nexia australia

the next solution

Medical Australia Limited

Independent Expert's Report

5 June 2013

the next solution

Private & Confidential

The Directors
Medical Australia Limited
Level 17, 275 Alfred Street
NORTH SYDNEY NSW, AUSTRALIA, 2060

Dear Sirs,

Independent Expert's Report

The directors of Medical Australia Limited (**"MLA" or "the Company"**) have requested Nexia Court Financial Solutions Pty Limited (**"Nexia"**) to prepare an Independent Expert's Report in relation to the acquisition of 100% of the issued ordinary shares of MediVet Pty Limited ("**MediVet**").

1 Introduction

1.1 Background

On 21 August 2012, the Company entered into a Heads of Agreement with MediVet to acquire 100% of its issued ordinary shares.

Subsequently MLA has entered into a Share Sale and Purchase Agreement (**"SSPA"**) with the shareholders of MediVet (**"Vendors"**) to acquire 100% of MediVet's issued ordinary shares (**"Sale Shares"**).

The proposed acquisition of the Sale Shares will be satisfied by way of payment of $5,000,000 in cash (**"Cash Consideration"**) and the balance by the issue of 16,666,667 new ordinary shares in MLA (**"Consideration Shares"**) (collectively the **"Consideration"**).

The acquisition of the Sale Shares for the Consideration is referred to in this report as the **"Proposal"**.

All currency references in the report are Australian dollar.

1.2 Purpose of this Report

MLA is a public company listed on the ASX. The proposed acquisition of MediVet is a substantial asset for MLA. The directors of MLA have requested that an Independent Expert's Report is to be prepared to ensure they have met their requirements under ASX Listing Rules Chapter 10.

Additionally, ASX Listing Rules and the Corporations Act 2001 prohibits an ASX listed company from acquiring a substantial asset from a related party without shareholder approval. A substantial asset is defined in ASX listing Rule 10.2 if its value or the value of the consideration is 5% or more of the equity interest of the entity. Jeremy Delk is a related party by virtue of him being associated with a shareholder of MediVet and will become a director of MLA if the Proposal is approved and completed. Such acquisition (the acquisition of MediVet and its business and business assets) is a substantial asset as the value thereof exceeds 5% of the total equity interest of the Company.

Nexia Court Financial Solutions Pty Ltd
AFSL 247300
Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nexiacourt.com.au, www.nexia.com.au

Independent member of Nexia International

So that shareholders may be fully informed in accordance with the provisions of ASIC Regulatory Guides, the directors of MLA have engaged Nexia to prepare an Independent Expert's Report for the shareholders of MLA not associated with the Proposal (**"non associated shareholders"**) in relation to the Proposal. The scope of the Report is to consider if the Proposal is fair and/or reasonable to the non associated shareholders.

This report is intended to assist shareholders in their consideration of the proposed resolutions relating to the Proposal to be placed before the shareholders at a General Meeting in 15 July 2013. Details of the proposed resolutions are included in the company's Notice of Meeting. This Report will accompany the Notice of Meeting to be sent to shareholders.

2 Summary and Opinion

2.1 General

We have considered the terms of the Proposal as outlined in the Notice of Meeting and in this Report and as a result of our review and considering all of the factors we are of the opinion that **the Proposal is not fair but is reasonable** for the non associated shareholders of MLA and they are likely to be better off if it is approved at the meeting of shareholders.

We consider that the directors are justified in submitting the Proposal to Shareholders.

In forming our view we have had regard to the fair value of the securities of MLA, the cash consideration under the Proposal, the fair value of MediVet, the financial impact and other qualitative aspects of the Proposal for MLA shareholders, including the advantages and disadvantages.

2.2 Fairness (quantitative assessment)

We consider the **Proposal is not fair**.

ASIC Regulatory Guide 111 prescribes that under its convention an offer is fair '*if the offer price or consideration is equal to or greater than the value of the securities subject of the offer*'. RG 111 also recommends the use of two valuation methodologies to reduce the risk of a distorted value. We have undertaken this approach.

Value of the Consideration
In relation to the Cash consideration we determined the fair value of the $5,000,000 cash component to be **$5,000,000**. Refer to **section 8.2** of the report for further details.

In forming our view on the value of the Consideration Shares we have considered the price at which the shares have traded on the ASX, as well as the value based on its asset portfolio and operations.

General convention is that quoted market price in an active market is the best evidence of fair value and should be used for measurement[1]. Additionally, where there is a relatively inactive market, the traded market price may not be the best measure.

The value determined from analysis of the net asset value and market price approach of MLA indicates a valuation range of **$1,683,000** to **$1,767,000** or **10.1** to **10.6** cents per share. Refer to **section 8.1**.[2]

In summary we have determined the value of the Consideration to be in the range of **$6,683,000** and **$6,767,000**. Refer to **section 8.3** of the report for further details.

---

[1] *Lonergan – The Valuation of Businesses, Shares & Other Equity*

[2] *The valuation on the cents per share has been calculated on a post consolidation basis. Refer to section 5.3.*

Value of 100% of the ordinary shares of MediVet Pty Limited

We have assessed the fair market value of 100% of the issued shares in MediVet on a controlling interest basis to be in the range of approximately **$2,416,000** to **$2,573,000**, with a midpoint of approximately **$2,495,000**. Refer to **section 9.9** of the report for further details.

Control Premium

We do not consider approval of the Proposal will bring about a change of control of the Company. The maximum interest that the Vendors can acquire is limited to 19.14%. Whilst this would mean the Vendors are collectively the Company's largest shareholder, and may place them in a position whereby they could exert influence, it does not pass control of MLA to MediVet. No single Vendor will hold more than 20% of the total issued shares in MLA. In these circumstances consideration of a control premium to non associated shareholders is not warranted.

2.3 Reasonableness (qualitative assessment)

We have considered if the Proposal is reasonable even though it is not fair. This involves the consideration of a number of quantitative and qualitative factors and advantages and disadvantages including:

- The likely financial impact on MLA if the Proposal is approved;
- the advantages and disadvantages of the Proposal to non associated shareholders; and
- the possible impact on MLA if the Proposal is not approved.

In assessing our opinion, if a Proposal is "fair and reasonable" it must also be "in the best interest" of shareholders. Consequently, in our opinion, the Proposal is reasonable as it is in the best interest of MLA's shareholders.

In assessing the Proposal we have had regard to the following:

The Financial impact of the Proposal on MLA	▪ Generates an increase in much needed cash for the Company, avoiding the necessity to raise capital from other sources/investors in the short term. ▪ Has a positive impact on the net asset backing per share. ▪ Potentially has a positive impact on earnings.
Advantages of the Proposal	▪ The approval of the Proposal will allow MLA to have exposure to the US market for veterinary services and biotechnology distribution. The US market is the largest in the world which provides significant opportunity to the company. ▪ Currently MLA is a distributor of medical devices with a limited market in Australia. The approval of the Proposal would allow MLA to extend its service offerings and diversify into the biotechnology products of MediVet. ▪ MLA has identified significant synergies between MLA and MediVet. This may have the potential to reduce costs in the administration, procurement and delivery of products, decreasing the net cash expenditure of the company. ▪ The Proposal is to be funded by cash raised from the issue of shares to sophisticated investors at 30c per share. This is a significant premium to the assessed fair value of MLA shares and may have a positive impact on the value of the company.

	▪ MLA is currently making significant cash flow losses and its auditors have issued an emphasis of matter in relation to the ability for it to continue as a going concern. The Proposal will allow for the acquisition of a profitable company that has the potential to provide positive cash flows to the Company. ▪ Further detail on these and other advantages are set out in **section 10.3.1**.
Disadvantages of the Proposal	▪ The Proposal is not fair. ▪ MediVet and MediVet US are private companies with limited transparency. There is significant uncertainty in the financial information provided for the valuations performed. The value of the intangible asset in MediVet's financial statements has been difficult to obtain reasonable supporting data for and would be based on significant blue sky assumptions and aggressive growth expectations in the US. It is possible that the market will have a different view of value in relation to MediVet which may adversely impact MLA's share price following the Proposal. ▪ If the Proposal is approved, MediVet share holders will be issued with 16,666,667 fully paid ordinary shares representing 19.14% of the post Proposal MLA entity. This has a dilutive effect on the current shareholders of MLA in the event that the company develops into a profitable operation. ▪ Further detail on these disadvantages are set out in **section 10.3.2.**
If the Proposal in NOT approved	▪ The company has incurred losses and negative cash flows from operations. Without the funding from sophisticated investors that is subject to the Proposal the company may need to obtain alternate funding in order to continue as a going concern in its current structure. ▪ There is no certainty that the Company will be able to raise capital at the same or greater value as the share placement that is subject to the approval of the Proposal. ▪ MLA will incur costs as a result of the Proposal that will not be able to be recovered.

On balance of all the relevant matters to be considered we are of the view that **the Proposal is reasonable**.

2.4 General disclosures and Limitations

2.4.1 Valuation Date

The valuation opinion is as at 31 December 2012 ("**Valuation Date"**).

2.4.2 Changes in Market conditions

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

2.4.3 Individual shareholder circumstances

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

2.4.4 Entirety of Report

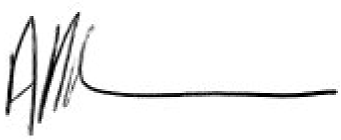
This summary opinion should be read in conjunction with and not independent of the remainder of this Report, which contains the following sections:

The Report should also be read in conjunction with the Notice of Meeting and Explanatory Memorandum to which this Report is attached. Terms in this Report are, unless otherwise noted, consistent with terms and description referred in the Notice of Meeting and Explanatory Memorandum.

This assignment is a valuation engagement as defined by APES 225 Valuation Services as issued by the Accounting Professional & Ethical Standards Board Limited. Valuation engagement means an engagement or assignment to perform a valuation and provide a valuation report where the independent expert is free to employ the valuation approaches, valuation methods, and valuation procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the engagement or assignment available to the independent expert at that time.

Yours faithfully

Nexia Court Financial Solutions Pty Ltd
Holder of Australian Financial Services Licence No. 247300



Andrew Hoffmann
Authorised Representative

3 Terms of the Proposal

3.1 Background

Full details of the terms of the Proposal are set out in Resolution 2 and 3 in the Notice of Meeting and Explanatory Memorandum, to which this Report is attached.

By way of summary, MLA has entered into a Shareholders Sale and Purchase Agreement with MediVet and a Business Sales Agreement under which it will acquire 100% of MediVet's issued shares. MLA has agreed to pay $5,000,000 cash and issue 16,666,667 MLA shares to current MediVet shareholders in consideration for the acquisition.

3.2 Conditions Precedent

Completion of the Business Sale Agreement (**"BSA"**) is subject to and conditional upon a number of stated conditions precedent (**"Conditions Precedent"**) being satisfied or waived at the sole discretion of MLA, including the following:

1. Both MediVet and MLA obtain all approvals required by their shareholders, their constitutions, the ASX Listing Rules, the Corporations Act and any other applicable law or regulation for the Proposal;
2. The results of MLA's due diligence review on MediVet being completed satisfactorily to MLA;
3. Each key executive and key management and MLA enters into consultancy agreements with MLA on terms and conditions agreed;
4. All licences have been duly obtained by MediVet and are in full force and effect and all reports, returns and other information required to be made or given in respect thereof, were duly made or given as at the completion date and there are will not be any circumstances which indicate to MediVet that any such licences, consents and permissions are likely to be revoked or not renewed in the ordinary course;
5. MediVet has fully discharged all of its obligations under any financial lease, operating lease or other similar arrangement affecting any Business Asset so that MediVet has clear and unencumbered title to, and has an unrestricted right to transfer, the assets to MLA;
6. The net difference between debtors and creditors together with cash at bank will at completion be at least $650,000;
7. The DMX International LLC (**"DMX"**) Agreement has been executed and is in good standing;
8. The Adistem Agreement has been executed and is in good standing;
9. MLA has raised a sum in excess of $7.5 million from the public towards payment of the purchase Cash Consideration; and
10. All rights in all intellectual property of MediVet have been assigned to MLA.

3.3 Escrow

All Consideration Shares issued to MediVet under the Proposal will be escrowed for twelve months from the date of completion of the SSPA and 50% of the shares will be escrowed for a further 12 months, and classed as voluntarily restricted securities for those periods under ASX Listing Rule 9.

Additionally, $500,000 of the Cash Consideration will be withheld for a period of 12 months from completion of the Proposal.

4 Purpose & Scope of Report

4.1 Purpose of the Report

This Report has been commissioned by MLA directors in order for the Company to comply with the Australian Securities and Investments Commission ("ASIC") guidelines in relation to the Proposal. The Notice of Meeting and Explanatory Memorandum, to which this Report is attached, sets out fully the Resolution required to be approved by members for the Proposal to proceed.

4.2 ASX Listing Rules Requirements

MLA is listed on the Australian Stock Exchange Limited ("ASX"). ASX Listing Rule 10.1 prohibits an entity from acquiring a substantial asset from, or disposing of a substantial asset (as defined) to, a person in a position to influence the entity (as defined) or an associate of such a person, without the approval of holders of the entity's ordinary securities. ASX Listing Rule 10.11 prohibits an entity from issuing or agreeing to issue equity securities to a related party, without the approval of the holders of the entity's ordinary securities.

Persons in a position to influence the entity

Persons in a position to influence MLA are defined to include a related party as defined in section 228 of the Corporations Act 2011 ("**Corporations Act**"), which includes:

- directors of MLA;
- spouses of such directors; and
- any entity, including a person, if the entity believes or has reasonable grounds to believe that it is likely to become a related party of MLA at any time in the future.

We understand that MLA has taken legal advice and it has been determined that one of the Vendors represents "persons in a position to influence" MLA under ASX Listing Rule 10.1 for the following reasons:

- Mr. Jeremy Delk ("Mr. Delk") is a director and shareholder of Delk Enterprises which is one of the shareholders of MediVet and will be appointed as a Director of MLA post-acquisition and therefore is a "related party" for the purposes of ASX Listing Rules 10.1 and 10.11 and also for the purposes of Chapter 2E of the Corporations Act (refer below).

Substantial asset

A substantial asset is defined by ASX Listing Rule 10.2 as an asset with a value of 5% or more of the equity interests of MLA, as set out in the latest accounts given to ASX under the listing rules. The term "equity interests" is defined as: *"the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interests, as shown in the consolidated financial statements"*.

The value of the asset being acquired under the Proposal, being the shares of MediVet is greater than the 5% equity interests in MLA.

4.3 Corporations Act Requirements

Chapter 2E of the Corporations Act

Section 208 of the Corporations Act prohibits a public company from providing a financial benefit to a related party without obtaining prior approval of the shareholders, unless the arrangement meets specified exceptions, including if the parties are dealing on arm's length terms.

The term “financial benefit” is defined widely and includes Proposals that are on arm’s length terms.

Section 228 of the Corporations Act defines a “related party” of a public company as including:

- directors and their spouses;
- an entity (including an individual) that has reasonable grounds to believe it will become a related party in the future; and
- an entity (including an individual) if the entity acts in concert with a related party of the public company on the understanding that the related party will receive a financial benefit if the public company gives the entity a financial benefit..

Mr Delk is a director and shareholder of Delk Enterprises which is one of the shareholders of MediVet and will be appointed as a Director of MLA post-acquisition. Accordingly, he is deemed to be a “related party” for the purposes of Chapter 2E of the Corporations Act and the payment to him for his MediVet shares of the Consideration would constitute the giving of a financial benefit to a “related party” for the purposes of Chapter 2E of the Corporations Act.

Sections 218, 219 and 221 of the Corporations Act require a public company wishing to obtain shareholder approval of a related party Proposal subject to Chapter 2E of the Corporations Act to provide such shareholders with all information that would reasonably be required by shareholders in order to enable them to decide whether or not it is in the public company’s interest to approve the related party Proposal.

This obligation may be satisfied by commissioning an Independent Expert to Report on whether the proposal is “fair" and "reasonable” to the Non-associated MLA Shareholders, as those terms are defined in RG 111.

4.4 Guidelines issued by ASIC on fair and reasonable

With respect to the meaning of fair and reasonable, ASIC has issued Regulatory Guide 111.

RG 111 states that the words “fair and reasonable” establish two distinct criteria to analyse and that it is not to be regarded as a compound phrase.

Using the principles of RG 111 states, the Proposal is ‘fair’ if the value of the consideration is equal to or less than the value of the securities to be acquired. This comparison should be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The analysis should also be made assuming the Proposal is occurring between a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious seller acting at arm’s length. Applying this methodology, we can determine that the Proposal is fair if the value of the consideration offered by MLA ($5,000,000 and 16,666,667 ordinary issued MLA shares) is equal to or less than the value of the underlying assets being 100% of the issued ordinary shares in MediVet.

RG 111 states that an offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

The methodology that we have used to form an opinion as to whether the Proposal is fair and reasonable, is summarised as:

- Fairness - we have considered the value of the cash and script consideration to be paid and issued to MediVet. We have compared this to the underlying value of 100% of MediVet's ordinary shares. In undertaking this assessment we have also identified if MLA's non associated shareholders are likely to receive any premium for control.
- Reasonableness - we have analysed other significant factors, which shareholders should consider prior to accepting or rejecting the Proposal including the advantages and disadvantages of the Proposal and the alternatives available to MLA if the Proposal is not approved.

4.5 Basis of assessment

In undertaking our analysis and forming our opinion we have considered:-

- the value of the Cash Consideration and Consideration Shares to be issued to the Vendors having regard to quoted price history and underlying assets;
- the value of MediVet having regard to its operations and net asset value; and
- other qualitative and strategic issues associated with the Proposal.

4.6 No audit or review

The scope of the procedures we undertook in forming our opinions was limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or review or other assurance engagement in accordance with Australian Auditing and Assurance Standards.

4.7 Limitations of the Report

This Report has been prepared at the request of the directors for the purposes of assisting shareholders in their decision on whether or not to vote in favour of the Proposal.

The Report is not intended to serve any other purpose and should not be relied upon by any other person for any other purpose. In preparing this Report, Nexia has relied upon financial and other information provided by the Company and its advisers. Furthermore, we have relied upon the representations and opinions of management of the Company.

We believe that the information provided was reliable, complete and not misleading and there is no reason to believe that any material facts have been withheld, to the extent of the limitations detailed at **section 9.8**. However, we have not conducted any separate due diligence or audit of our own to assess the correctness or completeness of this information. Information, judgements and representations have been evaluated through analysis, enquiry and review to the extent practicable. However, it must be appreciated that such information is not always capable of external verification or validation.

The opinion of Nexia is based on economic market and other conditions prevailing on the date of this Report, such conditions can change significantly over a relatively short period of time.

5 Profile of MLA

5.1 Company Overview

MLA (formerly BMDi TUTA Healthcare) is an Australian listed company focused on the manufacture and delivery of medical devices and equipment for the healthcare industry.

MLA's history derives from two Australian companies, BMDi Limited and TUTA Healthcare, coming together to form BMDi TUTA Healthcare Pty Ltd in 2008.

BMDi Limited was an Australian company formed in 2001 to specialise in the development of products designed to reduce needle-stick injuries with a focus on safety injection, collection and needle destruction devices.

In March 2008, BMDi acquired the business and selected assets of TUTA Healthcare to form BMDi TUTA Healthcare Pty Limited, and in 2009, BMDi TUTA acquired the business of Clements Medical Equipment.

With the acquisition of TUTA and then Clements Medical Equipment, the decision was made to change the name of the listed company to Medical Australia Limited (ASX: MLA) at the end of 2009, in line with the acquisitive focus of the business and the need to better reflect the growing portfolio of companies owned by the business.

5.2 Future Directions

We have been advised by MLA directors that the company will not change its strategic direction and will continue to focus on the distribution of its products on the human health side of the business. This will remain an important and growing part of the business. Additionally the company will look to invest a significant amount of the funds raised into a new manufacturing facility, which will be predominantly for the human health side of the business.

The Proposed transaction will allow the merged entity to expand on its distribution of the MediVet products in Australia and significantly in the US market.

The funds raised from the share issue, and any further issues arising from the Proposal are to be applied principally to complete the purchase of MediVet and further for the development and commissioning of a manufacturing, logistics and distribution centre for the new entity.

MLA has an acquisitive focus and will continue to expand their portfolio of companies in the medical consumables area based on key criteria of growth and global market potential.

In the immediate future MLA will focus on outsourced manufacture for major international medical companies (OEM), pursue further opportunities to license their intellectual property and continue to develop and source new products.

5.3 Share Capital

The Company currently has on issue 453,925,832 ordinary shares and 12,500,000 options over unissued shares. MLA has also proposed in resolution 1 of the Notice of General Meeting, a consolidation of capital through the conversion of every ten fully paid ordinary shares in the Company into one fully paid ordinary share. A reconciliation of the movement in capital between the December 2012 financial report and the date of this Report is set out below. The table also includes additional issues that may arise if all resolutions of the June 2013 meeting are approved by shareholders and the placements are completed, assuming maximum subscriptions.

Table 1 – MLA Capital Structure

	No. Shares	No. Options	$ 000's
Balance – 31 December 2012	453,925,832	12,500,000	18,476
Consolidation of Capital 10:1 (resolution 1)			
Balance – 1 May 2013	45,392,583	1,250,000	18,476
Issue to Investors (resolution 3 – min)	25,000,000	-	7,500
Issue to Investors (resolution 3 - max)	40,000,000	-	12,000
Issue to Vendors (resolutions 2)	16,666,667	-	5,000
Total potential on issue - Min	87,059,250	1,250,000	30,976
Total potential on issue - Max	102,059,250	1,250,000	35,476

In total there are 599 Existing Shareholders in the Company and at 1 May 2013 the spread of shareholders on a consolidated basis was as follows:

Table 2 – Shareholder Spread

Range	Holders	Shares	% of Issued Capital
1 – 50,000	487	4,962,270	10.93%
50,000 – 500,000	88	12,549,798	27.65%
500,000 – 1,000,000	11	7,431,967	16.37%
1,000,000 – 1,500,000	7	7,724,974	17.02%
1,500,001 and over	6	12,723,574	28.03%
	599	45,392,583	100.00%

The top 20 shareholders hold a total of approximately 25.7 million shares, equivalent to 56.6% of total capital on issue. If the Proposal is approved and the minimum amount of shares are issued, then the existing top 20 shareholders will be diluted down to approximately 42.9% of the total capital. The top 20 shareholding will be further diluted if the maximum amount of shares is issued.

Table 3 sets out the top 5 shareholders at 1 May 2013 and the position if the minimum and maximum number of shares under the Proposal are issued.

Table 3 - Top 5 shareholders

Holder		Holding as % of Shares on Issue		
		As at 1 May	Assuming minimum issue	Assuming maximum issue
1	Y.Z.J Trading Co Pty Ltd	-	13.4%	11.4%
2	Mr Andrew Fay & Narelle Fay	19.4%	10.1%	8.6%
3	Mr Mark Donnison & Mrs Suzanne Donnison	4.3%	2.2%	1.9%
4	Mr Gary Lewis & Mrs Aviva Schumer	4.2%	2.2%	1.9%
5	Victor Hoog Antink	4.2%	2.2%	1.9%

The 12,500,000 options consist of 8,000,000 director remuneration options and 4,500,000 employee share options. The existing 12,500,000 options have expiry dates on 30 June 2014 and 14 July 2014, and exercise prices of 50 to 80 cents. Given the fact that the existing options are significantly 'out of the money', the analysis in this Report is not presented on a fully diluted basis.

5.4 Financial Position

The following table summaries the consolidated financial position of MLA as of the last reviewed financial statements (as at 31 December 2012).

Table 4– Consolidated Balance Sheet –31 December 2012

	Reviewed Half year 31 Dec 2012 $	Audited 30 June 2012 $	Reviewed Half year 31 Dec 2011 $
Current assets			
Cash and cash equivalents	313,346	578,221	1,095,139
Trade and other receivables	1,271,325	920,925	998,660
Inventories	1,235,064	1,258,769	848,520
Current tax assets	93,624	122,717	-
Other assets	91,133	42,222	71,938
Total current assets	3,004,492	2,922,854	3,014,257
Non current assets			
Property, plant and equipment	234,744	297,700	382,970
Intangible assets	4,311,061	4,333,694	4,356,080
Total non current assets	4,545,805	4,631,394	4,739,050
Total assets	7,550,297	7,554,248	7,753,307
Current liabilities			
Trade and other payables	1,322,016	1,280,074	1,102,506
Borrowings	1,266,207	550,854	549,570
Provisions	293,994	317,772	251,475
Total current liabilities	2,882,217	2,148,700	1,903,551
Non current liabilities			
Borrowings	-	434,826	588,460
Provisions	12,840	14,561	10,114
Total non current liabilities	12,840	449,387	598,574
Total liabilities	2,895,057	2,598,087	2,502,125
NET ASSETS	4,655,240	4,956,161	5,251,182
Equity			
Issued capital	18,476,311	18,476,311	18,472,061
Equity remuneration reserve	131,410	131,410	131,410
Foreign currency translation reserve	(1,907)	2,561	-
Accumulated losses	(13,950,574)	(13,654,121)	(13,352,289)
TOTAL EQUITY	4,655,240	4,956,161	5,251,182

5.5 Financial Performance

A summary of MLA's historical financial performance for the year to 30 June 2012 and half year ended 31 December 2012 is set out in table 5 below.

Table 5 – Consolidated Income Statements

	Reviewed Half year 31 Dec 2012 $	Audited 30 June 2012 $	Reviewed Half year 31 Dec 2011 $
Sale of goods	4,786,335	9,211,228	4,801,333
Cost of goods sold	(2,157,590)	(4,086,706)	(2,201,143)
Gross profit	2,628,745	5,124,522	2,600,190
Administration and consultants	(445,653)	(878,326)	(318,808)
Advertising and marketing	(11,482)	(73,512)	(49,117)
Depreciation and amortisation	(98,062)	(273,471)	(133,699)
Employee benefits expenses	(1,539,703)	(3,209,357)	(1,681,049)
Occupancy costs	(234,159)	(437,868)	(212,769)
Other	(262,434)	(464,857)	(335,912)
Travel and accommodation	(238,466)	(449,392)	(166,221)
(Loss) before interest and income tax	(201,214)	(662,261)	(297,385)
Financial income	3,296	27,146	15,339
Financial expense	(69,442)	(156,526)	(85,046)
Net financing (loss)	(66,146)	(129,380)	(69,707)
(Loss) before income tax	(267,360)	(791,641)	(367,092)
Income tax (expense) / benefit	(29,093)	122,717	-
(Loss) before income tax	(296,453)	(668,924)	(367,092)
Other comprehensive income after tax			
Exchange differences on translating foreign operation	(4,468)	2,561	-
Total comprehensive (loss) for the period	(300,921)	(666,363)	(367,092)

6 Profile of MediVet

6.1 Company Overview

MediVet is an Australian private company that has proprietary ownership of technology for regenerative stem cell technology for domestic animals and the equine industry. The Company began its operation in 2008 and has achieved positive results in the most recent two years.

The company is represented in major countries and regions such as Canada, USA, Great Britain, Continental Europe, Australia and the Pacific Region.

MediVet is involved in veterinary and animal performance, breeding, recovery, repair and the general wellness sector relating to prominent cellular and natural treatments.

MediVet's intellectual property consists of exclusive licenses to patented technology and products, proprietary processes and protocol, as well as trade secrets. MediVet has distinguished itself from the competition through the advancement in proprietary activation methods of photobiostimulation, both in adipose stem cell therapy, as well as Autologous Conditioned Serum ("ACS") servicing. The ACS light activation hardware is licensed exclusively to MediVet through Adistem Limited ("Adistem"). The device's effectiveness is derived from the specified wavelengths of light, that gives the highest level of cell activation; providing MediVet a unique approach in the field of regenerative medicine. The same implications apply to the MediVet Stem Cell LED Activator used in the adipose stem cell therapy, which is licensed exclusively to MediVet through Adistem.

Product Range

Adipose Stem Cell Procedure (ASDP) Kit

MediVet's ADSP Kit uses traditional surgical methods to harvest stem cells from an animal's adipose tissue. Using the ADSP Kit, up to 20-60 million cells per gram of fat can be harvested at a time, which can then be injected into the animal to stimulate the growth of bones, liver cells, nerves, and damaged tissues.

Autologous Conditioned Serum (ACS)

MediVet's Autologous Conditioned Serum (ACS) contains anti-degenerative compounds such as Interleukin-I Receptor Antagonist Protein (IL-1ra). IL-1ra blocks the inflammatory mediator Interleukin-1 from binding to its receptor and triggering an inflammatory response that leads to tissue destruction.

Platelet Rich Plasma Veterinary Surgical Kit

This kit contains all of the consumables and solutions necessary to enable Veterinarians to create a platelet-rich plasma solution with concentrated growth factors using the animal's own blood.

TB 500

Thymosin Beta 4 peptide is a naturally occurring peptide found in virtually all human and animal cells, where it has been proven to encourage results in tissue and skeletal muscle repair and growth. MediVet has been able to extract 7 amino acids out of the 43 amino acid chain of Thymosin Beta 4 which have been tailored for use in horses and camels. MediVet provides six 10mg vials of the unique special sequence Thymosin Beta 4 synthetic peptide derivative and six 5ml ampoules of saline solution. TB-500 is primarily for treating race horses for helping with cellular repair damaged from hard work or racing.

Clear Cough

Clear Cough is an oral decongestant and expectorant for horses that assists in clearing out the airways of the respiratory system for horses suffering from congestion and viral or bacterial lung infections.

Vetrofen

Vetrofen efficiently assists the body as it recovers from trauma and is ideal for the management of knocks and bumps associated with horse racing events and hard work leading up to a race.

SGF 1000 Activation

The SGF 1000 Activation formula contains a combination of growth factors, peptides, proteins, and molecules from an ovine placental extract that can activate stem cells from a dormant state into an active state. The Activation solution can be used on its own without further treatment, as it may help in the repair and recovery of damaged cells without need of transplant.

6.2 Future Directions

MediVet currently owns 60.5% of MediVet America LLC and believes there is great potential in the US market place for the unique products offered by MediVet. MediVet America, LLC is well positioned to expand into North America with a new distributorship agreement for North America with Henry Schein Animal Health, a Division of Henry Schein. This agreement with Henry Schein gives the company instant credibility as Henry Schein, Inc. is the world's largest provider of health care products and services to office-based dental, medical and animal health practitioners.

As the aforementioned agreement with Henry Schein was signed in February 2013, it is hard to place any reliance on its possible impacts on MediVet's sales volumes as we have been unable to obtain any subsequent financial data. The agreement does not state any agreed supply volumes or performance conditions.

MediVet also controls 50.5% of MediVet Laboratory Services Australia Pty Limited (**"MLSA"**). MLSA is currently trading with a negative net asset position of $29k and has returned a loss of $23k for the half year ending 31 December 2012. The interest in the company will be excluded for the purposes of this report as it is considered immaterial.

6.3 Financial Position

The following table summarises the consolidated financial position of MediVet as of the last financial statements (as at 31 December 2012).

Table 6 – Consolidated Balance Sheet – unaudited 31 December 2012

	Unaudited 31 Dec 2012 $	Unaudited 31 Dec 2011 $
Current assets		
Cash and cash equivalents	349,137	326,495
Trade and other receivables	569,840	451,589
Inventories	701,719	44,703
Current tax assets	40,327	-
Other assets	6,279	32,275
Total current assets	1,667,302	855,062
Non current assets		
Shares in other companies	61,099	60,000
Trade debtors	671,568	-
Property, plant and equipment	222,340	220,086
Intangible assets	6,741,140	6,892,477
Total non current assets	7,696,148	7,172,563
Total assets	9,363,450	8,027,625
Current liabilities		
Trade and other payables	874,251	708,199
Borrowings	43,476	102,841
Current tax liabilities	439,028	93,096
Other current liabilities	421,545	24,642
Provisions	987	-
Total current liabilities	1,779,287	928,778
Non current liabilities		
Borrowings	25,144	-
Total non current liabilities	25,144	-
Total liabilities	1,804,431	928,778
NET ASSETS	7,559,019	7,098,847
Equity		
Issued capital	1,833	1,833
Retained earnings/reserve	4,959,272	4,442,747
Equity attributable to owners of the Company	4,961,105	4,444,580
Non-controlling interests	2,597,914	2,654,267
TOTAL EQUITY	7,559,019	7,098,847

The historical financial information provided is unaudited and includes the consolidation of MediVet US due to MediVet owning 60.5% of the share capital. The information has not been prepared using applicable International Financial Reporting Standards or a specific financial reporting framework.

The non-controlling interest relates to the remaining shareholders who hold 39.5% of the issued capital of MediVet US. The CEO Jeremy Delk owns 18% and the remaining shares are held by other small shareholders.

6.4 Financial Performance

A summary of MediVet's historical financial performance for the year ended 31 December 2012 and year ended 31 December 2011 is set out in table 7 below.

Table 7 – Consolidated Income Statements

	Unaudited Year ended 31 Dec 2012 $	Unaudited Year ended 31 Dec 2011 $
Sale of goods	4,476,685	3,907,370
Cost of goods sold	(1,924,836)	(1,562,317)
Gross profit	2,551,849	2,345,053
Other income	190,936	146,972
	2,742,785	2,492,025
Expenses	(2,360,928)	(2,290,043)
Profit before income tax	381,857	201,982

7 Industry overview

7.1 Veterinary services and the biotechnology industry in Australia[3]

The biotechnology industry is characterised by the manipulation of living cells and their components to make new products. Some companies make only research tools that are sold to other biotechnology companies. Others make the medical devices. Because they rely on advanced scientific knowledge, biotechnology companies frequently evolve from research departments at universities.

The major activities of the industry can be sub divided in to the following:

- DNA Coding
- Cell and tissue Culture engineering
- Process biotechnologies
- Sub-cellular organisms

Recent industry data and research suggests that the expected annual growth for the industry over the next 5 years is 7.2%.

Australia is currently considered to be the sixth strongest in the world in a market dominated by the United States which is estimated to generate 60% of global biotechnology revenue.

As a result of the continuous introduction of new technologies and increasing numbers of new companies entering the industry, the Australian biotechnology industry is considered to be in the growth phase of the industry life cycle. Notwithstanding that numerous new companies enter the biotechnology industry each year, the industry is characterised by high barriers to entry, medium and increasing competition, high relative levels of labour costs, accelerating technological change, and heavy regulation.

Biotechnology for veterinary purposes can be blurred in many instances as the research will cross industries and in many cases is commenced in the animal industry and the merge across to human application as part of the approval process.

Companies in veterinary services provide medical and health care services for animals. They are the consumers and distribution network of the biotechnology products. Demand for veterinary services in Australia has been promoted by growing awareness of animal health issues and the availability of advanced surgical and diagnostic procedures. However, Australia's animal population is expected to decline in the coming years. Falling pet ownership and livestock numbers means this industry's market is shrinking.

7.2 Veterinary services and the biotechnology industry in the United States of America[4]

The biotechnology industry in the US is the largest in the world. There are currently more than 1,800 separate biotechnology companies operating in the US, focussing on products and services covering human health, agriculture and aquaculture, industrial, animal health, marine and terrestrial microbial technologies, and environmental remediation and natural resource recovery.

---

[3] *Information in this section has been sourced from IBISWorld Industry Report X0001: Biotechnology in Australia, May 2013 and IBISWorld Industry Report M6970: Veterinary Services in Australia, May 2013.*

[4] *Information in this section has been sourced from First Research Industry Profile – Veterinary Services NAICS CODE: 54194, April 2013 and First Research Industry Profile – Biotechnology Research Services NAICS CODE: 541711, May 2013.*

The US veterinary services industry includes about 28,000 veterinary clinics and providers of veterinary laboratory services, with combined annual revenue of about $27 billion. High growth is forecast for the next two years. Key growth drivers include the popularity of pet ownership. A key driver of this is the increase in percentage of single adults who are highly represented as pet owners.

Recent research indicates that the output of US veterinary services is forecast to grow at an annual compounded rate of 7 percent between 2013 and 2017. Animal health and welfare is considered a priority for public health and food safety around the world. Veterinarians treat and assist not only pets, but also are involved in every stage of the food chain: livestock production; processing; transportation; and distribution. The World Organization for Animal Health (known as OIE) is responsible for improving animal health and fighting animal diseases around the world.

Of the 92,000 licensed veterinarians in the US, about 70 percent work in private practice, nearly half work with companion animals, and around 1 percent are exclusively food animal veterinarians. About 73 million homes in the US have at least one pet, according to the American Pet Products Association (APPA). Most veterinarians, and about 50 percent of industry revenues, are associated with the care of 78 million dogs, 86 million cats, 16 million birds, and 8 million horses that are pets.

Animal testing labs provide important information about animal ailments, with blood and urine testing providing the bulk of lab work. Although some testing procedures are done manually, most involve automated equipment. Acquiring, operating, and maintaining test equipment is the principal activity of testing labs. Labs and animal hospitals buy diagnostic equipment and drugs from the veterinary wings of large medical supply and drug companies.

Demand for veterinary services is increasing as the world pet market grows. The US have typically been leading pet owning countries. Worldwide sales of pet care products reached $94 billion in 2012, and the market will continue to strengthen through 2017, according to Euromonitor International.

Henry Schein Animal Health ("HSAH")

MediVet have a distribution agreement with Henry Schein for the following veterinary products:

- Stem Cell Processing Equipment;
- Adipose Small Animal Kit;
- Adipose Large Animal Kit;
- Lab Service Small Animal Stem Cell Cooler;
- Lab Service Large Animal Stem Cell Cooler; and
- PRP Kits.

Henry Schein Animal Health is the leading companion animal health distribution company in the U.S.

Located in Dublin, Ohio, they employ approximately 900 team members, including 300 field sales representatives and 200 telesales and customer support representatives. They have 15 distribution facilities and 10 inside sales centres nationwide.

HSAH partners with over 400 of the leading animal health manufacturers in the world, positioning themselves to bring the broadest selection of veterinary products and strategic business solutions to over 26,000 veterinary professionals nationwide, including:

- A comprehensive product offering for companion animal, equine and large animal practices including biologicals, diagnostics, nutritionals, parasiticides, pharmaceuticals and more;

- Quality private label products at an affordable value;
- Technology hardware and software solutions;
- An extensive line of capital equipment and supply products, as well as repair services;
- Practice design and remodelling solutions;
- Home delivery and client marketing solutions; and
- Financial solutions for veterinarians and clients.

7.3 Strategic Rationale of the Proposed Transaction

We have been advised by MLA that the Proposal is expected to provide a number of strategic benefits which may deliver value to MLA Shareholders through the development of the intellectual property of both MLA and MediVet. The directors of MLA have identified the following strategic benefits which are expected to be realised if the Proposal is approved:

- A unique human/animal healthcare company with global presence in approximately 30 international markets;
- Vertical integration, controlling product development (innovation), manufacturing, engineering, quality control, regulatory affairs, sales, marketing, distribution and customer service and driving the business in a cost efficient manner;
- The acquisition, development and commissioning of its own manufacturing, logistics and distribution centre;
- Substantial global and large company experience at both Board of directors and Management level with previous experience in successfully integrating acquisitions (Tuta in 2008 and Clements in 2009);
- Patented, proven and already commercialised stem cell technology with a record of success and positive feedback from over 600 veterinary clinicians worldwide (420 in the U.S.). More than 12,000 procedures have been performed at a greater than 90% success rate. For example, a recent clinical study revealed a 95% success rates in cases treated for degenerative joint disease (DJD), in a sample of 135 canine cases;
- The appointment of Mr Jeremy Delk (being CEO of MediVet US) to the board of MLA may allow the Company to leverage their extensive industry experience and relationships in the US market; and
- The strengths of each company are complementary and highly synergistic, combining the brand heritage, supply chain and robust administration and corporate governance of MLA with cutting edge technology of MediVet Pty Ltd.

8 Valuation of the Consideration

8.1 Valuation Approach

In assessing the fair value of MLA shares we have had regard to:

- general market conditions;
- MLA announcements to ASX; and
- an assessment as to the fair value of MLA based on traditional assets and earnings based methodologies.

8.1.1 Share Price

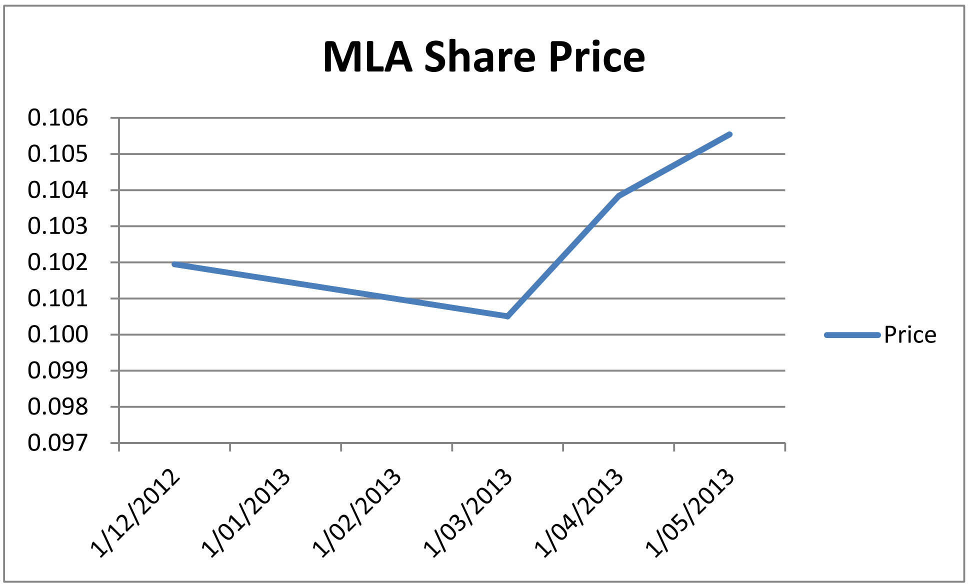
Table 8 sets out price and volume movement, and the volume weighted average price ("VWAP") over the 6 months prior to the date of this Report. The table reflects the consolidation of issued capital per resolution 1.

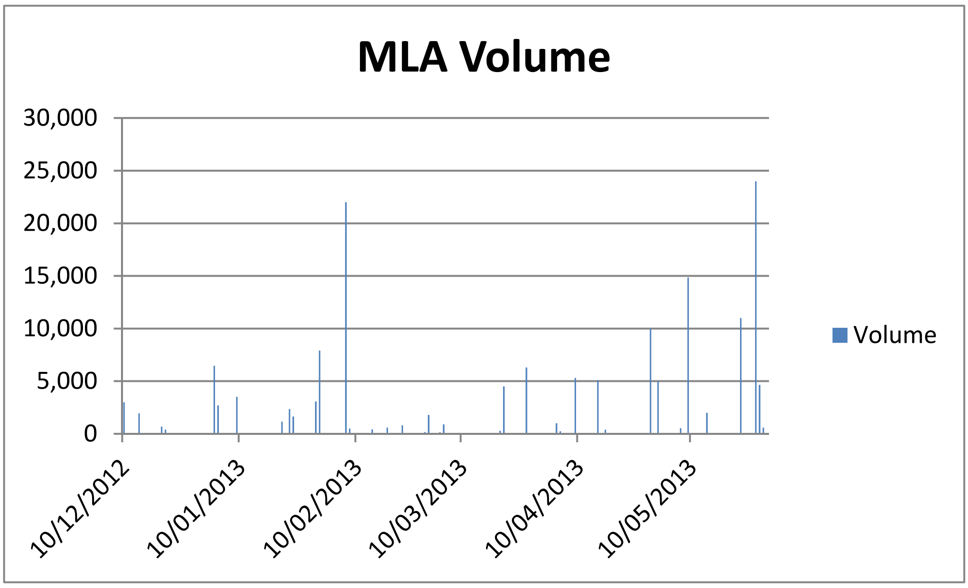
Table 8 – MLA Share Price History

Period	High	Low	Volume	Proportion of Share Capital	VWAP
	$	$	000's	%	$
1 month	0.120	0.090	594	1.31%	0.106
2 months	0.120	0.120	816	1.80%	0.104
3 months	0.120	0.060	981	2.16%	0.101
6 months	0.120	0.060	1,550	3.41%	0.102

The historical share price movement and volume traded of the Company from 1 December 2012 to 31 May 2013 are depicted below.

Chart 1 and 2– MLA Share Price and Volume ($)





Over the past 6 months the shares were trading in a narrow band of 10.1 to 10.6 cents, on relatively low volume.

Trading volumes indicate that the market for the Company's shares is relatively illiquid. Total quantities traded in the 3 months prior to this Report were only 2.16% of total issued capital.

Based on the above analysis we are of the view that, at the date of this Report**, the value of MLA shares, based on traded share prices, is in the range of 10.1 cents to 10.6 cents per share. Hence, the fair value of the consideration shares based on the quoted price of listed shares is between $1,683,000 and $1,767,000**.

8.1.2 Fundamental Valuation

In assessing the value of MLA's securities, we have also considered generally accepted valuation methodologies including a Discounted Cash Flow ("DCF"), a capitalisation of future maintainable earnings ("CFME") and an asset-based valuation.

No assessment has been made based upon a CFME approach to the valuation, due to an inability to form a reliable assessment of maintainable earnings. This is because:

- the earnings history of MLA has been consistently negative, with no profits being returned over the past 2 years.

As illustrated in **section 5.5** of this Report, MLA recorded a net loss of $296,000 for the six months to December 2012 and a loss of $666,000 for the full year to June 2012.

We have adopted a net assets approach in our valuation of MLA shares based on MLA's balance sheet as at 31 December 2012. That balance sheet is set out in **section 5.4** of this Report.

For the purposes of our review we have undertaken an assessment based on the underlying value of asset and liabilities of the Company. We have relied on the carrying values, ascribed by the directors in preparing the December 2012 financial report.

The main asset of MLA is its intangible asset. We understand this to be goodwill as a result of previous acquisitions of subsidiary companies, namely Tuta and Clements. Management have satisfied themselves that these balances are appropriately valued.

Impairment testing of these balances would have been performed as part of the audit engagements and it has been reported that these are not impaired.

We have accepted the value of these balances for the purposes of this valuation. However it should be noted that if these balances were to be impaired it would have a decreasing effect of the value of MLA shares, and hence a reduction in the value of the Consideration of the Proposal.

We have assessed the value of MLA shares, subject of the Proposal, based on this approach to be 10.3 cents per share. Hence, the fair value of the consideration shares based on the fair value net asset backing methodology is $1,717,000.

8.1.3 Summary - Value of MLA Shares

We have assessed the fair value of MLA shares, subject of the Proposal, under both a market trading (or priced) approach and under fundamental valuation principles, based on the net value of MLA's asset portfolio. The range of values is set out in the table below.

Table 9 –Summary of MLA share values (cents per share)

	High	Low
Market Trading based approach	10.6	10.1
Net Asset Backing ('NAB')	10.3	10.3

General convention is that quoted market price in an active market is the best evidence of fair value and should be used for measurement[5]. Additionally, where there is a relatively inactive market, the traded market price may not be the best measure. As determined above, there is minimal difference between the net asset value and the market based value. Therefore we have used the market based approach to obtain the most reasonable range for the value of MLA's shares on issue.

8.2 Fair Value of Cash Consideration

We have assessed the total fair market value of the Cash Consideration based on its nominal value of $5,000,000. An amount of $500,000 will be withheld from the Vendors for a period of 12 months and subject to conditions of the warranties stated in the agreement. It is assessed that the conditions for the $500,000 will be met and the balance will be released by the company. Due to the short time of the expected payment of the balance we feel that the impact on the fair value will be immaterial for the purposes of this report.

Hence, the fair value of the Cash Consideration based on the nominal value is $5,000,000.

8.3 Consideration Summary

Based on the above valuations we have assessed the total fair market value of the Consideration in the range of **$6,683,000** and **$6,767,000**.

[5] *Lonergan – The Valuation of Businesses, Shares & Other Equity*

9 Valuation of MediVet

9.1 Valuation Approach

In using the Capitalisation of Future Maintainable Earnings ("CFME") method to value MediVet, we have:

- estimated the FME of MediVet;
- selected an appropriate earnings capitalisation multiple;
- where necessary, deducted from the resultant enterprise value:
  - any future capital expenditure and working capital requirements;
  - interest bearing debt; and
  - any potential contingent liabilities;
- applied a premium for control; and
- considered the value of any surplus assets and liabilities.

Set out below are the key parameters and our considerations with respect to each.

9.2 Selection of Future Maintainable Earnings

Our estimate of the Future Maintainable Earnings ("FME") of MediVet has been determined after a review of:

- MediVet's normalised historical earnings, in particular we looked at:
  - Expansion into the American market through the distribution agreement with Henry Schein Animal Health;
  - Growth prospects with the DMX and Adistem agreements.
- MediVet's normalised FY2012 earnings;
- the effect of changes and trends in the Industry that may impact on earnings.

Table 10 –FME Calculation

	FME
EBITDA 2012 normalised	420,000
Industry Growth factor (section 7.1)	7.2%
Estimated FME	450,000

Based on the above analysis, we have estimated the EBITDA FME of MediVet to be $450,000. This has regard to the historical and future performance plus allowance for the potential positive and negative factors that may influence the earnings of MediVet. The capitalisation multiple will take into consideration any future growth prospects.

9.3 Capitalisation multiple

The appropriate earnings multiple is usually assessed by collecting market evidence with respect to the earnings multiples of companies with operations that are broadly comparable to those of the entity being valued. MediVet is a private company and therefore adjustment needs to be made to ensure that an appropriate multiple is calculated when the basis is a listed company average.

In determining the capitalisation multiple we have given consideration to many factors including the following:

Factor	Explanation	Impact on multiple
Size of the business	Larger companies are generally valued at higher earnings multiples which reflect the benefits of size particularly in relation to market power, control over prices and costs, depth of management, diversity of customers and general operational and financial robustness. In addition, larger listed companies may trade at higher earnings multiples because of the liquidity of their shares and the likelihood of greater interest in the shares from a wider base of investors (e.g. institutions or foreign investors). A company which has a greater diversity in the products and services it offers will tend to have a higher earnings multiple for a given level of earnings which reflects the lower revenue risk of having more than a single product or service offering. At present, MediVet has not fully pursed the opportunities in the US market due the small nature of its current operations. The agreement with Henry Schein Animal Health may provide the additional exposure required to expand the products reach.	Discount
Marketability	A discount for marketability is generally applied to private companies as minority parcels of shares in unlisted companies are valued at a discount to minority parcels of shares in comparable listed companies. An unlisted share of a closely-held company in which trading is infrequent (and which therefore lacks negotiability) is less attractive than a similar listed stock which has ready negotiability of shares and therefore liquidity.	Discount
Customer Risk	We are also of the view that the identified comparable listed companies manufacture products for a more diversified range of customers is different geographic locations. Accordingly, we are of the view that the customer risk attributable to MediVet would be higher than that of the comparable listed companies.	Discount
Growth Opportunities	A company which is expected to grow more strongly will tend to have a higher earnings multiple for a given level of earnings than one which is expected to experience slower growth. MediVet have recently secured exclusive distribution agreements with DMX International and Adistem Limited which are expected to produce greater opportunities, especially in the US market.	Premium
Key Person Risk	Despite the fact that identified comparable listed companies have more diversified executive and management teams, we are not of the view that a key person risk should be attributable to MediVet. MediVet's success is largely driven by the quality of its products and numerous supply and distribution agreements.	Neutral

The table below highlights the adjustments:

Table 11 –Capitalisation multiple adjustments

	Low	High
EBITDA to Enterprise Value – Health Care Sector Average	16.12	16.12
Adjusted for:		
Deduction for the lack of negotiability of interest in a private business	45%	35%
Deduction for the lack of company size and infrastructure	25%	20%
Deduction for the lack of depth in customer base	35%	25%
Deduction for the lack of diversity in product lines	30%	25%
Total Adjustments	18.8%	29.3%
Calculated capitalisation multiple	3.03	4.72

The adjustments are calculated as follows:

Low (1 - 0.45) x (1 - 0.25) x (1 - 0.35) x (1 - 0.30) = 18.8%

High (1 - 0.35) x (1 - 0.20) x (1 - 0.25) x (1 - 0.25) = 29.3%

Based on our analysis above, we have arrived at an EBITDA multiple range of **3.0** times to **4.75** times applicable to the selected MediVet EBITDA FME to produce an enterprise value of MediVet.

9.4 Premium for Control

Our assessment of the earnings multiple range applicable to MediVet has been derived predominately from the multiples observable from trades of minority parcels of shares in listed entities. Accordingly, the trading prices reflect a non-controlling interest value. The interest being valued represents a controlling interest in MediVet. When valuing a controlling interest, an appropriate allowance should be made for a premium for control.

Earnings multiples derived from market trading share prices do not reflect the market value for control of a company as they are for minority parcels of shares. The difference in the market value of a controlling interest and a minority interest is referred to as the premium for control. This is a phenomenon observed in developed western stock market trading. Australian studies are generally taken to indicate the premiums required to obtain control of companies range between 20% and 40% of the minority trading values.

The explanation for the observed premium for control paid in takeover situations has been attributed to a number of reasons. Fundamentally, it is usually explained as the owner of a controlling interest having the ability to do many things that the owner of a minority interest does not. These elements of control include:

- control the cash flows of the company, such as dividends, capital expenditure and compensation for personnel, including directors;
- determine the strategy and policy of the company;
- make acquisitions, or divest operations; and
- control the composition of the board of directors.

Having regard to the above considerations, we have applied to the equity value a premium for control in the case of MediVet in the range of 20% to 25%.

9.5 Adjustments Required to Calculate Equity Value

To determine the fair market value of the equity of MediVet prior to the Proposed, it is appropriate to add (subtract) any surplus assets (liabilities) and add (subtract) any other interest bearing assets (liabilities) of MediVet from the enterprise value calculated below in **section 9.6**.

The book value of debt securities and cash deposits often provides a fair indication of the market value of those securities. We have not been provided with any reasons why the book values of those assets and liabilities do not reflect the market value of the cash on hand and debt.

As at 31 December 2012, MediVet had cash of $350,000 and interest bearing liabilities totalling $68,620. In our view, it is appropriate to add net cash of $281,380 for the purpose of determining the equity value of MediVet.

9.6 Valuation Calculation

Based on the Capitalisation of Future Maintainable Earnings, we determine the fair market value of MediVet is summarised in the following table:

Table 12 – Valuation CFME – MediVet - total

AUD unless indicated otherwise	Low	High	Mid
Future Maintainable Earnings (EBITDA)	450,000	450,000	450,000
Minority basis EBITDA multiple (x times)	3.0 x	4.75 x	3.9 x
Enterprise Value (Minority basis)	1,350,000	2,137,500	1,755,000
Less: Debt	68,620	68,620	68,620
Equity value (Minority basis)	1,281,380	2,068,880	1,686,380
Control premium (%)	20%	25%	22.50%
Equity value after control premium	1,537,656	2,586,100	2,065,816
Add: Net non-Enterprise and surplus assets	350,000	350,000	350,000
Equity value	1,887,656	2,936,100	2,415,816

9.7 Valuation Cross Check

We have performed a cross check on the valuation of MediVet's business based on the net asset value of the business.

Per **section 6.3**, MediVet's most significant asset is an intangible asset of $6,741,000 relating to various IP and licence agreements.

Management has satisfied itself as to the value of the intangible asset of the company via various due diligence procedures and valuation processes.

While we have attempted to obtain a valuation of the asset, due to the limitations noted below in **section 9.8**, we have been unable to satisfy ourselves as to its carrying value.

We have critically evaluated the information provided in relation to the intangible balance and are unable to obtain a reasonable basis for the value due to the reliance on significant future expectations and risks that the company will have to undertake which are unknown and uncertain, in order to achieve these targets and objectives.

We have been unable to reliably assess the recognition and subsequent measurement of the intangible.

From our performance of the CFME valuation, we obtained a midpoint enterprise value of **$1,755,000**. It is generally accepted that an enterprise value of an entity is one representation of the intangible value of an entity. For the purposes of this cross check we have substituted this intangible value for the balance currently recognised in MediVet.

Table 13 – Valuation Cross Check

AUD unless indicated otherwise	31 December 2012
Net Assets (section 6.3)	7,559,019
Less: Intangible Assets (section 6.3)	(6,741,140)
Add: Adjusted intangible value	1,755,000
Adjusted Net Asset Value	2,572,879

9.8 Limitations

The valuation of MediVet has been performed on the basis of the information provided. The following limitations have been considered in the calculation above:

- The information provided for both MediVet Pty Limited the MediVet US is unaudited;
- Due to both companies being privately owned we have been unable to verify whether the financial data provided has been prepared in accordance with International Financial Reporting Standards, which can have a significant impact on the reliability and accuracy of the data especially in regards to key areas of estimation such as intangible assets;
- We have been unable to determine what framework for the preparation and presentation of the financial statements has been applied;
- As stated above we have been unable to satisfy ourselves as to the value of the intangible assets as the valuation results stated below don't appear to support the values stated as per **section 6.3**.
- Due to the distribution agreement with Henry Schein Animal Health being recently executed, it is difficult to value the potential impact on future sales. The current agreement does not state any minimum purchase amounts. We have not been able to obtain current MediVet US financial data to further assess the impact of the agreement; and
- Furthermore, there appears to be concerns over the downstream distribution agreements based on a recent intellectual property due diligence report. The general comment coming from the report was that many of the agreements were poorly drafted or uncertain and consideration of appropriate amendments should be taken. These issues could have a serious impact on MediVet's ability to increase its sales volumes once the Proposal has occurred.

  We have been assured by management that this risk has been mitigated in the clauses of the SSPA and included warranties. Additionally management will withhold $500,000 of the Cash Consideration as further security.

We bring these limitations to the shareholders attention as they are significant to the valuations that have been determined for MediVet. The market may interpret these valuations differently which may have a negative or positive effect on MLA's share price.

9.9 Valuation Summary

We have assessed the fair value of MediVet, subject of the Proposal, under both a CFME approach and under fundamental valuation principles, based on the adjusted net value of MediVet's assets. The range of values is set out in the table below.

Table 14 –Summary of MediVet's Equity Value

	Midpoint $
CFME (section 9.6)	2,415,816
Adjusted Net Asset Value (section 9.7)	2,572,879

Based on the above, we have assessed the fair market value of all the equity in MediVet on a controlling interest basis to be in the range of approximately $2,416,000 to $2,573,000, with a midpoint of approximately $2,495,000.

10 Assessment of the Proposal

10.1 Basis of Assessment

In assessing whether the Proposal is fair and reasonable for the non associated shareholders, we have had regard to the criteria set out in ASIC's Regulatory Guide 111 "*Content of Experts Reports*".

We have considered all the circumstances of the Proposal, and compared the likely advantages and disadvantages to non associated shareholders if the Proposal is accepted to the advantages and disadvantages to those shareholders if the Proposal is not.

The following factors have been considered in evaluating if the Proposal is fair and reasonable for existing MLA non-associated shareholders:

- the fair value of MLA shares;
- the issue price of shares under the Proposal;
- the financial impact of the Proposal on MLA;
- the extent of any premium for control being received by MLA shareholders;
- the alternatives available to MLA if the proposal does not proceed; and
- any other factors which may have a material impact.

ASIC Regulatory Guide 111 prescribes that under its convention an offer is fair '*if the offer price or consideration is equal to or greater than the value of the securities subject of the offer*'.

10.2 Fairness

We have assessed the fairness of the Proposal, as far as it affects the Non-associated MLA Shareholders as follows:

Table 15 – Assessment of "fair"

	Low	High	Mid
Value of Consideration			
Consideration Shares (Section 8.1.1)	1,683,000	1,767,000	1,725,000
Cash Consideration (Section 8.2)	5,000,000	5,000,000	5,000,000
Total Consideration	6,683,000	6,767,000	6,725,000
Value of MediVet			
Equity Value (Section 9.9)	2,416,000	2,573,000	2,495,000
Fair / (Unfair)	(4,267,000)	(4,194,000)	(4,230,000)

Accordingly we consider the Proposal is **not fair**.

10.3 Reasonableness

10.3.1 Advantages of the Proposal

In our opinion, the Proposal has a number of potential positive implications for the Non-associated MLA Shareholders, including:

Advantage	Explanation
More diversified product offering	Currently MLA is a distributor of medical devices in Australia. The approval of the Proposal will result in a biotechnology company with resources and operations in both Australia and the US, two of the world's largest biotechnology sectors.
Current position of MLA	MLA has an emphasis of matter in relation to going concern and has been loss making in the past. The acquisition of a profitable business to it operations with synergies allow for the potential of the company to develop into the further and potentially provide positive returns to shareholders.
Synergies	The company has identified a number of synergies that are expected to be realised if the Proposal occurs. These synergies include administrative, procurement and supply chain efficiencies. MLA expect that the reduction of costs in these areas will have a positive effect on the financial results of the company and hence the share price.
Exposure to the US market	The US biotechnology industry is the largest in the world with more than 1,800 operating entities and annual revenue of US$87.0 billion. If the Proposal is approved, MLA will have access to research facilities and other resources, including highly experienced board members and management personnel, in the US. A US presence may enable MLA to more easily capitalise on the significantly larger US biotechnology market by leveraging the relationships of the US based board members to potentially partner with US pharmaceutical manufacturers.
Distribution agreement with Henry Schein	The company has signed a distribution agreement with Henry Schein Animal Health (a division of Henry Schein) which is a US Fortune 500 company. Henry Schein is a large US company and the distribution agreement may provide significant opportunity to MLA to distribute its products in the US market.
Experienced team	As part of the Proposed Proposal Mr Jeremy Delk is to join MLA's board. In addition the company has established a Stem Cell Advisory board with prominent individuals to assist the company develop and exploit its products in the US and Australia market.
Capital raise at higher price	In order for the Proposed Proposal to occur, Resolution 3 of the meeting is required to be passed where up to 40,000,000 shares in MLA will be issued at 30c per share. This is a significant premium to the assessed fair value of MLA shares and hence positive impact to the current shareholders.

10.3.2 Disadvantages of the Proposal

In our opinion, the Proposal has a number of potential negative implications for the Non-associated MLA Shareholders, including:

Disadvantage	Explanation
Valuation uncertainty in relation to MediVet	MediVet is a private company with limited transparency located in Sydney. MediVet US is also a private company with limited transparency located in the US. The level of sophistication of financial information provided has been limited and we have been unable to satisfy ourselves as to its reasonableness. Following the proposed Proposal MediVet will be wholly owned by MLA and will be subject to the Australian financial reporting requirements and ASX Listing Rules. It is possible that the market will have a different view of the value in relation to MediVet which may adversely impact MLA's share price following the Proposed Proposal.
Dilution of ownership	If the Proposal is approved, MediVet share holders will be issued with 16,666,667 fully paid ordinary shares in MLA, representing a maximum of 19.14% of the total issued share capital in the Merged Entity. The issue of 19.14% of the total issued share capital in MLA to the MediVet security holders will dilute the holdings of the current MLA Shareholders. Dilution would reduce any potential future benefits that current MLA Shareholders may receive in the future.

10.3.3 Alternatives Available if the Proposal is Not Approved

We consider it probable that in the absence of shareholders approving the Proposal, MLA is likely to need to raise further capital in order to maintain its operations. The current operations of the company have incurred negative cash flows from operations and net losses over the past two years. If this is to continue the company will be required to raise capital in order to ensure its debts are able to be paid as and when they fall due.

Resolution 3 which relates to the issue of shares to sophisticated investors is subject to the Proposal occurring. Without this capital raising MLA may need to reconsider its expansion plans and its working capital position. It may have to go to market to raise cash at a value less than the 30c per share.

10.4 Financial impact of the Proposal on value of MLA Securities

The value of securities is typically determined by the earnings derived or the asset backing.

We consider that on a fundamental analysis approval of the Proposal:

- Is likely to positively impact on the reported net asset backing per MLA share; and
- is likely to have a positive impact on earnings per share.

10.4.1 Asset Back Per Share

Table 16 sets out our assessment of the impact of the Proposal on net asset backings per share. Approval of the Proposal will allow for the issue of 25,000,000 to 40,000,000 ordinary shares in MLA at 30 cents a share, raising between $7,500,000 to $12,000,000. The primary use of these funds is to finance the cash consideration of the Proposal and working capital. If the maximum capital raising is achieved the company will be able to further its strategy of acquiring, developing and commissions manufacturing logistics and distribution facilities for the entity.

In the table we have taken the adjusted net asset position of MediVet per **section 9.7** and assumed the minimum share raising is achieved and have ignored the effect of consolidation adjustments, share issue costs and current year losses.

Table 16 – Impact of Proposal on MLA Net Asset Backing

		Effect of the share raising of 25,000,000 shares @ 0.30	Effect of the purchase of MediVet
Net Asset Value ($)	4,655,240	12,155,240	9,728,119
Shares issued	45,392,583	70,392,583	87,059,250
Estimated net asset backing per share	10.3 cents	17.3 cents	11.2 cents

The approval of the proposal has a positive effect on the net asset value of the company. If the unadjusted figures are used for MediVet in the above analysis this would have an even stronger increase in the value of the net asset position.

10.4.2 Earnings Per Share

As noted at **section 5.5** MLA has incurred significant losses from operations for the previous two years.

If the Proposal is approved and occurs, the company is expected to implement a number of synergies and cost reducing measures. Along with the positive cash flow that that MediVet has experienced being brought into the MLA group it is expected that the Proposal will have a positive effect on the cash flows and earnings of the company.

10.5 Opinion on the Proposal

We have considered the terms of the Proposal as outlined in this Report and as a result of our review and after consideration of all of the factors, including the financial effect on the company and the advantages and disadvantages of whether the Proposal was to proceed or not, we are of the opinion **the Proposal is not fair but is reasonable** to the non associated shareholders of MLA.

We consider that the directors are justified in submitting the Proposal to shareholders in the absence of any other offers.

APPENDIX A

Statement of Qualifications, Independence, Declarations and Consents

Qualifications

Nexia Court Financial Solutions Pty Ltd ("Nexia") is an associated entity of Nexia Court & Co; Chartered Accountants which is a Sydney based accounting, audit and business advisory practice and is a licensed investment adviser within the terms of the Corporations Act 2001. The directors of Nexia specialise in and regularly perform corporate and asset valuations and advice on Company restructures, acquisitions and proposals. Nexia Court & Co, acting through different partners also performs audits on the accounts of Australian companies.

The person responsible for preparing this Report on behalf of Nexia is Andrew Hoffmann, a partner of Nexia Court & Co. Andrew has a significant number of years of experience in relevant corporate advisory matters including valuations and independent expert reports.

Independence

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

Nexia and its related entities or any of its Directors or Partners have not had within the previous two years, any shareholding in the Company.

Nexia and its related entities have not within the previous 2 years provided professional services to the Company.

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

Disclaimers

This Report should not be used or relied upon for any purpose other than as an expression of Nexia's opinion of the fairness and reasonableness of the Proposals. Nexia expressly disclaims any liability to any person who relies on our Report, or seeks to rely on the Report for any other purpose and to any other party who relies or purports to rely on this Report for any purpose.

Appendix C identifies the sources of information upon which this Report has been based. Whilst Nexia has no reason to believe that such information is not reliable and accurate, it has not caused such information to be independently verified or audited in any way. Inquiry, analysis and review have brought nothing to our attention to indicate a material misstatement, omission or lack of reasonable grounds upon which to base our opinion.

The opinions given by Nexia in this Report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. This Report has been prepared with care and diligence. However, no responsibility is accepted by Nexia or any of its officers or employees for errors or omissions however arising in the preparation of this Report, provided that this shall not absolve Nexia from consequences related to an opinion expressed recklessly or in bad faith.

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

APPENDIX A (Continued)

Statement of Qualifications, Independence, Declarations and Consents

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

Indemnity

The Company has agreed that it will indemnify Nexia and its employees and officers in respect to any or all losses, claims, damages and liabilities arising as a result of or in connection with the preparation of this Report.

Consent

This Report has been prepared at the request of the Company and may accompany the Information Memorandum to be given to shareholders.

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

APPENDIX B

Nexia Court Financial Solutions Pty Ltd Financial Services Guide

Nexia Court Financial Solutions Pty Ltd
ABN: 88 077 764 222
AFSL: 247300
Level 29 Australia Square
264 George Street
SDYNEY NSW 2000

Tel: +61 (0) 2 9251 4600

Financial Services Guide
February 2010

This Financial Services Guide ("FSG") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided by Nexia Court Financial Solutions Pty Ltd. The us of "we", "us" or "our" is a reference to Nexia Court Financial Solutions Pty Ltd ("Nexia") as the holder of Australian Financial Services Licence ("AFSL") No.247300. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide .
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by Medical Australia Limited to give general financial product advice in the form of a report to be provided to you in connection with a financial product to be issued by another party. You are not the party or parties who engaged us to prepare this Report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our Report is being provided to you. You may contact us by writing to PO Box H195, Australia Square, Sydney 1215, or by telephone on +61 (0) 2 9251 4600.

Nexia Court Financial Solutions Pty Ltd is ultimately owned by the partners of Nexia Court & Co, a provider of audit and assurance, accounting, tax, corporate advisory, superannuation, investment advisory and consulting services. Directors of Nexia Court Financial Solutions Pty Ltd are partners of Nexia Court & Co.

The financial product advice in our Report is provided by Nexia Financial Solutions Pty Ltd and not by Nexia Court & Co or any of its other related entities.

Nexia has an agreement in place with Securitor Financial Group Pty Ltd to provide Nexia with extensive resources and dedicated teams to support our financial advisers, including technical experts in areas such as superannuation and retirement planning. Securitor is fully owned by St.George Bank. The partnership of Nexia Court & Co (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

APPENDIX B (Continued)

Nexia Court Financial Solutions Pty Ltd Financial Services Guide

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide general financial product advice only in respect of securities, derivatives, debentures, stocks or bonds issued or proposed to be issued by a government and interests in managed investment schemes including investor directed portfolio services and deposit and payment products limited to basic deposit products and deposit products other than basic deposit products.

Information about the general financial product advice we provide

The financial product advice provided in our Report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

Information about the general financial product advice we provide (continued)

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant Product Disclosure Statement ("PDS") or Prospectus provided by the issuer of the financial product. The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

How are we and our employees remunerated?

We have agreed a fee of $32,000 for this engagement. Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engaged us and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Nexia Court Financial Solutions Pty Ltd nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us.

All of our employees receive a salary with partners also having an equity interest in the partnership. We do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the Company and covers all aspects of performance.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you have a complaint?

If you have any concerns regarding our Report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Directors
Nexia Court Financial Solutions Pty Ltd
PO Box H195 Australia Square
Sydney NSW 1215

APPENDIX B (Continued)
Nexia Court Financial Solutions Pty Ltd Financial Services Guide

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service ("FICS"). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Ombudsman Service
GPO Box 3
MELBOURNE VIC 8007
Telephone: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Internet: http://www.fos.org.au

The Australian Securities and Investments Commission ("ASIC") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1300 300 630
Email: info@asic.gov.au
Internet: http://www.asic.gov/asic/asic.nsf

Indemnification

As a condition of Nexia's agreement to prepare this Report, MLA agrees to indemnify Nexia's in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of MLA which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

APPENDIX C
Sources of Information

1. Notice of Meeting and Explanatory Memorandum
2. MLA announcements released to the ASX
3. MLA half-year ended 31 Dec 2012 financial statements
4. MLA year ended 30 June 2012 financial statements
5. MLA half-year ended 31 Dec 2011 financial statements
6. MLA company website http://www.medaust.com/
7. Business Sale Agreement between MediVet Pty Limited and Medical Australia Limited
8. Vendors' Shareholders Sale and Purchase Agreement between MediVet Pty Limited and Medical Australia Limited
9. Transaction Summary prepared by management of Medical Australia Limited, April 2013
10. Intellectual Property Due Diligence Report prepared by Spruson & Ferguson Lawyers
11. MediVet Pty Limited management accounts for the year ended 30 June 2012 and 2011
12. MediVet US management accounts for the year ended 31 December 2012 and 2011
13. MediVet Pty Limited consolidated financial statements for the year end 31 December 2012 and 2011 prepared by management
14. MediVet company website http://www.medivet.net.au/
15. Distribution agreement between Adistem Limited and MediVet Pty Limited
16. Distribution agreement between DMX International, LLC and MediVet Pty Limited
17. Distribution agreement between MediVet America, LLC and Butler Schein Animal Health
18. IBISWorld Industry Report X0001 Biotechnology in Australia, May 2013
19. IBISWorld Industry Report M6970: Veterinary Services in Australia, May 2013
20. First Research Industry Profile – Veterinary Services NAICS CODE: 54194, April 2013
21. First Research Industry Profile – Biotechnology Research Services NAICS CODE: 541711, May 2013
22. Numerous discussions and correspondence with MLA management, directors and solicitors
23. MLA shareholder spread, top shareholders and escrowed securities data provided as at 31 May 2013
24. www.etrade.com.au; www.asx.com.au; www.finance.yahoo.com; and various other websites and public domain information services.

APPENDIX D

Overview of valuation methodologies

Discounted Cash Flow Based Analysis

This methodology recognises the present value of the net cash flows which are expected to be derived from future activities. These future cash flows are discounted to current values by recognising both the risk of their receipt and the time value of money using a suitable discount rate. This methodology is normally considered to be the most appropriate method in the calculation of the value where there is adequate information about likely future cash flows, usually over a finite term.

Capitalisation of Maintainable Earnings (CME)

This requires consideration of the following factors:

(a) estimation of future maintainable earnings. The maintainable level of earnings is considered to be the level below which, in the absence of unforeseen and exceptional circumstances, the income stream flowing from the assets is unlikely to fall. Maintainable earnings can be influenced by a number of factors including the trend and consistency of historical performance, the stage of development of the business sensitivity to key industry risk factors and the general economic outlook, and the extent to which one-off or non-recurring Proposals are reflected in the financial records ; and

(b) determination of an appropriate capitalisation rate which will reflect a purchaser's required rate of return from the business. It should therefore reflect among other things: -
- the operational risks of the business;
- the growth profile of the business
- the working and long-term capital requirements of the business currently and requirement for funding growth;
- the nature of the environment in which the business operates: and
- alternative investment opportunities.
- a separate assessment of surplus or unrelated assets and liabilities, being those items which are not essential to producing the estimated future earnings.

This methodology is generally recognised as a surrogate for a discounted cashflow analysis (DCF). It is typically employed where an entity or asset has mature operations with a history of profits and an expectation that these will be maintained at similar levels in the future. It is considered a reliable methodology particularly where capital expenditure does not constitute a large part of the cash outflows of the business or where such outflows are generally of a replacement nature.

Comparable Market Proposals

This methodology requires research to ascertain details of any comparable Proposals in the same industry for a similar entity to that being valued. If such Proposals exist and the entity being valued is directly comparable to that being acquired then the assets, revenue or earnings multiples, or other measures employed in the actual Proposal, can be utilised in the valuation.

The difficulty with this methodology is the sourcing of sufficient information involving the sale process to accurately analyse the consideration paid and to establish the comparability of the two businesses or entities.

Quoted price of listed shares

This methodology can be used on some listed companies and other private companies that are comparable. The methodology involves research on share prices, volumes, spreads, trading day and the company's capital. This is then analysed to determine whether the shares are reflective of market forces and publically available information. If so the values are used as an indication of the fair value of the company due to the operations of an efficient market which the ASX is taken to be.

Net assets or cost based

In the absence of positive or very poor cash flows or earnings, the net asset value of an entity can be a reasonable indication of the minimum value for that entity. This involves the determination of the net realisable value of the assets of the business or Company assuming an orderly realisation of those assets. This value includes a reduction in value to allow for the reasonable costs of carrying out the sale of assets and for the time value of money. It is not a valuation on the basis of a forced sale, where the assets might be sold at values materially different from their fair market value.

This approach is appropriate where the business or entity concerned is predominately a property or liquid investment entity, is not generating adequate returns and in certain circumstances where there are surplus non-operating assets.