 pilot study in individuals with oily skin obtaining efficacy signals. |
| **Intellectual Property** | Obtained grant of composition of matter and method of use patent applications for MTC896 and related series of compounds and in force until 2030. |

Mimetica is focused on the clinical development of a novel, first in class therapeutic, MTC896, for the treatment of acne. MTC896 is formulated as a gel for local topical application. Mimetica has advanced this product candidate through Phase 1 clinical studies demonstrating its safety and tolerability in humans and has also conducted a Phase 2 pilot study in humans with oily skin to confirm mechanism of action. The next stage of clinical development involves a Phase 2 trial to assess the ability of MTC896 to reduce the number and severity of acne lesions in individuals with moderate to severe acne.

### 3.2 Trading Results

Set out below is a summary of Mimetica's financial performance over the past from July 2009 to April 2013.

| | $'000 | | | |
|---|---|---|---|---|
| | **FY10** | **FY11** | **FY12** | **Apr-13 (10 mths)** |
| *Income* | | | | |
| Interest | 150 | 14 | 4 | 4 |
| Research & development tax rebate | 326 | 157 | 128 | 155 |
| | 476 | 171 | 132 | 159 |
| *Expenses* | | | | |
| Administration costs | (399) | (636) | (266) | (324) |
| Depreciation & amortisation | (51) | (52) | (2) | - |
| Research & development | (1,669) | (1,178) | - | - |
| Impairment of intangible assets | - | - | (500) | (25) |
| | (2,119) | (1,866) | (768) | (349) |
| Profit/(loss) | (1,643) | (1,695) | (636) | (190) |

In FY10 and FY11 Mimetica carried out three Phase 1 clinical safety studies with MTC896 Gel which is reflected in research and development expenditure shown above.

In FY12 and during the 10 months to April 2013 Mimetica capitalised research and development costs of approximately $300,000 and $500,000 respectively, relating to the Phase 1 clinical safety studies, on the basis that such costs met the capitalisation recognition criteria in consideration of:

- Acceptance by the FDA that the product can be classified as a Investigational New Drug;
- Successful completion of appropriate clinical trials; and
- Demonstration that the product has the potential to reduce acne.

In FY12 the directors of Mimetica decided to impair the original cost of the intellectual property on the basis that the technology had significantly changed, resulting in an impairment charge of $500,000.

### 3.3 Financial Position

The balance sheet of Mimetica at 30 June 2012 (audited) and 30 April 2013 (unaudited) and the unaudited pro forma balance of Mimetica at 30 April 2013 are set out below. The pro forma balance sheet is based on the unaudited balance sheet of Mimetica as at 30 April 2013 adjusted for the proposed conversion of the convertible notes, as set out below.

| | | $'000 | | |
|---|---|---|---|---|
| | Section | Actual | | Pro Forma |
| | | Jun-12 | Apr-13 | Apr-13 |
| *Tangible Assets* | | | | |
| Cash and cash equivalents | | 191 | 1,119 | 1,119 |
| Other assets | | 25 | 14 | 14 |
| | | 216 | 1,133 | 1,133 |
| *Intangible Assets* | | | | |
| Intellectual property – at cost | | 1,000 | 1,000 | 1,000 |
| Accumulated amortisation | | (975) | (1,000) | (1,000) |
| Research and development | | 302 | 854 | 854 |
| | | 327 | 854 | 854 |
| Total assets | | 543 | 1,987 | 1,987 |
| *Liabilities* | | | | |
| Trade and other payables | | (122) | (456) | (456) |
| Convertible notes | 3.4 | (200) | (1,500) | - |
| Convertible preference shares (Series C) | 3.4 | (8,896) | - | - |
| Total liabilities | | (9,218) | (1,956) | (456) |
| Net assets/(deficiency) | | (8,675) | 31 | 1,531 |
| *Equity* | | | | |
| Issued capital | 3.4 | 4,642 | 13,538 | 15,038 |
| Reserves - options | | 23 | 23 | 23 |
| Accumulated losses | | (13,340) | (13,530) | (13,530) |
| | | (8,675) | 31 | 1,531 |

The pro forma balance sheet at 30 April 2013, shown above, assumes conversion of the convertible notes ($1,500,000) to fully paid ordinary shares in Mimetica had occurred as at that date.

### 3.4 Funding – Equity and Debt

Mimetica has been funded through a combination of various equity and debt instruments which are all to be exchanged for shares in Telesso if the Proposed Transaction is approved. A summary of Mimetica's actual and pro forma issued capital as at 30 April 2013 is shown below.

| | | $'000 | | |
|---|---|---|---|---|
| | | Actual | | Pro Forma |
| Timing | Description | Issued Capital | Debt | Issued Capital |
| 2001/02* | Ordinary shares | 1,020 | - | 15,038 |
| 2002 – 06 | Preference shares – Series A | 197 | - | - |
| 2002 – 07 | Preference shares – Series B | 3,425 | - | - |
| 2007 – 10 | Preference shares – Series C | 8,896 | - | - |
| 2013 | Convertible notes | - | 1,500 | - |
| | | 13,538 | 1,500 | 15,038 |

* In September 2001 Mimetica acquired the intellectual property held by the founder (Peter Cassidy) for $1m, the consideration paid by the issue of ordinary shares ($500k) and cash ($500k) with the cash component being funded from contributed equity received from IMB com Pty Ltd.

The preference shares will be converted to ordinary shares in Mimetica using conversion ratios outlined in detail in Section 2.3.1 of the Explanatory Memorandum.

### 3.5 Mimetica Shareholders

Set out below is a summary of the Mimetica shareholders, the amount of contributed equity paid by each shareholder (either as ordinary shares, preference shares or convertible notes) and the number of shares each shareholder will receive in Telesso (post Telesso share consolidation) if the Proposed Transaction is approved.

| | Pro Forma Issued Capital $'000 | Exchange for No. of Shares in Telesso '000 |
|---|---|---|
| Start-up Australia Ventures Pty Ltd | 5,871 | 20,271 |
| Starfish Ventures Pty Ltd | | |
| - Starfish Pre-Seed Fund | 1,000 | 5,509 |
| - Starfish IIFF Trust | 2,950 | 13,988 |
| Australian Super Private Equity Trust | 2,075 | 11,431 |
| MTAA Superannuation Fund | 1,925 | 10,604 |
| Peter Cassidy | 510 | 400 |
| IMB com Pty Ltd | 510 | 400 |
| Teqstart Pty Ltd | 197 | 397 |
| | 15,038 | 63,000 |

## 4. PROFILE OF COMBINED GROUP

### 4.1 Financial Information

The balance sheet of Telesso at 30 April 2013 (see Section 2.3), the pro forma balance sheet of Mimetica at 30 April 2013 (see Section 3.3) and the pro forma combined balance sheet of Telesso and Mimetica at 30 April 2013 are set out below. The pro forma combined balance sheet assumes the acquisition of Mimetica and the proposed capital raising had occurred on 30 April 2013.

| | | $'000 | | | |
|---|---|---|---|---|---|
| | Section/ Notes | **Telesso Actual** | **Mimetica Pro Forma** | **Combined Pro Forma** | **Combined Pro Forma** |
| | | Apr-13 (Section 2.3) | Apr-13 (Section 3.3) | Minimum Subscription | Maximum Subscription |
| *Current assets* | | | | | |
| Cash and cash equivalents | | 711 | 1,119 | 7,458 | 8,750 |
| Other debtors and prepayments | | 3 | 7 | 10 | 10 |
| | | 714 | 1,126 | 7,468 | 8,760 |
| *Non-current assets* | | | | | |
| Plant & equipment | | - | 7 | 7 | 7 |
| Intangible assets | | - | 854 | 854 | 854 |
| Total assets | | 714 | 1,987 | 8,329 | 9,621 |
| *Liabilities* | | | | | |
| Trade and other payables | | (186) | (456) | (642) | (642) |
| Net assets | | 528 | 1,531 | 7,687 | 8,979 |
| *Equity* | | | | | |
| Issued capital | 4.2 | 39,874 | 15,038 | 21,381 | 22,673 |
| Reserve - options | | - | 23 | 23 | 23 |
| Accumulated losses | | (39,256) | (13,530) | (13,717) | (13,717) |
| | | 528 | 1,531 | 7,687 | 8,979 |
| No. of shares on issue ('000) – post consolidation | 4.2 | 9,000 | | 98,000 | 104,000 |
| Net asset value per share (cents) | | 5.9¢ | | 7.8¢ | 8.6¢ |

*Pro forma adjustments*

The following adjustments have been made to present the balance sheets of Telesso and Mimetica as a Pro Forma Combined Group, assuming both Minimum Subscription ($6.5 million) and Maximum Subscription ($8 million), to reflect the impact as if the transactions outlined below had taken place as at 30 April 2013:

(1) *Share reconstruction* - The restructure of Telesso's share capital by the way of a consolidation of the issued capital from 60,155,165 shares to 9,000,441 shares. This transaction is also reflected in the Telesso actual balance sheet at 30 April 2013.

(2) *Acquisition of Mimetica* - The acquisition of Mimetica by the issue of 63,000,000 Shares and the granting of 3,000,000 Options in accordance with the Share Purchase Agreement. For the purpose of this Report we have assumed an issue price of 25 cents per Share ($15,750,000) which is the same as the shares being issued under the prospectus.

For accounting purposes, the Proposed Transaction will be recorded as a reverse acquisition with Mimetica being identified as the acquirer. As such, for presentation of the Pro Forma Combined Group in this report, the Proposed Transaction has been accounted for as though Mimetica had acquired the legal parent entity (Telesso). We note the Options to be granted to Mimetica employees (to replace their existing options in Mimetica) have been valued by Telesso at 11 cents each ($330,000) using the Black Scholes Option Valuation Model. This will form part of Telesso's investment cost (in Mimetica) although it will have no impact on the Pro Forma Combined Group under reverse acquisition accounting.

(3) *Shares issued under a prospectus* - The issue of 26 million Shares in Telesso at 25 cents each to raise $6.5 million (Minimum Subscription) or up to a maximum of 32 million shares in Telesso at 25 cents each to raise $8 million (Maximum Subscription).

## 4.1 Financial Information (continued)

*Pro forma adjustments (continued)*

(4) *Cost associated with the prospectus* - Estimated costs associated with the capital raising and the acquisition of Mimetica are assumed to have all been paid. Equity transaction costs include estimated cash payments under Minimum Subscription of $685,000 (of which $177,000 was expensed by Telesso at 30 April 2013) or $893,000 (Maximum Subscription). For accounting purposes, those amounts expensed at 30 April 2013 have been reallocated and treated as equity raising costs in the pro forma balance sheet at 30 April 2013. Estimated transaction costs associated with the merger of Telesso and Mimetica of $365,000, which are in addition to those costs expensed by Telesso during the period ended 30 April 2013, are assumed to have been incurred and expensed in the Combined Pro Forma balance sheet.

## 4.2 Movements in Contributed Equity

Set out below is a summary of the movement in contributed equity as reflected in the Combined Pro Forma balance sheet in Section 4.1.

| | Section/ Notes | No. of Shares ('000) | $'000 Telesso | $'000 Combined Pro Forma |
|---|---|---|---|---|
| **Balance at 30 April 2013 - actual** | | | | |
| - Telesso (actual) * | 2.3 | 60,155 | 528 | |
| - Mimetica (pro forma) | 3.3 | | | 15,038 |
| ***Pro Forma adjustments:*** | | | | |
| - Share reconstruction | 4.1(1) | 9,000 | - | - |
| - Acquisition of Mimetica - issue of Shares | 4.1(2) | 63,000 | 15,750 | - |
| - Issue of Options | 4.1(2) | - | 330 | - |
| - Acquisition of Telesso (reverse acquisition) | 4.1(2) | - | - | 528 |
| - Shares issued under the Offer | 4.1(3) | 26,000 | 6,500 | 6,500 |
| - Equity transaction costs | 4.1(4) | - | (685) | (685) |
| **Minimum subscription** | | **98,000** | **22,423** | **21,381** |
| Additional shares under the Offer – Maximum | 4.1(3) | 6,000 | 1,500 | 1,500 |
| Additional equity transaction costs | 4.1(4) | - | (208) | (208) |
| **Maximum subscription** | | **104,000** | **23,715** | **22,673** |

* For the purpose of the above analysis we have shown Telesso's equity value at 30 April 2013 rather than contributed equity.

### 4.3 Major Shareholders

Set out below is a summary of the major shareholders in Telesso (post Telesso share consolidation) if the Proposed Transaction is approved and on completion of the capital raising.

| | Minimum Subscription | | Maximum Subscription | |
|---|---|---|---|---|
| | No. of Shares in Telesso '000 | % Held | No. of Shares in Telesso '000 | % Held |
| Ex Mimetica shareholders: | | | | |
| Start-up Australia Ventures Pty Ltd | 20,271 | 20.7% | 20,271 | 19.5% |
| Starfish Ventures Pty Ltd | 19,497 | 19.9% | 19,497 | 18.7% |
| Australian Super Private Equity Trust | 11,431 | 11.7% | 11,431 | 11.0% |
| MTAA Superannuation Fund | 10,604 | 10.8% | 10,604 | 10.2% |
| Existing Telesso shareholders: | | | | |
| QIC Limited | 10,473 | 10.7% | 10,473 | 10.1% |
| Jagen Nominees Pty Ltd | 1,049 | 1.1% | 1,049 | 1.0% |
| Other shareholders | 24,675 | 25.1% | 30,675 | 28.5% |
| | 98,000 | 100% | 104,000 | 100% |

The above analysis assumes QIC Limited subscribes for 6,000,000 Shares ($1,500,000) under the proposed capital raising as intended.

## 5. VALUATION METHODOLOGY

To estimate the fair market value of a share in Telesso and Mimetica we have considered common market practice and the valuation methodologies recommended by RG 111, which deals with the content of independent expert's reports. These are discussed below.

**Market based methods**

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- Capitalisation of maintainable earnings
- Analysis of a company's recent share trading history
- Industry specific methods

The capitalisation of maintainable earnings method estimates fair market value assessed on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving public trading multiples of comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

**Discounted cash flow methods**

Discounted cash flow methods (DCF) estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. DCF methods are commonly used to value early stage companies or projects with a finite life.

**Asset based methods**

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

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

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate.

The net assets on a going concern basis method estimates the market value of the net assets of a company but does not take account of realisation costs.

These assets based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

**Comparable Valuation**

Comparable valuations are often used to value early stage biotechnology companies, such as Mimetica, by benchmarking against broadly comparable companies in the space and/or benchmarking against broadly comparable market transactions. When conducting such valuations it is necessary to consider company specific factors to assess their comparability to the company or product being valued.

## 6. VALUATION OF TELESSO

We have estimated the fair market value of Telesso using the net assets method which estimates the fair market value of the Company's net assets on a going concern basis, but does not take account realisation costs. Although Telesso currently has no business activity, the Directors remain in search of an acquisition opportunity, culminating in the Proposed Transaction. As such, the intention is for the Company not to be wound up. However, if the search for a business acquisition is not successful, the alternative may be liquidation. Even so we would expect that realisation cost on liquidation would not be significant.

As virtually all of Telesso's assets are in the form of cash, we believe there would not be any significant realisation costs to account for in completing this valuation methodology.

We have assessed the value of Telesso on a net assets basis as follows:

| | Reference Section | $'000 |
|---|---|---|
| Net assets at Apr-13 (rounded) | 2.3 | 500 |
| Value of investment in VPI | (i) | 0 – 160 |
| Value of listed shell | (ii) | 0 – 500 |
| | | 500 - 1,160 |
| No. of shares of issue ('000) – post consolidation | | 9,000 |
| Value per share (cents) – post consolidation | | 5.5¢ – 12.9¢ |
| – rounded | | 5.5¢ – 13¢ |

(i) *Value of investment in VPI* - We have estimated the realisation value of Telesso's investment in VPI at between $nil and $160k being 50% of the investment's face value (cost). Although the investment has been fully impaired in the books of Telesso, we believe that if the asset was to be sold, it is likely that other preferred stockholders or associates of VPI would be interested in acquiring Telesso's shareholding at a heavily discounted price.

(ii) *Value of list shell* - Telesso's assets effectively comprise cash and a listed corporate shell, which is intended to be used for a 'back-door' listing of a new business. In our experience listed shells in the current market have a value of up to $500,000 and we have added this value to the net asset value of Telesso. However, if the Directors are unsuccessful in completing an acquisition, and decide to wind up the Company and return the surplus cash to Shareholders, then no value would be attributed to the listed shell.

We have estimated the value of Telesso, on a going concern basis, to be in the range of $500,000 - $1,160,000 which equates to a value per Share of 5.5 cents to 13 cents (rounded), post share consolidation.

## 7. VALUATION OF MIMETICA

### 7.1 Risks associated with the Valuation of Biotechnology Companies

Biotechnology companies such as Mimetica are typically exposed to a number of general risks which may affect their financial performance and consequently have an impact on their valuation. A summary of a number of the general risks is set out below (although this is not an exhaustive list of all the possible risks that such companies could face).

| | |
|---|---|
| Ability to raise funding | Biotechnology companies require funding to carry out their research and development, obtain regulatory approval, commercialise and market their products. The ability to raise such funding is often difficult. |
| Conduct of trials | Clinical trials generally require the adherence to stringent regulatory requirements relating to factors such as the design and methodology of the trials, the process of selecting candidates, clinical procedures, and ethical requirements. There is a risk that trials conducted by biotechnology companies may not meet certain requirements which may affect the validity of the trial or lead to additional expenses being incurred to rectify any issues in this regard. |
| Trial results | The results of clinical trials are uncertain by nature. Biotechnology companies face the risk that the actual results of clinical trials at each phase of the drug development process may be less favourable than anticipated. |
| Regulatory approval | Biotechnology companies may fail to obtain regulatory approval for their products. Even in instances where regulatory approval is obtained, there is a risk that the process of obtaining approval will require more time and cost than anticipated. |
| Market penetration | Even upon successful commercialisation of an approved drug, there is a risk that a biotechnology company may not be able to penetrate the existing market for the particular therapy and achieve its target market share. |
| Uncertainty of costs | It is often difficult for early stage biotechnology companies to ascertain the total costs associated with the commercialisation of a particular technology as these costs are incurred in the latter stages of the drug development process. |
| Discovery of new alternate therapies | All biotechnology companies face the risk that a new alternative therapy may be discovered by a competitor for the same disease or condition that a particular biotechnology company may be targeting. |
| Large global competitors | Small biotechnology companies have to compete with numerous other companies in the fields of drug development. Many of these companies are better resourced and financed and have significant competitive advantages in areas such as manufacturing, regulatory affairs and marketing and distribution. |

### 7.2 Valuation Methodologies

In determining the most appropriate valuation methodology to apply when calculating the value of Mimetica, we have considered the following:

- *Market Based Methods* – Mimetica is at an early stage of its product development and has no revenue. It is privately owned and its shares are not readily tradeable. As such, a market based valuation approach is not applicable in valuing Mimetica.
- *Discounted Cash Flow (DCF) Method* – It is difficult to estimate reliable cash flow projections for both the development and commercialisation phases of Mimetica's product life cycle as well as the probability of success given its early stage product development. Any forecast financial information relating to Mimetica would need to rely on hypothetical assumptions about future events which are uncertain. As such, we do not believe a DCF valuation approach is appropriate for the purpose of valuing Mimetica in this Report.
- *Asset Based Methods* – Mimetica's major assets comprise cash (to fund its research and development activities) and the value ascribed to its early stage product development and associated patents. An orderly realisation or liquidation value associated would not be appropriate for the purpose of valuing Mimetica. However, the amount of expenditure incurred by the company to date can be used as a cross-check against the estimated market value of Mimetica using other valuation methodologies.
- *Comparable Valuation Method* – The comparable value method calculates a value having regard to either the trading prices of broadly comparable listed entities with similar staged products or benchmarking against broadly comparable market transactions. By extrapolation of the value of similar listed entities, or comparable market transactions, and making adjustments for circumstances specific to Mimetica as appropriate, provides an appropriate estimate of Mimetica's current market value. As such, we have adopted this approach to determine the value of Mimetica.

### 7.3 Comparable Valuation of Mimetica

We have estimated the fair market value of Mimetica using comparable valuations by considering listed entities and broadly comparable market transactions. In so doing, we considered specific factors to assess their comparability to Mimetica including:

- number of potential products;
- stage/phase of development;
- size of the company/transaction value; and
- product sector as a gauge to the size of the potential target market for its products.

*(i) Broadly Comparable Market Transactions*

We conducted research into comparable market transactions using various research publications. We were able to identify eight transactions in the dermatology sector over the past five years of which two had products in pre-clinical development, two in Phase 2, two in Phase 3 clinical trials and two with regulatory approval (or close to). For comparative purposes, we note that Mimetica is focused on the clinical development of MTC896 Gel which has advanced through Phase 1 clinical studies, demonstrating its safety and tolerability in humans, and has also completed a Phase 2 pilot study in humans with oily skin, to investigate its likely effectiveness. Mimetica is now preparing to more fully assess the effects of MTC896 Gel in acne patients in a Phase 2 trial.

Appendix 1 of this Report sets out the eight transactions in the dermatology sector that may be considered broadly comparable to Mimetica including a description of their product, stage of development and summary of the transaction value. A number of the transactions include an upfront payment (predominantly in cash) and contingent payments based on the achievement of certain milestones.

### 7.3 Comparable Valuation of Mimetica (continued)

Milestone payments are often linked to key value inflection points such as data from clinical or toxicology studies, movement of a compound into the next phase of development or regulatory milestones such as filings and approvals by regulatory bodies by geography. It is often difficult to assess an overall transaction value which includes payments that are contingent on future events.

A summary of the broadly comparable market transactions identified is shown below.

| | | | Transaction Size | | |
|---|---|---|---|---|---|
| **Date** | **Target** | **Acquirer** | **Upfront US$m** | **Contingent US$m** | **Total US$m** |
| **Pre-clinical** | | | | | |
| Mar-09 | NovaBay Pharmaceuticals, Inc. | Galderma S.A | 1 | 62 | 63 |
| Feb-11 | Anacor Pharmaceuticals, Inc. | Medicis Pharmaceutical | 7 | 153 | 160 |
| **Phase 2** | | | | | |
| Jul-11 | Vicept Therapeutics Inc | Allergan Inc | 75 | 200 | 275 |
| Apr-12 | Cosmo Pharmaceuticals | Medicis Pharmaceutical | 25 | DND* | 25+ |
| **Phase 3** | | | | | |
| Sep-09 | Peplin, Inc | LEO Pharma A/S | 287 | - | 287 |
| Aug-10 | Kythera Biopharmaceuticals, Inc | Intendis | 43 | 330 | 373 |
| **Regulatory Approval** | | | | | |
| Jul-08 | QLT USA, Inc | Allergan Inc | 150 | - | 150 |
| Jul-12 | Basilea Pharmaceutical | GlaxoSmithKline | 226 | 76 | 302 |

**DND - Did not disclose*

For the purpose of this exercise, we used the results of a study undertaken by Tufts Centre for the Study of Drug Development published in February 2010 (the 'Tufts Study') to estimate the probabilities for drugs to move through each of the clinical phases and clinical approval process in the development pipeline. See Appendix A1.2.

In order to provide a comparison of the above transaction values for the purpose of estimating a current market value of Mimetica, we have adjusted the above payments as follows:

- *Upfront payments* – For those transactions where the target was in Phase 2 clinical trials (similar to Mimetica), we applied no discount to the upfront payment. For those companies in Phase 3 clinical trials, we applied a multiple of 49% to the upfront payment to reflect the phase transition risk (from Phase 2 to Phase 3) and a multiple of 31% to reflect the phase transition risk from Phase 3 to Regulatory Approval in accordance with the success probability set out in the Tufts Study (refer to Appendix A1.2 attached to this Report).
- *Contingent payments* – For the purpose of this exercise we have disregarded contingent payments from the above transactions for the following reasons:
    - As most companies do not generally disclose how contingent milestone payments are broken down, it is difficult to assess their underlying value;
    - One of the most comparable transactions noted above, in respect of product similarity to Mimetica, was Cosmo Pharmaceuticals, which we understand included contingent payments which were not disclosed to the market; and
    - Mimetica shareholders will continue to have the opportunity to participate in the upside of the product lifecycle, as a result of the Proposed Transaction, through their 87% shareholding in Telesso, post acquisition, and 60-65% shareholding post-capital raising (depending on the amount of capital raised).

### 7.3 Comparable Valuation of Mimetica (continued)

We have summarised below those broadly comparable market transactions after adjusting the reported upfront payments, for those companies acquired which were in Phase 3 stage or beyond, for the risk of phase transition as set out in the preceding paragraph.

| | | Risk Adjusted Upfront Payments |
|---|---|---|
| **Pre-clinical** | | **US$m** |
| Mar-09 | NovaBay Pharmaceuticals, Inc. | 1 |
| Feb-11 | Anacor Pharmaceuticals, Inc. | 7 |
| **Phase 2** | | |
| Jul-11 | Vicept Therapeutics Inc | 75 |
| Apr-12 | Cosmo Pharmaceuticals | 25 |
| **Phase 3** | | |
| Sep-09 | Peplin, Inc | 141 |
| Aug-10 | Kythera Biopharmaceuticals, Inc | 21 |
| **Regulatory Approval** | | |
| Jul-08 | QLT USA, Inc | 46 |
| Jul-12 | Basilea Pharmaceutical | 70 |
| | | |
| **Risk adjusted average values:** | | |
| - All transactions (excluding Peplin) | | 35 |
| - Pre-clinical and Phase 2 stages only | | 27 |
| - Most comparable* | | 16 |

* Most comparable transactions were identified as Anacor Pharmaceuticals (Feb-11) and Cosmo Pharmaceuticals (Apr-12) in respect of product similarity (i.e. treatment of acne).

In summary, the average risk adjusted upfront payments for broadly comparable market transactions to Mimetica range from US$16m (most comparable) to US$35m (all transactions but excluding Peplin). We excluded Peplin from our transaction average calculation based on the size of the upfront payment and the size of the company (Peplin had issued capital of US$107m prior to being acquired, which is significantly greater than Mimetica).

For the purpose of this exercise we have adopted the range of A$17.5m to A$38.3m as an estimate of Mimetica's current enterprise value using the broadly comparable market transactions summarised above. This range has been converted into A$ using the spot A$/US$ exchange rate as at 9 July 2013 (quoted by the Reserve Bank of Australia) of A$0.9137=US$1 While this is a reasonably large range, it is likely due to various factors including the potential market size of the drug being developed, available resources in terms of both cash and technology, stage of development and other factors.

*(ii) Broadly Comparable Listed Companies*

We conducted research in listed biotech companies with market capitalisations of under $50m and found approximately 30 listed on ASX. For comparative purposes this number was reduced to 7 companies where the business is focussed on a lead product (not generic) in Phase 2 trials with ongoing activities (not failed). While we could not find any ASX listed company that has a lead product in the dermatology sector, we still carried out an analysis of their underlying enterprise value, based on their market capitalisation, for the purpose of this exercise. We did not find any comparable companies under $50m market capitalisation listed on NASDAQ.

Appendix 2 of this report sets out the 7 ASX listed companies that may be considered broadly similar to Mimetica including a description of their product, stage of development and enterprise value based on their current market capitalisation. Since none of these companies operate in the dermatology sector, only limited reliance can be placed on this information. For the purpose of this exercise we have used this information as a cross-check against the estimated fair market value of Mimetica using broadly comparable market transactions.

In summary, the average enterprise value of the 7 listed companies identified as broadly similar to Mimetica was $16m (refer to Appendix A2.2 of this Report).

### 7.4 Valuation Based on Costs Incurred to Date

An alternative approach is to assume that the costs incurred by Mimetica to date reflect the fair market value of Mimetica's net worth. In other words, given the early stage of the company's research activities and the requirement for ongoing funding to conduct Phase 2 trials, the company's value is assumed to approximate the company's contributed equity which is effectively equivalent to the costs incurred to date.

As shown in Sections 3.3 and 3.4, Mimetica has received funding to date of approximately $15m (equivalent to the company's paid in capital on a pro forma basis, i.e. assuming the conversion of the Series C redeemable preference shares and convertible notes into ordinary shares in Mimetica). As such, a valuation of Mimetica, based on costs incurred to date, would result in a value of $15m.

### 7.5 Fair Market Value of Mimetica

We recognise that it is difficult to ascribe a fair market value of Mimetica given the early stage of the company's biotechnology product lifecycle and the uncertainty surrounding commercialisation of the product. In summary, we have considered the value of Mimetica based on broadly comparable market transactions for those companies which are at a similar stage of the biotechnology life cycle to Mimetica.

Based on the analysis set out in Section 7.3 (i) above, we assessed the enterprise value of Mimetica in the range of the $17.5m to $38.3m. This range in value was cross-checked against the average enterprise value of the most comparable ASX listed companies to Mimetica of $16m (refer to Appendix 2.2 attached to this Report). We also cross-checked this range against the costs incurred by Mimetica to date of approximately $15m as an alternative approach to fair market value (refer to Section 7.4 above).

In summary, we have assessed the value of Mimetica as follows:

| | Reference Section | $'000 |
|---|---|---|
| Enterprise value (rounded) | 7.3 (i) | 17,500 – 38,300 |
| Net cash at Apr-13 | 3.3 | 670 |
| Value of Mimetica | | 18,170 – 38,970 |

## 8. ASSESSMENT OF FAIRNESS

### Assessment of Fairness of the Proposed Transaction

RG 111.11 provides that 'an offer is fair if the value of the offer price or consideration is equal to or greater than the value of securities subject to the offer'. RG 111.78 provides that 'an expert should usually give a range of values for the securities that are subject to the offer'.

A comparison of our assessment of the fair market value of a Telesso Share before the Proposed Transaction, and the value of a Telesso Share after the Proposed Transaction (based on the assessed fair market value of Mimetica) is set out below.

| | Range ($'000) | | No. of Telesso Shares* | Range (per share) | |
|---|---|---|---|---|---|
| | Low | High | | Low | High |
| Assessed value of Telesso (Section 6) | 500 – | 1,160 | 9,000 | 5.5¢ – | 12.9¢ |
| Assessed value of Mimetica (Section 7.5) | 18,170 – | 38,970 | 63,000 | 28.8¢ – | 61.9¢ |
| Assessed value of Telesso (post acquisition) (control basis) | 18,670 – | 40,130 | 72,000 | 25.9¢ – | 55.7¢ |
| Less: minority interest discount | 20% | | - | 20% | |
| Assessed value of Telesso (post acquisition) (minority interest basis) | 14,936 – | 32,104 | 72,000 | 20.7¢ – | 44.6¢ |

* Number of Shares held by the existing Telesso Shareholders and Mimetica shareholders post acquisition and post share consolidation – see Section 2.1.

RG 111 provides that in a control transaction, the value of the securities being offered (allowing for a minority discount) shall be compared to the value of the target entity's securities, assuming 100% of the securities are available for sale (allowing for a control premium). As such, we have applied a discount for minority interest holding of 20% to the assessed value of Telesso (post acquisition).

Since the value of a share in Telesso post acquisition (of Mimetica) (minority interest basis), is higher than the fair market value of a Telesso Share pre-acquisition (control basis), we consider the proposed transaction to be fair.

The above analysis is also supported by the proposed capital raising of $6m (Minimum Subscription) which is a condition precedent of the Proposed Transaction. The offer under the Prospectus is to issue not less than 24m Shares at 25 cents each, which is at the lower end of the above valuation range (rounded) of Mimetica at 20.7¢ to 44.6¢ per Telesso Share (post consolidation).

In our opinion, after consideration of all issues including those set out above in this section of this Report, it is our view that, in the absence of any other information, the Proposed Transaction is **fair** to Shareholders at the date of this Report. Shareholders should also refer to Section 9 of this Report which sets out other matters which Shareholders should consider when deciding whether to vote in favour of or against the Proposed Transaction.

## 9. ASSESSMENT OF REASONABLENESS

### 9.1 Overview

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 believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

In Section 8 we concluded that the Proposed Transaction is fair to Shareholders at the date of this Report. As such, pursuant to RG111, the Proposed Transaction is reasonable. Nevertheless, we have considered the advantages and disadvantages of the Proposed Transaction that Shareholders should give consideration before deciding whether to vote in favour of or against the Proposed Transaction.

### 9.2 Advantages if the Proposed Transaction Proceeds

The advantages to Shareholders if the Proposed Transaction proceeds are as follows:

- Telesso will have completed its search of a suitable business to 'back-door' through its listed shell and will continue to focus on improving the performance and delivery of pharmaceuticals which was the Company's objective on formation.
- Shareholders will be able to participate in possible future increases in the value of Telesso if the results of the Phase 2 trials are successful, with a potential for substantial upside in value if Mimetica is eventually sold to or joint ventures with a large pharmaceutical company.
- Given the proposed capital raising as a condition precedent of the Proposed Transaction, the liquidity in the market for Telesso Shares may improve.

### 9.3 Disadvantages if the Proposed Transaction Proceeds

The disadvantages to Shareholders if the Proposed Transaction proceeds are as follows:

- Existing Shareholders will lose control of Telesso and their interest in Telesso's cash will be severely diluted.
- If the results of the Phase 2 trials are unsuccessful, the value of a Telesso Share is likely to be negligible.
- Shareholders will continue to be exposed to the risks associated with the biotechnology industry (as summarised in Section 7.1).

### 9.4 Advantages if the Proposed Transaction does not Proceed

The advantages to Shareholders of the Proposed Transaction not proceeding are:

- Shareholders will be left with their interest in an illiquid shell company with approximately $500k in net cash. The Directors will then need to decide whether to return the surplus cash to Shareholders or identify a new project to acquire if Telesso is to remain a listed company. If the surplus cash is returned to Shareholders, they may ultimately be better off if the results of the Phase 2 trials are unsuccessful. Alternatively, the Directors may be able to identify a new project to be acquired by Telesso that has more upside than Mimetica with less risk.

### 9.5 Disadvantages if the Proposed Transaction does not Proceed

The disadvantages to Shareholders of the Proposed Transaction not proceeding are:

- As noted above, if the Proposed Transaction does not proceed, the Directors will need to decide whether to return the surplus cash to Shareholders or identify a new project to acquire. Given the difficulty in identifying potential acquisitions to date, and the present economic environment, this process is likely to take a considerable amount of time during which administrative and investigation costs will dissipate cash reserves.

### 9.6 Assessment of the Reasonableness of the Proposed Transaction

In our opinion, after consideration of all issues including those set out above in this Section of our Report, in the absence of any other information, the Proposed Transaction is **reasonable** to Shareholders at the date of this Report.

## APPENDIX 1: BROADLY COMPARABLE MARKET TRANSACTIONS

### A1.1 Description of Broadly Comparable Market Transactions

| Company | Description |
|---|---|
| NovaBay Pharmaceuticals, Inc | On 25 March 2009, NovaBay® entered into a research and development agreement with Galderma S.A. for their Aganocide compounds, in acne and impetigo and potentially other major dermatological conditions, excluding onychomycosis (nail fungus) and orphan drug indicatons. From the inception of the agreement to December 31, 2010, Novabay had received US$11.8 million from Galderma including the technology access fee. In December 2010, Galderma exercised an option to advance the clinical development program of NVC-422 increasing milestones to US$62.0 million and escalating double digit royalties on net sales. |
| Anacor Pharmaceuticals, Inc | On 10 February 2011, Anacor and Medicis Pharmaceutical Corporation announced that they had entered into a research and development agreement to discover and develop boron-based small molecule compounds directed against a target for the potential treatment of acne.<br>Under the terms of the agreement, Anacor will receive a US$7 million upfront payment from Medicis and will be primarily responsible for discovering and conducting early development of product candidates which utilise Anacor's proprietary boron chemistry platform. Medicis will have an option to obtain an exclusive license for products covered by the agreement. Anacor will be eligible for future research, development, regulatory and sales milestones of up to US$153 million, as well as high single-digit to low double-digit royalties on sales by Medicis. Medicis will be responsible for further development and commercialization of the licensed products on a worldwide basis. |
| Vicept Therapeutics, Inc | In July 2011 Vicept Therapeutics and Allergan, Inc. announced that they have entered into a definitive agreement for Allergan to acquire all of the outstanding shares and assets of the privately-held dermatology company. The agreement includes a US$75 million cash up-front payment by Allergan plus up to an aggregate of US$200 million in payments payable by Allergan contingent upon achieving certain future development and regulatory milestones plus additional payments contingent upon acquired products achieving certain sales milestones. Founded in 2009, Vicept Therapeutics' lead investigational product, V-101, is a topical cream for the treatment of the erythema (redness) associated with rosacea that has achieved positive results in two randomized, placebo-controlled Phase 2 studies. |
| Cosmo Pharmaceuticals S.p.A | On 2 April 2012, Cosmo announced that it has signed a license agreement with Medicis Pharmaceutical, a leading U.S. public pharmaceutical company granting it exclusive world-wide rights for the development and commercialization of Cosmo's new chemical entity CB-03-01, an investigational anti-androgen drug targeted at certain topical skin applications. The license agreement provides for the payment of US$25 million up-front, regulatory and commercial milestones and royalties on sales averaging those of other commercial transactions.<br>Cosmo is a specialty pharmaceutical company engaged in the development and commercialization of generic products and specialty drugs for the treatment of gastrointestinal diseases and topically treated skin disorders primarily in Italy. |
| Peplin, Inc | On 12 November 2009 Peplin, Inc. announced that it had completed its merger with LEO Pharma A/S after obtaining the approval of the majority of Peplin stockholders. The deal was originally announced on 3 September, 2009 when LEO, a privately-held, leading global pharmaceutical company within Dermatology and Critical Care, agreed to acquire all outstanding securities of Peplin for approximately US$287.5 million in cash. At the stage of signing. Peplin's lead product candidate, PEP005 Gel was in Phase 3 clinical trials for actinic (solar) keratosis (AK), a common pre-cancerous skin lesion, on both head and non-head locations. |
| Kythera Biopharmaceuticals, Inc | On 30 August 2010, Kythera and Intendis, Bayer HealthCare's dermatology business, announced that they have entered into a licensing agreement granting Intendis rights to Kythera's lead product candidate, ATX-101, outside of the US and Canada. ATX-101, a first-in-class investigational drug, is currently in Phase 3 clinical development for the reduction of localized fat under the chin (submental fat). Under the terms of the agreement, Kythera will receive an upfront payment of US$43 million and may be eligible to receive up to US$330 million for certain development, manufacturing and commercialization milestones. Additionally, Kythera will also receive tiered double digit royalties based on net sales in Intendis' territories. The agreement encompasses all potential indications with Kythera to retain development and commercialization rights to ATX-101 in the US and Canada. |
| QLT USA, Inc | On 14 July 2008, Allergan Sales, LLC completed an asset purchase agreement to acquire all assets relating to Aczone Gel 5% from QLT USA, Inc. for US$150 million in cash. Aczone Gel 5% is indicated in the United States and Canada for the treatment of *acne vulgaris* in patients 12 years and older. It was the first new chemical entity approved by the FDA for the treatment of acne in several years. Allergan expected to launch Aczone Gel 5% in the fourth quarter of 2008 to dermatologists in the United States and Canada. |
| Basilea Pharmaceutica Ltd | On 11 June 2012, Basilea entered into a global agreement with Stiefel, a GSK company for eczma drug, Toctino®. Stiefel gains exclusive worldwide rights to Toctino® (alitretinoin) for a total deal size of US$302 million consisting of US$226 million upfront plus milestones dependant on US approval. At the stage of signing, Toctino was in Phase 3 in the USA for cases of severe chronic hand eczema which no longer responds to steroids and marketed in several other countries. Provided it wins FDA approval, Basilea will also get a double-digit royalty on U.S. sales, three years after the approval comes through. |

*Source: Capital IQ, Company website*

### A1.2 Upfront Payments

For the purpose of this exercise, we used the results of a study undertaken by Tufts Centre for the Study of Drug Development published in February 2010 (see below). This study utilised both public and private data sources to estimate clinical phase transaction and clinical approval probabilities for drugs in the development pipeline of the 50 largest pharmaceutical companies. Overall the study found that the clinical approval success rate in the USA was 16% for self-originated drugs (originating from the pharmaceutical company itself) during the period 1993 – 1998 (the time point at which they first entered clinical testing) through to 2009.

| Therapeutic class | Phase 1-2 (%) | Phase 2-3 (%) | Phase 3-RR* (%) | RR-approval (%) | Clinical approval success rate (%) |
|---|---|---|---|---|---|
| Antineoplastic/immunologic | 71.8 | 49.0 | 55.3 | 100 | 19.4 |
| Cardiovascular | 62.9 | 32.4 | 64.3 | 66.7 | 8.7 |
| CNS | 59.6 | 33.0 | 46.4 | 90.0 | 8.2 |
| GI/metabolism | 67.5 | 34.9 | 50.0 | 80.0 | 9.4 |
| Musculoskeletal | 72.4 | 35.2 | 80.0 | 100 | 20.4 |
| Respiratory | 72.5 | 20.0 | 85.7 | 80.0 | 9.9 |
| Systemic anti-infective | 58.2 | 52.2 | 78.6 | 100 | 23.9 |
| **Miscellaneous** | **62.8** | **48.7** | **69.8** | **91.3** | **19.5** |

*Source: Tufts Centre for the Study of Drug Development publication accepted 9 December 2009, advance online publication 3 February 2010.*
** RR- Regulatory Review*

In order to provide a comparison of the above transaction values for the purpose of estimating a current market value of Mimetica, we have adjusted the above upfront payments for development risk as follows:

- *Upfront payments* – For those transactions where the target was in Phase 2 clinical trials (similar to Mimetica), we applied no discount to the upfront payment. For those companies in Phase 3 clinical trials, we applied a multiple of 49% (see Miscellaneous class Phase 2 - 3 above which shows 48.7%, rounded 49%) to the upfront payment to reflect the phase transition risk (from Phase 2 to Phase 3) and a multiple of 34% to reflect the phase transition risk from Phase 3 – RR a multiple of 31% from RR to approval.
- *Contingent payments* – For the purpose of this exercise we disregarded contingent payments for the reasons set out in Section 7.3(i) of this Report.

| | Multiple Applied | |
|---|---|---|
| Pre-clinical | 100% | |
| Phase 2 | 100% | (similar to Mimetica) |
| Phase 3 | 48.7% | (see Miscellaneous class above) |
| Regulatory review | 34% | (48.7% x 69.8%) |
| Regulatory approval | 31% | (34% x 91.3%) |

### A1.3 Contingent Payments

For the purpose of this exercise we have disregarded contingent payments from the above transactions for the following reasons:

- It was not clear how the contingent milestone payments were broken down in each of the comparable transactions, therefore, it is difficult to assess their underlying value;
- One of the most comparable transactions noted, in respect of product similarity to Mimetica, was Cosmo Pharmaceuticals, which we understand included contingent payments which were not disclosed to the market; and
- Mimetica shareholders will continue to have the opportunity to participate in the upside of the product lifecycle, as a result of the Proposed Transaction, through their 87% shareholding in Telesso, post acquisition, and 60-65% shareholding post-capital raising.

## APPENDIX 2: BROADLY COMPARABLE LISTED COMPANIES

### A2.1 Description of Broadly Comparable Companies

| Company Name | Market Capitalisation $m | Business Description | Product | Development Phase |
|---|---|---|---|---|
| Tissue Therapies Ltd. (ASX:TIS) | 28.9 | Tissue Therapies engages in the research, development, and commercialization of biomedical technologies for wound healing and tissue regeneration worldwide. The company develops treatments for acute and chronic wound healing applications, including chronic skin ulcers and burns, as well as treatments for psoriasis, scar prevention, and various cancers, including breast, colon, and prostate. | VitroGro® | Sales ready |
| Viralytics Limited (ASX:VLA) | 22.7 | Viralytics engages in the development of oncolytic virotherapy for the treatment of a range of cancers principally in Australia. The company primarily develops CAVATAK, an oncolytic virus that lyses cancer cells, which is in a Phase 2 clinical trial for the treatment of late stage melanoma; has completed a Phase I single dose-escalation intravenous study for the treatment of melanoma, breast, prostate, and colon cancers. | CAVATAK® | Phase 2 (USA)<br>Phase 1/2 (UK)<br>Phase 1 (AUS) |
| Biotron Ltd. (ASX:BIT) | 17.1 | Biotron Limited, a clinical stage drug development company, focuses on developing small molecule antiviral drugs targeting Hepatitis C virus (HCV), HIV, dengue, and others in Australia. The company is developing novel small molecule therapeutics that targets primarily the Vpu protein of HIV and p7 protein of HCV. Its lead drug includes the BIT225, a viroporin inhibitor for the treatment of HCV and HIV infections in a Phase Ib/2a HIV trial. | BIT225 | Phase 2 (early stage) |
| Novogen Limited (ASX:NRT) | 25.7 | Novogen engages in the research and development of prescription drugs. Its products include ME-143, an analogue of Phenoxodiol that is Phase 1 clinical trials; NV-128, a novel mitochondrial inhibitor, which is in preclinical trials targeting a range of cancers; ME-344, which is in Phase 1 clinical trials for the treatment of tumours; and GLYC-101 Gel to stimulate and modulate the natural cascade of wound healing activities in several cell populations. | CS-6 | Pre-clinical |
| Cellmid Limited (ASX:CDY) | 18.2 | Cellmid engages in the development and commercialization of therapeutic and diagnostic tests for heart attack, inflammatory diseases, and cancer in Australia. It holds a portfolio of intellectual property related to midkine and midkine antagonists. | Bladder Cancer Diagnostic product<br>MK-ELISA<br>Hu-19<br>evolis® | Pre-launch<br>Product launched<br>Pre-clinical studies<br>Product launched |
| Calzada Limited (ASX:CZD) | 28.5 | Calzada owns and develops a biodegradable polymer platform technology, NovoSorb, for use in medical devices and for tissue engineering scaffolds in Australia. The company is developing Biodegradable Temporising Matrix, which is applied to a major burn to stabilize wound, minimize drying, contraction, and to provide an environment for dermal tissue growth until skin grafts. | NovoSorb™<br>AOD9604 | Clinical trials<br>Clinical trials |
| Living Cell Technologies Limited (ASX:LCT) | 14.6 | Living Cell Technologies engages in the development of living cell products for the treatment of diabetes and neurological diseases primarily in New Zealand. Its product pipeline includes DIABECELL, a porcine insulin-producing cell product that is in Phase 2b clinical trial for the treatment of Type 1 diabetes; NTCELL, a choroid plexus cell product in pre clinical stage to treat neurodegenerative diseases; and IMMUPEL that isolates the transplanted cells from the patient's immune system and eliminates the need for toxic immunosuppressant drugs. | DIABECELL®<br>NTCELL | Phase 1/2a<br>Phase 1 |
| Patrys Limited (ASX:PAB) | 13.7 | Patrys develops natural human antibody therapies for the treatment of cancer in Australia. The company is developing PAT-SM6, a natural human antibody used for the treatment of melanoma and multiple myeloma; and PAT-SC1 for treating gastric cancer and solid tumours; and PAT-LM1 for the treatment of various solid tumours. It is also developing four other IgM anti-cancer antibodies in discovery stage. | PAT-SM6<br>PAT-SC1<br>PAT-LM1 | Phase 1/2a<br>Phase 2<br>Pre-clinical |

### A2.2 Enterprise Value of Broadly Comparable Companies

All the companies summarised are in early stage clinical development of either one or a small number of lead candidate products, except for Tissue Therapies which has a lead product ready for sale. As such, we have excluded Tissue Therapies from our analysis of enterprise value. We note, however, that none of the above companies have a lead product in the dermatology section which reduces our ability to rely on this analysis to estimate a fair market value of Mimetica.

For the purpose of this exercise, enterprise value equates to the company's market capitalisation less cash held (plus interest bearing debt if applicable). The enterprise value was current at 9 July 2013 (sourced from Capital IQ).

| Company Name | Market Capitalisation $m | Net Cash $m | Enterprise Value $m |
|---|---|---|---|
| Viralytics | 22.7 | 8.2 | 14.5 |
| Biotron | 17.1 | 6.3 | 10.8 |
| Novogen | 25.7 | - | 25.7 |
| Cellmid | 18.2 | 1.8 | 16.4 |
| Calzada | 28.5 | 3.4 | 25.1 |
| Living Cell Technologies | 14.6 | 2.3 | 12.3 |
| Patrys | 13.7 | 6.1 | 7.6 |
| **Average** | | | **16.1** |

The calculated enterprise values of the above companies range from $7.6m to $25.7m with an average value of $16m. While this is a reasonably large range, it is likely due to various reasons including the potential market size of the drug being developed, available resources in terms of both cash and technology, stage of development and other factors.

The above companies may be considered broadly similar to Mimetica given that they engage in research and development of biomedical technologies with a lead product(s) in early stage development, mostly in Phase 2 clinical trials. However, since none of these companies operate in the dermatology sector, only limited reliance can be placed on this information. For the purpose of this exercise we have used this information as a cross-check against the estimated fair market value of Mimetica using broadly comparable market transactions.

## APPENDIX 3: SOURCES OF INFORMATION

In preparing this report we have had regard to the following sources of information:

- the Share Purchase Agreement dated 14 March 2013;
- draft Explanatory Memorandum;
- draft Prospectus of Telesso to raise $6m with the Shares being issued at 25 cents per share;
- audited financial statements for Telesso for the years ended 30 June 2010 to 2012;
- unaudited financial statements for Telesso for the 10 months ended 30 April 2013;
- audited financial statements for Mimetica for the years ended 30 June 2010 to 2012;
- management accounts of Telesso and Mimetica for the 10 months ended 30 April 2013;
- Capital IQ publications;
- Telesso's ASX announcements from 2011 to date; and
- Study undertaken by Tufts Centre for the Study of Drug Development published in February 2010.

In addition, we have had discussions with Michael Hoy (Telesso's Chairman) Dr Cherrell Hirst (non-executive director), Ian Atkin (company secretary), and Dr Michael Thurn (Mimetica's CEO) in relation to the above information.

## APPENDIX 4: QUALIFICATIONS AND DECLARATIONS

*Qualifications*

Pitcher Partners CF is the licensed corporate advisory arm of Pitcher Partners, Chartered Accountants. Pitcher Partners CF provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and the provision of expert reports.

Ross Walker, FCA, B.Com, is a director of Pitcher Partners CF, a partner of Pitcher Partners and is responsible for the preparation of this Report. Mr Walker has in excess of 25 years experience in corporate finance and has undertaken numerous corporate finance assignments involving acquisitions, divestments, valuations and financial due diligence.

*Independence*

Pitcher Partners CF is not aware of any matter or circumstances that would preclude it from preparing this Report on the grounds of independence under regulatory requirements. In particular, Pitcher Partners CF has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

Pitcher Partners CF was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for either Telesso or Mimetica in relation to the Proposed Transaction, other than the preparation of this Report. Further, Pitcher Partners CF has not held and, at the date of this Report, does not hold any shareholding in, or other relationship with Telesso that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

Pitcher Partners CF or Pitcher Partners has not provided any previous services to Telesso or Mimetica other than the following:

- we act as tax agents and advisors to Mimetica; and
- we were engaged by Telesso on a previous independent expert's report which was subsequently abandoned.

Pitcher Partners CF considers itself to be independent in terms of *RG 112 Independence of experts* ("RG 112"), issued by ASIC.

Pitcher Partners CF will receive a fee based on time spent in the preparation of this Report in the amount of approximately $50,000 (plus GST). Pitcher Partners CF will not receive any fee contingent upon the outcome of the Proposed Transaction, and accordingly, does not have any pecuniary or other interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transaction.

Drafts of this Report were provided to the Directors for review of factual accuracy. Certain changes were made to the Report as a result of the circulation of the draft Report(s). However, no changes were made to the methodology, conclusions or recommendations made to the Shareholders. Subsequent to issuing a final report, the Directors decided to increase the minimum capital raising under the prospectus from $6m to $6.5m. We note this change did not affect the methodology, conclusions or recommendations made to the Shareholders. Changes where applicable have been reflected in this Report.

*Disclaimer*

This Report has been prepared at the request of the Directors of Telesso specifically for Shareholders of Telesso. It is not intended that this Report be used for any purpose other than to accompany the Notice of General Meeting and Explanatory Memorandum to be sent to Telesso's shareholders.

In particular, this Report should not be used for any purpose other than by the Shareholders of Telesso in deciding whether to accept or reject the Proposed Transaction.

Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the Shareholders of Telesso without the written consent of Pitcher Partners CF.

Pitcher Partners CF, nor Pitcher Partners, nor any member or employee thereof undertakes responsibility to any person, other than the non-associated shareholders of Telesso, in respect of this Report, including any error or omissions however caused.

In the preparation of this Report we have considered the information and explanations given to us. We emphasise that we have not carried out a independent confirmation of the information nor have we conducted anything in the nature of an audit or review or in any way verified any of the information provided to us. We do not imply, and it should not be construed, that our assessment has revealed all the matters which an audit, review or more detailed examination might disclose.

We have evaluated the information provided to us by Telesso and other parties through inquiry and analysis and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our Report.

The statements and opinions given in this Report are given in good faith and the belief that such statements and opinions are not false or misleading. The statements and opinions are based upon Pitcher Partners CF' consideration and assessment of the information provided by the directors, management and advisers of Telesso as well as other parties and which is believed to be reliable and accurate. We have no reason to believe that any information has been withheld from us.

The information relied upon in the preparation of this Report is set out in Appendix 3. Telesso has provided an indemnity to Pitcher Partners CF, Pitcher Partners and any of their partners, directors, agents or associates for any claims arising out of any misstatement or omission in any material or information provided to Pitcher Partners CF in the preparation of this Report.

*Consent*

Pitcher Partners CF consents to the issue of this Report in the form and context in which it is included in the Notice of General Meeting and Explanatory Memorandum to be sent to Shareholders.

*APES 225*

APES 225 "*Valuation Services"* issued by the Accounting Professional and Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. Pitcher Partners CF has complied with this standard in the preparation of this Report.

TELESSO
TECHNOLOGIES
ABN 96 072 178 977

000001 000 TEO
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

## Lodge your vote:

**By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

## For all enquiries call:
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000



# Proxy Form

**For your vote to be effective it must be received by 10:00am (AEST) on Tuesday 27 August 2013.**

## How to Vote on Items of Business
All your securities will be voted in accordance with your directions.

### Appointment of Proxy
**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

## Signing Instructions
**Individual:** Where the holding is in one name, the securityholder must sign.
**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.
**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

## Attending the Meeting
Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

***Turn over to complete the form*** ➔

View your securityholder information, 24 hours a day, 7 days a week:
**www.investorcentre.com**

☑ **Review your securityholding**
☑ **Update your securityholding**

***Your secure access information is:***

**SRN/HIN: I9999999999**

**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

# Proxy Form

**Please mark ☒ to indicate your directions**



## STEP 1 Appoint a Proxy to Vote on Your Behalf

**XX**

**I/We being a member/s of Telesso Technologies Limited hereby appoint**

☐ **the Chairman of the meeting** **OR** _____

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Telesso Technologies Limited to be held at Level 5, 207 Kent Street, Sydney, New South Wales, 2000, on Thursday 29 August 2013 at 10.00am and at any adjournment of that meeting.

## STEP 2 Items of Business

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

| | | For | Against | Abstain |
|---|---|---|---|---|
| 1 | Approval of consolidation of shares | ☐ | ☐ | ☐ |
| 2 | Approval of acquisition of Mimetica and change of activities | ☐ | ☐ | ☐ |
| 3 | Issue of Shares and Options to Mimetica shareholders | ☐ | ☐ | ☐ |
| 4 | Acquisition of a relevant interest by Mimetica shareholders | ☐ | ☐ | ☐ |
| 5 | Issue of Shares and Options under Prospectus | ☐ | ☐ | ☐ |
| 6 | Change of name | ☐ | ☐ | ☐ |

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

## SIGN Signature of Securityholder(s) *This section must be completed.*

| Individual or Securityholder 1 | Securityholder 2 | Securityholder 3 |
|---|---|---|
| | | |
| **Sole Director and Sole Company Secretary** | **Director** | **Director/Company Secretary** |

**Contact Name** _____ **Contact Daytime Telephone** _____ **Date** / /