



**NEXT SCIENCE LIMITED**  
**ACN 622 382 549**

**Notice of General Meeting  
to be held on 2 February 2023**

**and**

**Explanatory Memorandum  
for the Notice of General Meeting**

**and**

**Independent Expert's Report**

**THE INDEPENDENT EXPERT REPORT IS PREPARED BY NEXIA SYDNEY CORPORATE  
ADVISORY PTY LTD ABN 68 114 696 945 CONCLUDES THAT THE PROPOSED  
TRANSACTIONS ARE NOT FAIR BUT REASONABLE TO THE NON-ASSOCIATED  
SHAREHOLDERS OF THE COMPANY. PLEASE REFER TO THE INDEPENDENT EXPERT'S  
REPORT SET OUT IN SECTION D OF THIS NOTICE.**

**THIS DOCUMENT IS IMPORTANT AND REQUIRES  
YOUR IMMEDIATE ATTENTION.  
IF YOU ARE IN ANY DOUBT ABOUT THE ACTION YOU SHOULD TAKE  
PLEASE CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR  
OTHER PROFESSIONAL ADVISER.**

**NOTICE OF THE GENERAL MEETING TO BE HELD AT  
AT LEVEL 5, 1 MARGARET STREET, SYDNEY NEW SOUTH WALES AUSTRALIA AT  
10:00 AM SYDNEY TIME ON 2 FEBRUARY 2023**

**TO BE VALID, FORMS OF PROXY FOR USE AT THE GENERAL MEETING MUST BE  
COMPLETED AND RETURNED TO THE COMPANY NO LATER THAN  
7:00 PM SYDNEY TIME ON 31 JANUARY 2023.**

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## Section A Notice of General Meeting

NEXT SCIENCE LIMITED  
ACN 622 382 549

### NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the Shareholders of Next Science Limited (**Next Science** or the **Company**) will be held on **2 February 2023 at 10am** (Sydney time) at Level 5, 1 Margaret Street, Sydney New South Wales, Australia.

Defined terms used in this Notice of General Meeting have the meanings given to them in the Glossary accompanying this Notice of General Meeting.

#### **ITEMS FOR APPROVAL**

##### **Resolution 1 – Approval to Issue Convertible Notes to Walker Group Holdings Pty Limited**

To consider and, if thought fit, to pass the following **ordinary Resolution**:

*“That in accordance with ASX Listing Rule 10.1, section 611, item 7 of the Corporations Act, section 208 of the Corporations Act and for all other purposes, the Company be permitted and authorised to:*

- (i) *issue 10,000,000 Convertible Notes to Walker Group with a face value of \$10 million; and*
- (ii) *issue the maximum number of Shares that may be required to be issued on conversion of the 10,000,000 Convertible Notes (including interest), namely 14,566,210 Shares,*

*in accordance with the Secured Convertible Note Deed and General Security Agreement, as described in the Explanatory Memorandum (Section A ).”*

**Note:** Shareholders should carefully consider the Independent Expert’s Report prepared by Nexia Sydney Corporate Advisory for the purposes of the Shareholder approval required under section 611, item 7 of the Corporations Act and ASX Listing Rule 10.11. The Independent Expert’s Report comments on the fairness and reasonableness of the Proposed Transaction to the non-associated Shareholders. The Independent Expert has determined the Proposed Transaction is not fair but reasonable to the non-associated Shareholders of the Company.

*The Directors, with Mr Bruce Hancox abstaining because he is a director of Walker Group and therefore an Associate of Walker Group, recommend that Shareholders vote in favour of Resolution 1.*

#### **VOTING EXCLUSION STATEMENTS**

##### **Item 7 section 611**

In accordance with the voting restrictions of item 7 section 611 of the Corporations Act, no votes are cast in favour of Resolution 1, by:

- (a) the person proposing to make the acquisition, (namely, Walker Group) and their Associates (namely Auckland Trust Company and Mr Bruce Hancox) or any of their Associates; and

the persons (if any) from whom the acquisition is to be made and any their Associates; and

### **Listing Rule 10.1**

In addition, in accordance with the voting restrictions of ASX Listing Rule 14.11.1, the Company will disregard any votes cast in favour of Resolution 1 by or on behalf of:

- (a) Walker Group and its Associates (namely Auckland Trust Company and Mr Bruce Hancox); and
- (b) any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder of ordinary securities in the Company).

However, this does not apply to a vote cast in favour of a resolution by:

- (a) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
  - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
  - (ii) the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

### **ENTITLEMENT TO ATTEND AND VOTE**

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that persons who are registered holders of shares of Next Science as at 7:00 pm (Sydney time) on 31 January 2023 will be entitled to participate in and vote at the GM as a Shareholder.

If more than one joint holder of shares participates in the GM (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the register will be counted.

#### *How to Vote*

If you are a Shareholder entitled to participate and vote at the GM, you can vote your shares directly in one of the following ways:

- (i) by voting your shares online prior to the GM at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) using the details on the enclosed Voting Form;
- (ii) by completing Section A of the enclosed Voting Form and delivering the completed Voting Form to Next Science prior to the GM in accordance with the lodgement instructions below;
- (iii) by completing Section B of the enclosed Voting Form to appoint a proxy or nominee to vote on your behalf during the GM; or

- (iv) by joining the webcast and voting during the GM.

Shareholders should complete their voting directions by selecting 'for' or 'against' the item on the Voting Form. Do not complete the 'abstain' box if you are voting directly as it will result in an invalid vote. If no direction is given on an item or if Section A and Section B are both completed on the Voting Form, your vote may be passed to the Chair of the GM as your proxy. The Chair of the GM intends to vote all available undirected proxies in favour of each resolution.

#### *Proxies*

If you are a Shareholder entitled to participate and vote, you may appoint not more than two proxies proxies to participate and act on your behalf at the GM. A proxy need not be a Shareholder and can be an individual or a body corporate.

If a body corporate is appointed as a proxy, that body corporate must ensure that it appoints a corporate representative in accordance with section 250D of the *Corporations Act 2001* (Cth) (**Act**) to exercise its powers as proxy at the GM.

An appointment of proxy must be made by written notice to the Company that:

- complies with section 250A(1) of the Act; or
- is in a form and mode, and is signed or otherwise authenticated by the Shareholder in a manner, satisfactory to the Board.

If a Shareholder is entitled to cast two or more votes at the GM, the Shareholder may appoint one or two proxies. If two proxies are appointed, the appointing Shareholder may specify the proportion or number of their votes each proxy is appointed to exercise. In accordance with Rule 17.1 of the Company's Constitution, if no proportion or number is specified, each proxy may exercise half of the Shareholder's votes.

#### *Undirected proxies*

If the Chair of the meeting is appointed or taken to be appointed as a proxy and you do not specify in the Voting Form the manner in which you wish the Chair to vote on the resolution to be considered at the meeting, then by submitting your Voting Form you will be expressly authorising the Chair to exercise your proxy on the relevant resolution. The Chair intends to exercise all available votes in favour of the resolution.

#### *Power of Attorney*

If you are a Shareholder entitled to attend and vote, you may appoint an attorney to act on your behalf at the GM. Your appointment must be made by a duly executed power of attorney. The power of attorney (or a certified copy of it) must be received by Next Science no later than 10.00am (Sydney time) on 31 January 2023, being 48 hours before the GM.

#### *Corporate Representatives*

A body corporate which is a Shareholder, or which has been appointed as a proxy, is entitled to appoint any person to act as its representative at the GM. The appointment of the representative must comply with the requirements under section 250D of the Act. The representative should deliver to the Company prior to the GM, a properly executed letter or other document confirming its authority to act as the company's representative.

#### *Lodgement*

The Company encourages you to register your voting instructions in one of the ways below:

- by voting your shares online prior to the GM at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) using the details on the enclosed Voting Form;

- by voting prior to the GM by completing Section A of the enclosed Voting Form and returning the Voting Form to the Company in accordance with the lodgement instructions below; or
- by appointing a proxy to participate and act on your behalf at the GM by completing Section B of the Voting Form and returning the Voting Form to the Company in accordance with the lodgement instructions below; or
- by voting online during the GM via the webcast accessible on the following link: <https://meetings.linkgroup.com/NXSEG23> .

If you wish to vote prior to the GM, your Voting Form must be received by Next Science no later than 10.00am (Sydney time) on 31 January 2023 by one of the following methods:

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

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

**BY FAX**  
+61 2 9287 0309


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

To be valid, a Voting Form must be received by Next Science in the manner stipulated above. The Company reserves the right to declare invalid any Voting Form not received in this manner.

#### **Voting at the Meeting**

It is intended that voting on the proposed resolution at the GM will be conducted by a poll.

**By order of the Board:**



Gillian Nairn  
Company Secretary  
30 December 2022

## Section B Explanatory Memorandum

### EXPLANATORY MEMORANDUM

#### Introduction

This Explanatory Memorandum has been prepared in relation to the business to be conducted at the GM. The purpose of this Explanatory Memorandum is to provide Shareholders of Next Science (**Shareholders**) with information that is reasonably required by them to decide how to vote upon the resolution being put forward at the GM.

In addition, the Independent Expert's Report has been provided which contains an analysis of whether the issue of \$10million worth of Convertible Notes to Walker Group pursuant to Resolution 1 is fair and reasonable for Shareholders. The Independent Expert has concluded that the Proposed Transaction is not fair but reasonable for the Shareholders. A full copy of the Independent Expert's Report is set out in Section C of this Report.

This Explanatory Memorandum, as well as the Notice of General Meeting and Independent Expert's Report, should be read carefully and in their entirety.

Subject to the abstention by Mr Hancox noted below, the Directors recommend Shareholders vote in favour of Resolution 1 of the Notice of General Meeting (**Notice**). The Chair of the Meeting intends to vote all available undirected proxies in favour of Resolution 1.

Resolution 1 is an ordinary resolution which requires a simple majority of votes cast by Shareholders entitled to vote on the resolution.

#### 1. Resolution 1 - Approval of issue of Secured Convertible Notes to Walker Group Holdings Pty Limited

##### 1.2 Background

On 13 December 2022, Next Science entered into a Secured Convertible Note Deed to raise \$10,000,000.00 AUD (subject to Shareholder and Regulatory Approval). On 13 December 2022, Next Science also entered into a General Security Agreement with the Walker Group in relation to the security provided for the Convertible Notes to grant a PPSA Security Interest in, and to create a fixed and floating charge over, all of the Secured Property to secure Walker Group's interests created by the Secured Convertible Note Deed.

##### 1.3 Convertible Note Deed

Pursuant to the Secured Convertible Note Deed, the Convertibles have the following material terms and conditions:

(a) **Material terms and Conditions of Convertible Note Deed**

- (i) Face Value: A\$10,000,000;
- (ii) Term: 21 months from the receipt of funds;
- (iii) Security: a general security agreement over all assets of the Company;
- (iv) Conditions Precedent:

- (A) the Company having received all shareholder approvals and all regulatory approvals (in a form reasonably acceptable to Walker Group);
- (B) the Company having received all Board approvals for the issue (and subsequent conversion) of the Notes (in a form reasonably acceptable to Walker Group);
- (C) the Company delivering its duly executed counterpart of the General Security Deed to Walker Group (in a form acceptable to Walker Group); and
- (D) Walker Group obtaining all necessary approvals and consents in order to invest in the Notes.

In addition, Walker Group will not be obliged to subscribe for the Notes if up to the date on which the Walker Group is required to pay for the Notes, there has occurred any change (or any development or event involving a prospective change), in the condition (financial or other), prospects, results of operations or general affairs of the Company which is material and adverse in the context of the issue of the Notes.

- (v) Interest Rate: 10% simple interest per annum. If the Convertible Note converts to equity, the interest rate will halve and interest will be capitalised upon conversion. There will be one single and final “bullet” payment upon redemption such that there is no obligation for the Company to make interim or regular interest payments. Default interest of 12% is payable if the Company fails to pay any sum in respect of the Notes, the Secured Convertible Note Deed or the General Security Agreement when the same becomes due and payable.
- (vi) Conversion Price: A\$ 0.72 per Share. This is representative of the 30 day volume weighted average price (“VWAP”) of a Share to 30 November 2022;
- (vii) Notice of Conversion: Walker Group can give a notice of conversion to the Company at any time prior to 31 October 2023. If the Walker Group wish to convert the note, the Company must be given 3 months’ notice prior to conversion (unless the Company specifies a shorter notice period in writing);
- (viii) Right of Redemption: The Company has a right at any time to accelerate the termination of the Convertible Note by giving Walker Group sixty days’ notice for Walker Group, as follows:
  - (A) if the Company exercises this right on or prior to 31 October 2023, Walker can elect to either convert or redeem because the conversion window is still live; or
  - (B) from 1 November 2023 onwards, the conversion window has closed and therefore this right will simply be an acceleration of redemption;
- (ix) Events of Default: it is an event of default if any of the following occurs:



- (A) a default is made for more than 2 Business Days in the payment of any amount due in respect of the Notes, the Secured Convertible Note Deed or the General Security Agreement;
- (B) any financial indebtedness of the Company is not satisfied on time (or by the end of any applicable period of grace) or become prematurely due and payable as a result of an event of default or review event (however described);
- (C) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order;
  - (1) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes, the Secured Convertible Note Deed or the General Security Agreement;
  - (2) to ensure that those obligations are legally binding and enforceable,

is not taken, fulfilled or done and such default is not remedied within 10 days after written notice of such default shall have been given to the Company or the Company otherwise becoming aware;

- (D) a law or anything done by a government agency wholly or partially renders illegal, prevents or restricts the performance or effectiveness of Notes, the Secured Convertible Note Deed or the General Security Agreement or otherwise has a material adverse effect on the ability of the Company to meet its obligations in respect of the Notes, the Secured Convertible Note Deed or the General Security Agreement or on the validity or enforceability of the Notes, the Secured Convertible Note Deed or the General Security Agreement;
- (E) a person not in control of the Company on the date of the Secured Convertible Note Deed acquires control of the Company;
- (F) the Shares cease to be quoted, listed, admitted to trading or are suspended from trading (as applicable) on the market operated by the ASX Limited (ABN 98 008 624 691);
- (G) an insolvency event occurs in respect of the Company; or
- (H) the Company is in breach of the Notes, the Secured Convertible Note Deed or the General Security Agreement and the breach is not remedied within 20 Business Days of the earlier of the Company becoming aware of the breach or Walker Group gives written notice requesting the Company to do so.

If an event of default occurs, but only while it subsists, all monies owing are immediately due and payable and Walker Group's security over the Company and its assets is immediately enforceable under the General Security Agreement.

- (x) No voting rights: The Notes do not give any right vote to vote at a general meeting of Shareholders.
- (xi) No Dividends: The Notes do not give any rights to dividends.
- (xii) Not Transferable: The Notes are not transferrable
- (xiii) Shareholder participation prior to conversion expressly permitted: Walker Group has expressly agreed that if Walker elects to convert the Notes into Shares, the Company may undertake a capital raising by offering other Shareholders an opportunity to subscribe for Shares at the same share price (namely \$0.72 per Share) as the conversion.

(b) **General Security Agreement**

The General Security Agreement provides security to the Walker Group in relation to the Convertible Notes. The Company is to grant a PPSA Security Interest in, and to charge, all of its Secured Property in favour of the Walker Group.

(c) **Other terms and conditions**

The Note Deed and General Security Agreement contains other terms and conditions, include representations and warranties by the Company, as would ordinarily be found in agreements of its type.

#### 1.4 **Item 7 of section 611 of the Corporations Act**

(a) **Relevant interests**

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% to below 90%.

The voting power of a person in a company is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's Associates have a relevant interest.

A person has a relevant interest in securities if they:

- (i) are the holder of the securities;
- (ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (iii) have the power to dispose of or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Mr Walker has a relevant interest in Walker Group as its sole shareholder and a relevant interest in Auckland Trust Company as a beneficiary of Second Pacific Master Superannuation Fund.

(b) Exception to the section 606 prohibition

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition under section 606 of the Corporations Act. This exception provides that a person may acquire a relevant interest in a company's voting shares with Shareholder approval.

In order for the exemption of item 7 of section 611 of the Corporations Act to apply, Shareholders must be given all information known to the person making the acquisition or their Associates or the Company, that was material to the decision on how to vote on the resolution, including:

- (i) the identity of the person proposing to make the acquisition and their Associates;
- (ii) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition;
- (iii) the voting power that person would have as a result of the acquisition;
- (iv) the maximum extent of the increase in the voting power of each of that person's Associates that would result from the acquisition; and
- (v) the voting power that each of that person's Associates would have as a result of the acquisition.

For responses on these matters, see paragraph 2.4.

(c) Why Shareholder approval is required

At the date of this Notice the Company has 214,790,134 Shares on issue.

At the date of this Notice, Walker Group holds 27,602,250 Shares in the Company, approximately 12.85% of the total number of Shares on issue and Auckland Trust Company holds 56,019,938 Shares in the Company, approximately 26.08% of the total number of Shares on issue. Mr Bruce Hancox holds 460,000 Shares in the Company, approximately 0.21% of the total number of Shares on issue. Auckland Trust Company and Mr Bruce Hancox are both Associates of the Walker Group.

If Shareholder approval is given to the issue of the Convertible Notes, Walker Group will hold a total interest of 18.39% of the total number of Shares on issue (assuming no other Share issues take place); and the Walker Group and Auckland Trust Company will collectively hold a total 42.81% of the total number of Shares on issue. Walker Group and its Associates, namely, Auckland Trust Company and Mr Bruce Hancox will collectively hold 43.01% of Shares on issue.

This increase of the Walker Group and Auckland Trust Company's relevant interest in the Company from a starting point that is above 20% to below 90% is prohibited under section 606 of the Corporations Act. However, such issue would be permitted if prior Shareholder approval is granted for the issue of the Convertible Notes to the Walker Group in accordance with Resolution 1.

## 1.5 Information for Shareholders under item 7 of section 611 of the Corporations Act

The following information is provided to Shareholders for the purposes of the requirements under the Corporations Act in respect of obtaining Shareholder approval for item 7 of section 611 of the Corporations Act:

- (a) Walker Group is the entity proposing to make the acquisition (that is the persons who will be issued with the Convertible Notes that may convert or be exercised into Shares); and
- (b) if Walker Group convert all the Convertible Notes assuming no other Share issues take place:
  - (i) the maximum extent of the increase in voting power of Walker Group in its own right is 14,566,210 or 5.53% increase in voting power;
  - (ii) the voting power that Walker Group in its own right would have is 42,168,460 shares or 18.39% in voting power;
  - (iii) the maximum extent of the increase in the combined voting power of Walker Group and Auckland Trust Company is 14,566,210 shares or 5.53% increase in voting power;
  - (iv) the combined voting power that Walker Group and Auckland Trust Company and Mr Bruce Hancox would have is, 98,648 398 shares or 43.01% in voting power.

## 1.6 Dilution as a result of the Resolution 1

The effect of the Resolution 1 on the capital structure of the Company is as follows:

Total Shares on issue before Conversion	Maximum number of Shares into which the Convertible Notes may be converted	Total Shares on Issue after Conversion	Dilution %
214,790,134	14,566,210	229,356,344	6.35%

The share capital numbers that have been provided in this Notice of General Meeting are based on what the Directors believe is the information material to the Shareholder's decision whether or not to approve the Resolution and have been calculated on an undiluted basis. The Company currently has 2,812,000 options on issue that have various exercise prices and expiry dates. If some or all of these options are exercised, they would reduce how much the voting power of Walker Group increases upon conversion of the Convertible Notes. In addition, the Secured Convertible Note Deed expressly acknowledges that if the Notes are converted by Walker Group, the Company intends to offer all shareholders the opportunity to participate in a capital raising to acquire a number of Shares at the conversion price.

## 1.7 Information for Shareholders required by RG 74

Further information required by ASIC Regulatory Guide 74 (**RG 74**) is set out in the following paragraphs.

(a) *an explanation of the reasons for the proposed acquisition*

The Company is not yet cashflow positive and requires further external funds. If the Shareholders approve the Proposed Transaction, the \$10 million received will be used for will be used to strengthen the cash position, support accelerated commercialisation in the US market and for general working capital purposes. Whilst the Board considered alternative forms of capital raising, the Proposed Transaction was preferred for the following reasons:

- (A) the certainty of availability of funds dealing with one party that is known to the Company rather than seeking to raise funds from the capital markets at a time of economic uncertainty and limited availability of funds to companies that are not cashflow positive at a significant discount;
- (B) the Conversion Price of \$0.72 per Share is representative of the 30 day volume weighted average price for the Company's Shares and is not subject to a percentage discount;
- (C) whilst the Company has been required to provide security under the terms of the Secured Convertible Note Deed in accordance with the General Security Agreement, it has negotiated a period of approximately 12 months from when the ability to convert lapses to when the Convertible Notes must be redeemed and repaid; and
- (D) the Company has the flexibility to request that Walker Group chooses to either converts or redeems the Convertible Note, prior to 31 Oct 2023, depending on-the Company's performance;

(b) *when the proposed acquisition is to occur*

The Company intends to issue the Convertible Notes on the 5th business day after the date of Shareholder approval of the Convertible Notes.

(c) *the material terms of the proposed acquisition*

This information is set out in some detail in Paragraph 2.2.

(d) *details of the terms of any other relevant agreement between the acquirer and the target entity or vendor (or any of their associates) that is conditional on (or directly or indirectly depends on) members' approval of the proposed acquisition*

This information is set out in some detail in Paragraph 2.2.

Other than as set out above, there is no other contract or proposed contract between Walker Group or any of its Associates and the Company, which is conditional upon, or directly or indirectly dependent on Shareholders' agreement to the issue of the Convertible Notes to the Walker Group.

(e) *a statement of the acquirer's intentions regarding the future of the target entity if members approve the acquisition and, in particular:*

(i) *any intention to change the business of the entity*

Walker Group have no present intention to change the business of the Company.

- (ii) *any intention to inject further capital into the entity*

Walker Group have no present intention to inject any further capital into the Company as at the date of this Notice.

- (iii) *the future employment of present employees of the entity*

Walker Group have no present intention to make any changes to the employment arrangements of the present employees of the Company.

- (iv) *any proposal where assets will be transferred between the entity and the acquirer or vendor or their associates*

Walker Group have no present intention to transfer any assets between the Company and Walker Group or any person associated with them.

- (v) *any intention to otherwise redeploy the fixed assets of the entity*

Walker Group have no present intention to redeploy the fixed assets of the Company.

- (f) *any intention of the acquirer to significantly change the financial or dividend distribution policies of the entity*

Walker Group have no present intention to change significantly the financial or dividend policies of the Company.

- (g) *the interests that any director has in the acquisition or any relevant agreement disclosed under RG 74.25(d)*

Mr Hancox has been a financial advisor to interests of Mr Langley Walker since 2008. He serves as a director of investments and wealth management at Walker Group Holdings Pty Limited and works with the Walker group of companies to pursue investment opportunities outside the property market.

Accordingly, Mr Hancox has elected to abstain from voting on this resolution as his association with Walker Group Holdings Pty Limited may be perceived to influence his capacity to bring an independent judgment to bear and to act in the best interests of Next Science and its security holders generally in respect of this resolution.

- (h) *the following details about any person who is intended to become a director if members approve the acquisition:*

There is no right to nominate a director.

## 1.8 Independent Expert's Report

In accordance with the requirements of RG 74, the Directors engaged the Independent Expert to prepare and provide the Independent Expert Report which contains an analysis of whether the proposed issue of the Convertible Notes is fair and reasonable for non-associated Shareholders.

The Independent Expert has concluded that the proposed issue of the Convertible Notes is not fair but reasonable to the non-associated Shareholders of the Company. For a summary of the Independent Expert's findings please refer to pages 3 - 4 of the Independent Expert's Report.

The Independent Expert has given, and not before the date of the Notice withdrawn, its consent to the inclusion of the Independent Expert's Report in Section C of this document and to the references to the Independent Expert Report in this Explanatory Memorandum being made in the form and context in which each such reference is included.

## 1.9 **ASX Listing Rule 10.11**

ASX Listing Rule 10.11 provides that, unless an exception in ASX Listing Rule 10.12 applies, a listed entity must not issue or agree to issue equity securities to a person who is, or was at any time in the 6 months before the issue or agreement, a substantial (30%+) holder in the entity or to an associate of such a person, unless the entity obtains the approval of its holders of ordinary securities. Exception 6 in ASX Listing Rule 10.12 provides that an issue of securities approved for the purposes of item 7 of section 611 of the Corporations Act is an exception to the requirement to obtain shareholder approval under ASX Listing Rule 10.11.

## 1.10 **ASX Listing Rule 10.1**

Under the terms of the Secured Convertible Note Deed, the Company is required to enter into a General Security Agreement, which grants security over all of the assets of the Company as collateral. The granting of security by an entity over any of its assets to secure a debt or obligation is regarded as a disposal of those assets by the entity for the purposes of Listing Rule 10.1. As the General Security Agreement's collateral exceeds the value of 5% of the equity interests of the Company as set out in the latest accounts given to the ASX under the listing rules, the granting of the security as required by the Secured Convertible Note Deed and pursuant to the General Security Agreement will require Shareholder approval for the Proposed Transaction under Listing Rule 10.1.

The specific disclosure requirements for resolutions under Listing Rule 10.1 are summarised below:

Next Science Limited is proposing to issue Convertible Notes to Walker Group under the Proposed Transaction.

Listing Rule 10.1 provides that a listed company must not acquire or agree to acquire a substantial asset from, or dispose of or agree to dispose of a substantial asset to:

- 10.1.1 a related party;
- 10.1.2 a child entity;
- 10.1.3 a person who is, or was at anytime in the 6 months before the transaction, a substantial (10%) holder in the company;
- 10.1.4 an associate of a person referred to in Listing Rules 10.1.1 to 10.1.3; or
- 10.1.5 a person whose relationship with the company or a person referred to in Listing Rules 10.1.1 to 10.1.4 is such that, in ASX's opinion the issue or agreement should be approved by shareholders.

unless it obtains the approval of its shareholders.

The transaction falls within Listing Rule 10.1.1 and Listing Rule 10.1.3 and involves the disposal of a substantial asset. It therefore requires the approval of Next Science Limited's shareholders under Listing 10.1.

Resolution 1 seeks the required shareholder approval to the Transaction under and for the purpose of Listing Rule 10.1.

If Resolution 1 is passed, Next Science will be able to proceed with the Proposed Transaction and issue the Convertible Notes to the Walker Group.

If Resolution 1 is not passed, the Company will seek alternative forms of equity and debt financing that may or may not be on as attractive terms as the Proposed Transaction. If the Company cannot attract alternative forms of financing, it will need to significantly curtail its operations and undertake a strategic review as it is currently not cashflow positive.

For the purposes of Listing Rule 10.1 the following information is provided to Shareholders:



- (a) *the name of the person from whom the entity is acquiring the substantial asset or to whom the entity is disposing of the substantial asset:*

Walker Group.

- (b) *which category in Listing Rules 10.1.1 – 10.1.5 the person falls within and why;*

Listing Rule 10.1.3 applies because Walker Group holds more than 10% of the Shares on issue in the Company.

- (c) *details of the asset being acquired or disposed of;*

all assets of the Company are being provided as security as required by the terms of the Secured Convertible Note Deed in accordance with the General Security Agreement.

- (d) *the consideration for the acquisition or disposal;*

\$10 million worth of Convertible Notes.

- (e) *in the case of an acquisition, the intended source of funds (if any) to pay for the acquisition;*

not applicable

- (f) *in the case of a disposal, the intended use of funds (if any) received for the disposal;*

If the Shareholders approve the Proposed Transaction, the \$10 million received will be used to strengthen the cash position, support accelerated commercialisation in the US market and for general working capital purposes.

- (g) *the timetable for completing the acquisition or disposal;*

If the Shareholders approve the Proposed Transaction, the Company will issue the Convertible Notes on 5 business days after the date of the Meeting.

- (h) *if the acquisition or disposal is occurring under an agreement, a summary of any other material terms of the agreement;*

Please see Section 1.3 of the Explanatory Memorandum above.

- (i) *A voting exclusion statement; and*

Please see Section B of the Notice of General Meeting.

- (j) *a report on the transaction from an independent expert.*

Please see Section E of the Notice of General Meeting.

## 1.11 Recommendation of the Directors

The Directors (other than Mr Hancox, who abstained) approved the proposal to put Resolution 1 to Shareholders for their approval.

The Board has carefully considered the advantages and disadvantages and evaluated their relative weight in the circumstances of the Company. The Board (other than Mr Hancox, who abstained) believes that the sum of the advantages outweighs the sum of the disadvantages and that the issue of the Convertible Notes to the Walker Group is in the best interests of existing Shareholders as a whole for the reasons set out in this Explanatory Memorandum and the Independent Expert's Report.

Mr Hancox has abstained from giving his recommendation and will abstain from voting on Resolution 1 because of his association with Mr Walker and Walker Group Holdings Pty Limited.

All the directors (other than Mr Hancox, who will abstain) intend to vote in favour of Resolution 1 and recommend Shareholders vote in favour of Resolution 1.

## Section C      Glossary

### DEFINITIONS

The following definitions are used in the Notice of General Meeting and the Explanatory Memorandum:

<b>ASIC</b>	means the Australian Securities & Investments Commission.
<b>Associate</b>	has the meaning given to that term in sections 10 to 17 of the Corporations Act.
<b>ASX</b>	means ASX Limited ACN 008 624 691 or the securities exchange market operated by the ASX, as the context requires.
<b>ASX Listing Rules or Listing Rules</b>	means the official listing rules issued and enforced by the ASX, as amended from time to time.
<b>Auckland Trust Company</b>	means Auckland Trust Company Limited ATF the Second Pacific Master Superannuation Fund.
<b>Board or Board of Directors</b>	means the board of Directors of the Company.
<b>Business Day</b>	means a day which is not a Saturday, Sunday or public holiday in Sydney.
<b>Chair</b>	means the chair of the Company, who is currently Professor Mark Compton AM.
<b>Company or NXS</b>	means Next Science Limited ACN 622 382 549.
<b>Constitution</b>	means the constitution of the Company, as amended from time to time.
<b>Convertible Note</b>	means the Convertible Notes issued under the Convertible Note Deed.
<b>Convertible Note Deed or Secured Convertible Note Deed</b>	means the \$10 million Secured Convertible Note Deed dated 13 December 2022.

<b>Corporations Act</b>	means <i>Corporations Act 2001</i> (Cth).
<b>Directors</b>	means the directors of the Company.
<b>Explanatory Memorandum</b>	means the explanatory memorandum set out in Section A of this document.
<b>General Meeting or GM</b>	means the general meeting of the Company to be held on 2 February 2023 pursuant to the Notice of General Meeting.
<b>Independent Expert</b>	means Nexia Sydney Corporate Advisory Pty Ltd of Level 16, 1 Market Street, Sydney NSW 2000.
<b>Independent Expert's Report</b>	means the expert report prepared by the Independent Expert and set out in Section C of this document.
<b>Notice of General Meeting or Notice</b>	means the notice of General Meeting set out in Section C of this document.
<b>Other Property</b>	means all of the present and after-acquired (and other future) undertaking, assets, rights and interests of the Company including all real and personal property, things in action, goodwill, uncalled and called but unpaid capital wherever located other than Personal Property.
<b>Personal Property</b>	means all of the present and after-acquired (and other future) personal property of the Company (but excluding interests in personal property to which PPSA does not apply).
<b>PPSA</b>	means the <i>Personal Property Securities Act 2009</i> (Cth).
<b>Proposed Transaction</b>	means the entering into and performance of the Secured Convertible Noted Deed and General Security Agreement in relation to the issue of \$10 million worth of Convertible Notes.
<b>Resolution</b>	means a resolution passed by the requisite majority of Shareholders of the Company on a show of hands or by the requisite majority of votes given on a poll.
<b>Secured Property</b>	means the Personal Property and the Other Property.

<b>Security Agreement or General Security Agreement</b>	means the general security agreement entered into by Walker Group and the Company dated 13 December 2022.
<b>Share</b>	means a fully paid ordinary share in the issued capital of the Company and Shares means any two or more of them.
<b>Shareholder</b>	means a holder of a Share.
<b>Walker Group</b>	means Walker Group Holdings Pty Limited ACN 001 215 069.

## **INTERPRETATION**

For the purposes of interpreting the Explanatory Memorandum and the Notice of General Meeting:

- (a) the singular includes the plural and vice versa;
- (b) words importing any gender include both genders;
- (c) reference to any statute, ordinance, regulation, rule or other law includes all regulations and other instruments and all consolidations, amendments, re-enactments or replacements for the time being in force;
- (d) all headings, bold typing and italics (if any) have been inserted for convenience of reference only and do not define limit or affect the meaning or interpretation of the Explanatory Memorandum and the Notice of General Meeting;
- (e) reference to persons includes bodies corporate and government authorities and in each and every case, includes a reference to the person's executors, administrators, successors, substitutes (including without limitation persons taking by novation and assignment); and
- (f) reference to **A\$, AU\$, Australian Dollars** or **dollars** is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia.

## **Section D**      **Independent Expert's Report**

**Next Science Limited**

Issue of convertible notes to raise A\$10 million

Independent Expert's Report  
and Financial Services Guide

13 December 2022

**In our opinion the Proposed  
Transaction is not fair but reasonable  
to the Next Science shareholders.**

## **FINANCIAL SERVICES GUIDE**

**Dated: 13 December 2022**

### **What is a Financial Services Guide ("FSG")?**

This FSG is designed to help you decide whether to use any of the general financial product advice provided by Nexia Sydney Corporate Advisory Pty Ltd ABN 68 114 696 945 ("NSCA"), a corporate authorised representative of Nexia Sydney Financial Solutions Pty Ltd ("NSFS"), Australian Financial Services Licence Number 247300 ("AFSL").

This FSG includes information about:

- NSCA and how they can be contacted
- the services NSCA is authorised to provide
- how NSCA are paid
- any relevant associations or relationships of NSCA
- how complaints are dealt with as well as information about internal and external dispute resolution systems, and how you can access them; and
- the compensation arrangements that NSCA has in place.

Where you have engaged NSCA we act on your behalf when providing financial services. Where you have not engaged NSCA, NSCA acts on behalf of our client when providing these financial services and are required to provide you with a FSG because you receive a report or other financial services from NSCA.

### **Financial Services that NSCA is authorised to provide**

NSCA is a corporate authorised representative of NSFS, which holds an AFSL authorising it to provide, amongst other services, financial product advice for securities and interests in managed investment schemes, including investor directed portfolio services, to retail clients.

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products.

### **NSCA's responsibility to you**

NSCA has been engaged by the independent directors of Next Science Limited ("Next Science" or the "Client") to provide general financial product advice in the form of an independent expert's report to be included in the Notice of Meeting ("Document") sent to Next Science shareholders dated on or about 30 December 2022 ("Report").

You have not engaged NSCA directly but have received a copy of the Report because you have been provided with a copy of the Document. NSCA or the employees of NSCA are not acting for any person other than the Client.

NSCA is responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.



**General Advice**

As NSCA has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Scheme.

**Fees NSCA may receive**

NSCA charges fees for preparing Reports. These fees will usually be agreed with, and paid by the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay NSCA \$37,500 (excluding GST and out of pocket expenses) for preparing the Report. NSCA and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of this Report.

**Referrals**

NSCA does not pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

**Associations and Relationships**

Through a variety of corporate and trust structures NSCA is controlled by and operates as part of the Nexia Sydney Group Pty Ltd. NSCA's directors and authorised representative may be directors in the Nexia Sydney Group Pty Ltd group entities ("Nexia Sydney Group"). Mr Brent Goldman, authorised representative of NSFS and director of Nexia Sydney Group Pty Ltd, has prepared this Report. The financial product advice in the Report is provided by NSCA and not by the Nexia Sydney Group.

From time to time NSCA, the Nexia Sydney Group and related entities ("Nexia entities") may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

Over the past two years no professional fees have been received from the Client.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Proposed Transaction.

**Complaints Resolution**

If you have a complaint, please let NSFS know. Formal complaints should be sent in writing to:

Nexia Sydney Financial Solutions Pty Ltd  
Head of Compliance  
PO Box H195  
Australia Square NSW 1215

If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer, Craig Wilford, on +61 2 9251 4600 and he will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

### **External Complaints Resolution Process**

If NSFS cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Australian Financial Complaints Authority ("AFCA"). AFCA is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website [www.afca.org.au](http://www.afca.org.au) or by contacting them directly at:

Australian Financial Complaints Authority Limited  
GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 56 55 62  
Facsimile (03) 9613 6399  
Email: [info@afca.org.au](mailto:info@afca.org.au)

The Australian Securities and Investments Commission also has a free call infoline on 1300 300 630 which you may use to obtain information about your rights.

### **Compensation Arrangements**

NSCA has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details  
You may contact NSCA at:

**Nexia Sydney Corporate Advisory Pty Ltd**  
**PO Box H195**  
**Australia Square NSW 1215**

13 December 2022

The Directors  
Next Science Limited  
The Zenith Building  
Tower A, Suite 1902  
Level 19  
821 Pacific Highway  
Chatswood NSW 2067

Dear Sirs,

## **Independent Expert's Report on the issue of convertible notes to raise \$10 million**

### **1. OUTLINE OF THE TRANSACTION**

On 13 December 2022 Next Science Limited ("Next Science" or the "Company") (together with its subsidiaries the "Group") entered into a secured convertible note agreement ("Secured Convertible Note Deed") with Walker Group Holdings Pty Limited ("Walker Group") to issue 10 million convertible notes at a face value of A\$1 per note ("Convertible Notes") to raise A\$10 million.

Pursuant to the Secured Convertible Note Deed, Next Science proposes to grant security over the Company and all of the Company's property ("Security"), in order to secure payment of the outstanding amount of the convertible notes and any accrued interest in relation to the Convertible Notes.

If Walker Group elects to convert the Convertible Notes, the face value of each note plus accrued interest will be converted into ordinary shares at A\$0.72 a share.

The notes have a maturity date of 21 calendar months from the issue date unless otherwise agreed and may be converted by Walker Group at any time until 31 October 2023. If Walker Group elects to convert the Convertible Notes, each note accrues interest at a rate of 5% per annum, otherwise, the interest rate is 10% per annum if not converted.

The Company can request Walker Group to either redeem or convert the notes at any time from issue until 31 October 2023. The choice to either redeem or convert upon receipt of a notice remains with Walker Group.

If converted, the intention of the Company, and acknowledged by Walker Group, is that before conversion the Company will offer to the existing shareholders the opportunity to acquire a number of shares at \$0.72 a share.

The minimum number of ordinary shares that will be issued upon conversion of the Convertible Notes assuming immediate conversion following the issue date is 13,888,889 ordinary shares. The maximum number of ordinary shares that will be issued upon conversion of the Convertible Notes assuming conversion on 31 January 2024 and interest accrued from 9 February 2023 at 5% per annum is 14,566,210 ordinary shares.

The conversion of the Convertible Notes will result in Walker Group and its associates increasing their voting power from 39.15% to a minimum of 42.84% and a maximum of 43.01% of the issued ordinary shares of Next Science (the "Proposed Transaction").

## **2. PURPOSE OF REPORT**

The purpose of this Report is to advise the shareholders of Next Science on the fairness and reasonableness of the Proposed Transaction.

Under s606 of the Corporations Act, a transaction that would result in an entity and its associates increasing their voting power in an entity from:

- 20% or below to greater than 20%; or
- a position above 20% and below 90%

is prohibited without making a takeover offer to all shareholders unless an exemption applies.

Item 7 of s611 of the Corporations Act provides an exemption from the above if the transaction is approved by shareholders in a general meeting.

Walker Group and its associates own 39.15% of the ordinary share capital (and associated voting power) prior to the Proposed Transaction. If the Proposed Transaction is completed, Walker Group and its associates will hold a maximum voting interest of 43.01% of the issued ordinary shares in Next Science upon conversion of the Convertible Notes into ordinary shares of the Company. As Walker Group and its associates' voting power increases from a position above 20% to a position less than 90% the transaction requires shareholder approval.

The Australian Securities and Investments Commission ("ASIC") has issued Regulatory Guide 74: Acquisitions approved by members ("RG 74") that sets out the material disclosure requirements to shareholders when seeking their approval under item 7 of s611 of the Corporations Act. As part of the disclosure requirements, ASIC requires a detailed analysis of the transaction that complies with Regulatory Guide 111: Content of experts Report ("RG111"). This can either be undertaken by the directors if they believe they have sufficient skill and expertise or an independent expert.

Australian Securities Exchange ("ASX") Listing rule 10.1 prohibits a listed entity from acquiring a substantial asset from, or disposing of a substantial asset to, an entity that is in a position of significant influence without the approval of its shareholders.

An entity that is in a position of significant influence specifically includes any related party to the listed entity and any substantial shareholder. A related party includes companies with common directors and a substantial shareholder includes a shareholder, and its associates, with a relevant interest in at least 10% of the issued voting shares in the listed entity. An asset is substantial if its value, or the consideration being paid, is 5% or more of the listed entity's equity as set out in the accounts lodged with the ASX.

Walker Group and its associates are in a position of significant influence over Next Science through the ownership of 39.15% of the Company's ordinary share capital prior to the Proposed Transaction and the issue of shares to Walker Group under the Secured Convertible Note Deed is deemed to be the disposal of a substantial asset to which Listing Rule 10.1 applies.

ASX Listing Rule 10.10.2, requires that a notice of meeting under Listing Rule 10.1 must be accompanied by an independent expert's report stating whether in the expert's opinion the transaction is fair and reasonable to the shareholders not associated with the transaction.

Consistent with the requirement under ASX Listing Rule 10.10.2 the Directors of Next Science have requested Nexia Sydney Corporate Advisory Pty Ltd to prepare an independent expert's report, the purpose of which is to provide an independent opinion as to whether or not the Proposed Transaction is fair and reasonable to Next Science's shareholders.

### 3. SUMMARY AND OPINION

This section is a summary of our opinion and cannot substitute for a complete reading of this Report. Our opinion is based solely on information available as at the date of this Report.

The principal factors that we have considered in forming our opinion are summarised below.

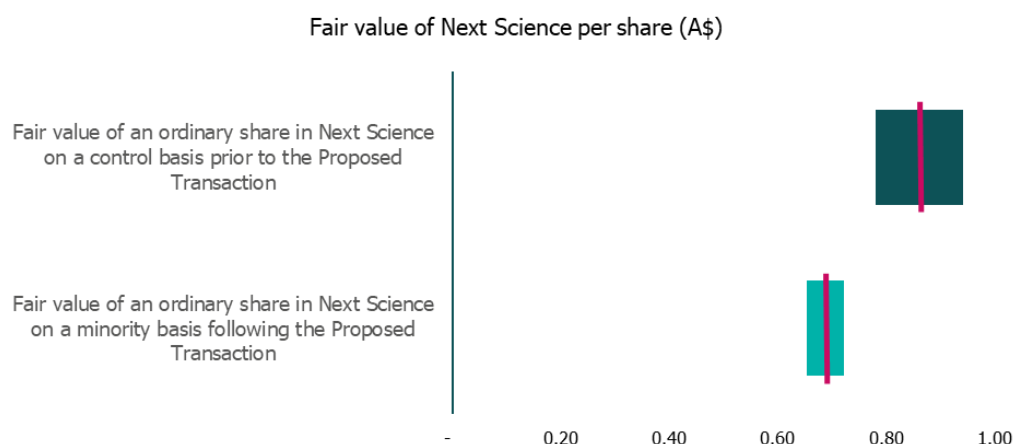
#### 3.1 Assessment of Fairness

As discussed in section 4, in determining whether the transaction is fair to Next Science shareholders, we have compared the fair value of an ordinary share in Next Science on a control basis prior to the Proposed Transaction to the fair value of an ordinary share in Next Science on a minority basis after the Proposed Transaction. This is summarised below:

A\$	Low	Mid	High
Fair value of an ordinary share in Next Science on a control basis prior to the Proposed Transaction	0.78	0.86	0.94
Fair value of an ordinary share in Next Science on a minority basis following the Proposed Transaction on a minority basis	0.65	0.69	0.72

*Source: Nexia assessment*

The above valuation ranges are graphically presented below:



As the fair value of an ordinary share in Next Science following the Proposed Transaction is less than the fair value before the Proposed Transaction, **we have concluded that the Proposed Transaction is not fair.**

### 3.2 Assessment of Reasonableness

In accordance with RG 111, a transaction is reasonable if:

- the transaction is fair; or
- despite not being fair, but considering other significant factors, shareholders should obtain an overall benefit if the transaction proceeds.

In forming our opinion, we have considered the following relevant factors (see section 11).

Advantages	Disadvantages
<p>The Proposed Transaction will provide the Group with additional funding to continue to develop and commercialise its products.</p> <p>If converted, then the Group will not be required to repay the funds.</p>	<p>If the convertible notes are converted to ordinary shares, Walker Group and its associates will have a minimum interest of 42.84% and a maximum interest of 43.01% in Next Science giving it significant influence.</p>
<p>If the Group is able to redeem the convertible notes shareholder dilution will not occur.</p>	
<p>If the notes are converted, the Company intends, and Walker Group has agreed, before conversion to offer the existing shareholders the opportunity to acquire a number of shares at \$0.72 a share reducing their potential dilution.</p>	

The directors advised that they have considered alternative sources of equity or debt financing. However, the Proposed Transaction was considered to have the best probability to raise the required funds.

The directors advised that if the Proposed Transaction does not proceed, the Group will seek alternative forms of equity and debt financing that may or may not be on as attractive terms as the Proposed Transaction. If the Company cannot attract alternative forms of financing, it will need to significantly curtail its operations and undertake a strategic review, as it is currently not cashflow positive

Taking into consideration the matters above, **we have concluded that the Proposed Transaction is reasonable**

### **3.3 Opinion**

**Accordingly, in our opinion, the Proposed Transaction is not fair but reasonable to the non-associated shareholders.**

The ultimate decision on whether to approve the Proposed Transaction should be based on shareholders' own assessment of their circumstances. We strongly recommend that shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Notice of Meeting, and consider their own specific circumstances before voting in favour of or against the Proposed Transaction.

Yours faithfully

**Nexia Sydney Corporate Advisory Pty Ltd**



**Brent Goldman**

Director

(Authorised Representative of Nexia Sydney Financial Solutions Pty Ltd, AFSL 247300)

## **STRUCTURE OF REPORT**

Our Report is set out under the following headings:

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#### **4. BASIS OF EVALUATION**

RG 74, RG 76 and RG111 provide guidance as to matters that should be considered in determining whether a transaction is fair and reasonable in a range of circumstances.

RG 74, RG 76 and RG 111 state that in deciding an appropriate form of analysis, the expert needs to consider that the main purpose of the Report is to deal with the concerns that could reasonable be anticipated by those persons affected by the transaction. An expert should focus on the purpose and outcome of the transaction; that is the substance of the transaction, rather than the legal mechanism used to affect the transaction.

RG 111 requires analysis of a transaction under two distinct criteria being:

- is the offer 'fair'?; and
- is it reasonable?

That is the opinion of fair and reasonable is not considered as a compound phrase.

In determining what is fair and reasonable for a control transaction, RG 111 states that:

- an offer is fair if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer, assuming a 100% interest of the target and irrespective of whether consideration is cash or scrip; and
- an offer is reasonable if it is fair, or if the offer is not fair, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of a higher bid before the close of an offer.

In determining whether the transaction is fair, the fair value is assumed to be based on a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

For the purpose of considering whether or not the Proposed Transaction is fair we have compared the fair value of a share in Next Science on a control basis prior to the Proposed Transaction to the fair value of a share in Next Science on a minority basis after the Proposed Transaction.

In our assessment of the reasonableness of the Proposed Transaction, our consideration has included the following matters:

- Walker Group and its associates' pre-existing voting power in securities in Next Science;
- other significant security holding blocks in Next Science;
- the liquidity of the market in Next Science's securities;
- taxation losses, cash flow or other benefits through achieving 100% ownership of Next Science;
- any special value to Next Science, such as technology, the potential to write-off outstanding loans from Next Science, etc;
- the likely market price if the Proposed Transaction does not proceed;
- the value to an alternate bidder and the likelihood of an alternative bid being made;
- the financial situation and solvency of Next Science, including the benefits of receiving cash consideration;

- opportunity costs;
- the alternative options available to Next Science and the likelihood of those options occurring;
- Next Science's bargaining position;
- whether there is any selective treatment of any security holder, particularly Walker Group and its associates;
- the liquidity of the market in Next Science's securities; and

#### **4.1 Individual shareholders' circumstances**

The ultimate decision whether to approve the Proposed Transaction should be based on each shareholder's assessment of the Proposed Transaction, including their own risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Proposed Transaction or matters dealt with in this Report, shareholders should seek independent professional advice.

#### **4.2 Limitations on reliance on information**

The documents and information relied on for the purposes of this Report are set out in Appendix B. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that documents and material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is fair and reasonable to the shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit or extensive examination might disclose.

We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles.

An important part of the information used in forming an opinion of the kind expressed in this Report is the opinions and judgement of Directors and management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

NSCA are not the auditors of Next Science. We have analysed and reviewed information provided by the Directors and management of Next Science and made further enquiries where appropriate. Preparation of this Report does not imply that we have in any way audited the accounts or records of Next Science.

In forming our opinion we have assumed:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Notice of Meeting to be sent to shareholders is complete, accurate and fairly represented in all material respects; and
- the publicly available information relied upon by NSCA in its analysis was accurate and not misleading.

This Report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this Report which may impact upon this Report or which may impact upon the assumptions referred to in the Report.

## 5. OVERVIEW OF NEXT SCIENCE

### 5.1 Background

Next Science, founded in 2012, is an Australian medical technology company that has been listed on the Australian Securities Exchange ("ASX") since 18 April 2019.

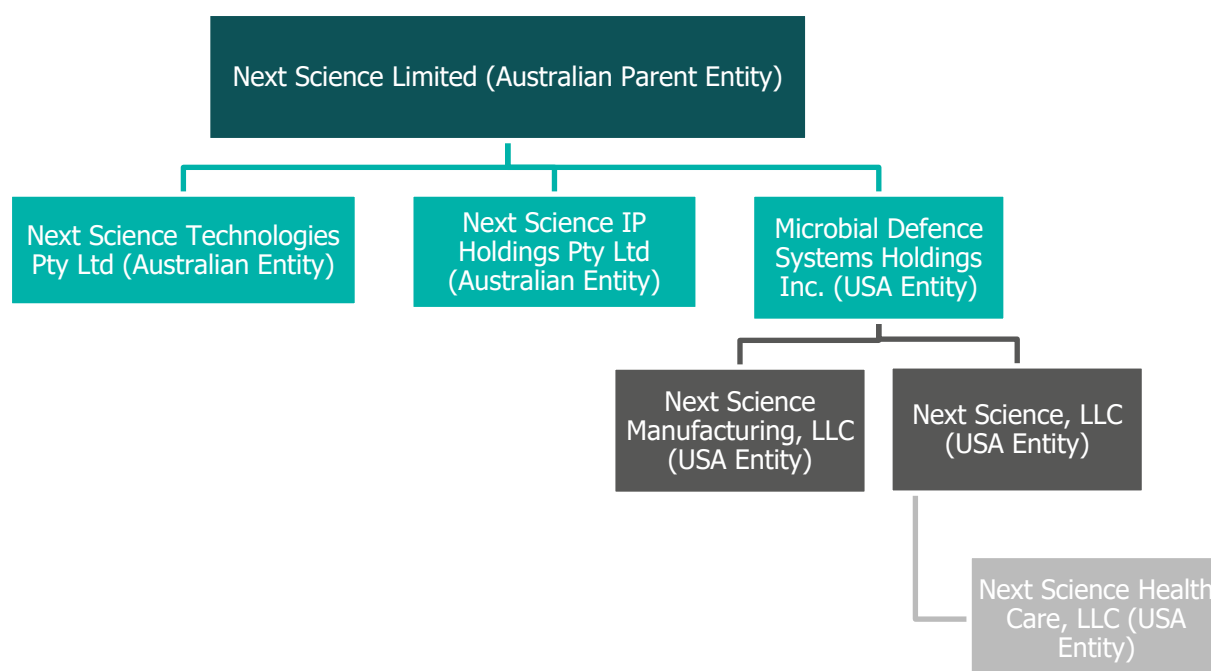
Next Science and its subsidiaries (the "Group") research, develop and commercialise non-toxic technology products with efficacy in eradicating bio-film based and free floating bacteria. The products are developed with the use of its registered trademark XBIO technology to deconstruct biofilm, destroy pathogens enveloped within the XBIO technology and then defend against recolonisation.

Products developed by Next Science are focused on wound care and surgical infection control. The development of surgical infection control products is a core part of Next Science's future growth strategy. Next Science sells some of its products through strategic partnerships, which are explained in more detail below.

In October 2022, Next Science became an accredited durable medical equipment (DME) provider, which will enable the further advancement of the company's wound care products in the market. The sale of Collagen and later Collagen infused with Blast X is another key part of Next Science's growth plan for the future.

### 5.2 Legal Structure

The Group's group structure is shown in the graph below. All companies are wholly owned subsidiaries of the parent company, with Next Science as the ultimate parent company. Next Science Technologies Pty Ltd ("NSTPL") and Next Science, LLC ("NSLLC") are the two main trading entities of Next Science.



## **5.3 Operations**

### **5.3.1 Operating locations**

Next Science's operations are split between Australia and the US in line with the group structure detailed above. Although Next Science has global distribution agreements in place, its revenue is primarily from the US market. The US performance is therefore the key business driver and the immediate growth plans of Next Science are primarily focused on the increased penetration and expansion of its product range within the US market.

During the six months to 30 June 2022, the US operations represented 98.9% of the Group's revenue.

### **5.3.2 Next Science products**

- Bactisure Surgical Lavage: Elimination of surgical site infections. Bactisure is Next Science's first commercial product which has been sold in the US market since March 2017.
- BlastX Antimicrobial Wound Gel: Treatment of chronic wounds, bedsores and ulcers. BlastX was Next Science's second product to be commercialised, also launched to the US market in 2017.
- TridentX: Site preparation for tissue grafts in chronic wounds. Sales commenced in June 2022 following the signing of a distribution agreement with Convatec.
- SurgX: Prevents surgical site infection on surgical closures. SurgX launched in the US market in 2018 after receiving the required regulatory approval in September 2018.
- Acne Treatments: Treats acne and breakouts, first launched to the Australian market in 2019.
- XPERIENCE: A no rinse surgical solution that prevents surgical site infection and is designed for use in cleansing and removal of debris, including microorganisms from wounds. XPERIENCE was taken to market in April 2021 and is currently one of Next Science's core products.
- Collagen-related products: On 18 October 2022, NSLLC established itself as a Durable Medical Equipment entity and commenced selling Collagen related products to patients of physicians at wound care and podiatry centres in the US.

### **5.3.3 Key distribution partners**

Next Science sells its products directly to commercial and private hospitals, wound care and podiatry centres or through distribution agreements with key partners.

Zimmer Biomet and 3M were Next Science's two major distribution partners. In FY2020, revenue through the distribution of these two distributors was 91%. It reduced to 78% in FY2021 due to the global distribution rights to Blast-X being transitioned back to Next Science from 3M in the first half of FY2021. A summary of key sales channels include:

- Commercial and private hospitals: XPERIENCE, Blast X and Surg X are sold directly by Next Science's in house sales team and sales agents in US hospitals and ambulatory centres.
- Wound care clinics and podiatry centres: Collagen is prescribed to patients in the US market and reimbursed through Medicare and other insurance providers.
- 3M: In March 2021, 3M exited from being a distribution partner of Next Science and Next Science commenced selling Blast X directly to hospitals in the US.

- Oraderm Pharmaceuticals: In September 2022, the Group commenced the distribution of Blast X biofilm wound gel product within Australia and New Zealand via online and brick-and-mortar stores.
- Zimmer Biomet: The Global distribution partner for Bactisure Surgical Lavage since 2017 and the US distribution partner of XPERIENCE since 1H2022.
- Next Med: Distribution partner of XPERIENCE and SurgX in New Zealand which commenced in 2022.
- Novus Surgical: Distribution partner of XPERIENCE in Australia since 2H 2022.
- TELA Bio: Distribution partner of a white-labelled version of XPERIENCE in the US plastic reconstructive surgery market - since Nov 2021.

#### 5.3.4 Key suppliers

Next Science uses contract manufacturers to produce their products in bulk. They have different agreements with various manufacturers around the globe. New product contracts are agreed upon with a medical device supplier that Next Science deems most suitable.

#### 5.3.5 Growth opportunities

Growth in the near term for Next Science is planned across all products offered in the portfolio, however, the growth in the XPERIENCE product and the newly launched collagen products are the Group's main focus. In July 2022, Zimmer Biomet commenced the phase one rollout of XPERIENCE. Next Science has identified XPERIENCE as a major growth opportunity.

### 5.4 **Directors and Key Management**

The directors of the Group are as follows:

<b>Name</b>	<b>Role</b>	<b>Date of appointment</b>
Mark Compton	Chair and independent non-executive director	23 October 2018
Judith Mitchell	Chief Executive Officer ("CEO") and managing director	20 October 2017
Daniel Spira	Independent non-executive director	20 October 2017
Aileen Stockburger	Independent non-executive director	23 October 2018
Bruce Hancox	Non-executive director	20 October 2017
George Savvides	Former chair and independent non-executive director	Retired 5 May 2021
Gillian Nairn	Company Secretary	21 June 2018

As announced on the ASX on 27 May 2022, Judith Mitchell intends to retire as CEO of Next Science once a suitable candidate has been found, with Ms Mitchell's successor to be based in Next Science's Jacksonville, Florida office. There were no significant changes in relation to the Company's officers over the past three years apart from the retirement of George Savvides in May 2021 and the subsequent election of Mark Compton as the Company Chair.

## 5.5 Financial Information

Next Science's consolidated financial statements for the years ended 31 December 2020 ("FY2020") and 2021 ("FY2021") were audited and the financial statements for the six months ended 30 June 2021 ("HY2021") and 2022 ("HY2022") were reviewed. Each of the audit and review opinions issued was unmodified.

Unless otherwise noted, the reporting currency throughout the report is in US dollar ("US\$"). All US\$ amounts presented within tables and charts are in thousands. All US\$ amounts presented within text and commentary are rounded to the nearest thousands unless otherwise noted.

### 5.5.1 Financial Performance

Set out below are the audited consolidated profit and loss accounts of Next Science for FY2020 and FY2021 and the reviewed accounts for HY2021 and HY2022:

<b>US\$000</b>	<b>FY2020 Audited</b>	<b>FY2021 Audited</b>	<b>HY2021 Reviewed</b>	<b>HY2022 Reviewed</b>
Revenue	3,441	8,948	3,915	5,411
Cost of sales	(524)	(2,007)	(838)	(1,032)
<b>Gross Profit</b>	<b>2,917</b>	<b>6,940</b>	<b>3,077</b>	<b>4,379</b>
Selling and distribution expenses	(5,648)	(7,371)	(3,050)	(4,685)
Research and development expenses	(5,954)	(4,479)	(2,232)	(2,663)
Administration expenses	(3,144)	(3,907)	(1,695)	(3,206)
Other expenses	(13)	(16)	(6)	(3)
<b>EBITDA</b>	<b>(11,843)</b>	<b>(8,833)</b>	<b>(3,906)</b>	<b>(6,178)</b>
Other income	753	(400)	(228)	(381)
Depreciation and amortisation expense	(702)	(790)	(382)	(433)
<b>EBIT</b>	<b>(11,791)</b>	<b>(10,023)</b>	<b>(4,515)</b>	<b>(6,991)</b>
Finance income/(expense)	276	126	67	(6)
<b>NLBT</b>	<b>(11,515)</b>	<b>(9,897)</b>	<b>(4,448)</b>	<b>(6,997)</b>
Tax Expense	-	-	-	-
<b>NLAT</b>	<b>(11,515)</b>	<b>(9,897)</b>	<b>(4,448)</b>	<b>(6,997)</b>
Gross margin (%)	85%	78%	79%	81%
EBITDA margin (%)	(344%)	(99%)	(100%)	(114%)
Sales revenue growth (%)		160%		38%
Gross profit growth (%)		138%		42%
EBITDA growth (%)		25%		(58%)
NLAT growth (%)		14%		(57%)

Source: Next Science's audited financial statements for the year ended 31 December 2020 and 31 December 2021 and reviewed financial statements for the six months to 30 June 2021 and 30 June 2022.

### Revenue

Revenue significantly increased by 160% in FY2021 from FY2020 and 38% from HY2021 to HY2022. During HY2021, Next Science decided not to renew the distribution agreement with 3M for BlastX. As a result, the non-renewal recognition of performance obligations under milestones was accelerated and was recognised in HY2021 as the transition was completed in a shorter time period. Had this change not occurred, the reported revenue increase in HY2022 would have been greater.

The overall increase in revenue recognised by the Group over the Review Period is attributed to increased sales across all product lines with global events, regulatory approvals and distribution agreements driving the revenue growth including:

- Reduced restrictions on patients receiving elective surgery in FY2021 following the COVID-19-related elective surgery shutdowns in the US in FY2020.
- The Food and Drug Administration's ("FDA") approval of Next Science's newly launched product "XPERIENCE", which began being sold directly to US hospitals and Ambulatory Service Centres in April 2021. Revenue has continued to increase into FY2022, with Next Science recording larger sales in HY2022 than both previous half years in FY2021.
- The Therapeutic Goods Administration's ("TGA") clearance of the sale of "Blast-X" in Australia. There was a slight increase in Australian revenue, however, the majority came from US product sales.
- In January 2022, Next Science entered into a distribution agreement with Zimmer to supply white-labelled versions of "XPERIENCE" in the US.

### Gross profit margin

The gross profit margin decreased from 85% in FY2020 to 78% in FY2021. Next Science's different products have varying gross profit margins, with the ongoing development, commercialisation and market launch of new products leading to a change in the sales mix and resulting in movements in gross profit margins. Next Science experienced a recovery in the gross profit margin in HY2022 to 81% led by a change in the sales mix as well as due to price increases for certain products.

### Operating expenses

Operating expenses consist of selling and distribution expenses, research and development expenses and administrative expenses. Selling and distribution expenses and administrative expenses increased in both FY2021 and HY2022 from the prior periods, driven by an increase in employee numbers and associated support costs to sustain the increased sales of the Group, including the expansion of the direct sales channels.

Research and development expenses decreased by 25% in FY2021 from FY2020 following the successful FDA approval of XPERIENCE. The decrease was a result of significant research and development costs incurred in FY2020 associated with the FDA approval process that was no longer incurred in FY2021.

### EBITDA margin

Whilst the Group has had negative earnings over the Review Period, the level of losses reduced in FY2021 compared to FY2020 as the significant revenue growth did not require a proportionate increase in operating costs, in addition to less research and development costs. The improvement is shown by the EBITDA margin increasing from negative 344% in FY2020 to negative 99% in FY2021. The EBITDA margin decreased slightly



to negative 114% in HY2022 due to a higher level of research and development expenditure in the half year for new products.

#### Other profit and loss items

Other income primarily consists of government-related assistance received in response to COVID-19.

Finance income and expenses consist of interest income from term deposits and gains/(losses) recognised on foreign exchange, less interest expense on lease liabilities.

There is no tax expense recognised as Next Science has not generated earnings over the Review Period due to its current life cycle stage.

#### 5.5.2 Cash flow

Set out below is the summary consolidated cash flow statement of Next Science for the years ended 31 December 2020 and 31 December 2021 and the six months ended 30 June 2020 and 30 June.

<b>US\$000</b>	<b>FY2020 Audited</b>	<b>FY2021 Audited</b>	<b>HY2021 Reviewed</b>	<b>HY2022 Reviewed</b>
Receipts from customers	2,950	9,513	4,641	4,186
Payments to suppliers and employees	(12,211)	(16,268)	(6,924)	(9,496)
Payments for research and development	(3,120)	(1,672)	(916)	(1,063)
Interest received	118	17	21	2
COVID- 19 government assistance and other income	356	147	-	32
<b>Net cash from operating activities</b>	<b>(11,907)</b>	<b>(8,264)</b>	<b>(3,179)</b>	<b>(6,340)</b>
Payments for property, plant and equipment	(213)	(140)	(87)	(16)
Payments for intangible assets	(474)	(576)	(221)	(140)
<b>Net cash from investing activities</b>	<b>(687)</b>	<b>(717)</b>	<b>(308)</b>	<b>(157)</b>
Proceeds from issue of ordinary shares	10,831	-	-	10,853
Proceeds from conversion of options to ordinary shares	489	1,646	1,646	33
Capital raising costs	(388)	(6)	(6)	(386)
Payment of lease liabilities	(223)	(213)	(99)	(114)
<b>Net cash from financing activities</b>	<b>10,710</b>	<b>1,427</b>	<b>1,540</b>	<b>10,387</b>
Cash at beginning of financial year	16,911	15,339	15,339	7,368
Net increase/(decrease) in cash held	(1,883)	(7,554)	(1,946)	3,890
Foreign exchange impacts	312	(417)	(193)	(195)
Bank term deposits (other assets)	(7,239)	(367)	(6,266)	(38)
<b>Cash at end of financial period</b>	<b>8,100</b>	<b>7,001</b>	<b>6,934</b>	<b>11,025</b>

Source: Next Science's audited financial statements for the year ended 31 December 2020 and 31 December 2021 and reviewed financial statements for the six months to 30 June 2021 and 30 June 2022.

Next Science has significant operating cash outflows, reflective of the ongoing losses of the Group over the Review Period. The operating cash outflows reduced in FY2021 to \$8.3 million from \$11.9 million in FY2020 following the increased FY2021 sales revenue.



The losses have been funded through equity raised in the Initial Public Offering ("IPO") of Next Science in 2019 which raised A\$35 million, as well as an additional round of funding of A\$15 million in September 2020. The funds raised through the funding round contributed large cash and term deposit balances in the FY2020 year-end balance sheet.

In HY2022, A\$14.8 million (US\$10.9 million) was raised through institutional, sophisticated investors and a share purchase plan offer to ordinary shareholders.

### 5.5.3 Financial Position

Set out below is the consolidated balance sheet of Next Science as of 31 December 2020, 31 December 2021 and 30 June 2022.

US\$000	Note	FY2020 Audited	FY2021 Audited	HY2022 Reviewed
Cash and cash equivalents		8,100	7,001	11,025
Trade and other receivables	1	3,388	887	1,992
Inventories	2	1,072	1,501	1,068
Term deposits		7,239	367	38
Prepayments and other assets		452	476	569
<b>Total current assets</b>		<b>20,252</b>	<b>10,232</b>	<b>14,693</b>
Trade and other receivables		37	37	37
Property, plant and equipment	3	788	684	738
Intangible assets	4	2,335	2,532	2,450
Right-of-use assets		227	232	1,161
<b>Total non-current assets</b>		<b>3,387</b>	<b>3,485</b>	<b>4,386</b>
<b>Total assets</b>		<b>23,639</b>	<b>13,717</b>	<b>19,079</b>
Trade and other payables	5	(1,064)	(1,173)	(2,048)
Contract liabilities	6	(1,910)	(91)	(310)
Lease liabilities	7	(171)	(166)	(242)
Employee benefits	7	(81)	(110)	(122)
<b>Total current liabilities</b>		<b>(3,226)</b>	<b>(1,540)</b>	<b>(2,722)</b>
Contract liabilities	6	(1,375)	(1,283)	(962)
Lease liabilities	7	(116)	(110)	(1,095)
Employee benefits	8	(9)	(17)	(21)
<b>Total non-current liabilities</b>		<b>(1,500)</b>	<b>(1,410)</b>	<b>(2,078)</b>
<b>Total liabilities</b>		<b>(4,726)</b>	<b>(2,950)</b>	<b>(4,800)</b>
<b>Net assets</b>		<b>18,913</b>	<b>10,766</b>	<b>14,279</b>
Share capital		101,281	102,921	113,527
Reserves	9	(41,273)	(41,709)	(42,214)
Accumulated losses		(41,096)	(50,445)	(57,034)
<b>Total equity</b>		<b>18,913</b>	<b>10,766</b>	<b>14,279</b>

Source: Next Science's audited financial statements for the years ended 31 December 2020 and 31 December 2021 and reviewed financial statements for the six months ended 30 June 2022.

We note the following in relation to the consolidated balance sheet of Nexia Science:

1. The current trade receivables balance increased from \$0.89 million in FY2021 to \$1.99 million in HY2022. The variance in receivable at each balance sheet date mainly reflects the timing of invoicing and receipts with distribution partners.
2. The inventory levels are relatively consistent each period with variances relating to the timing of orders and deliveries with the Group's main distribution partners.
3. Property, plant and equipment as at 30 June 2022 mainly consists of plant and equipment (\$0.4 million), leasehold improvements (\$0.28 million) and furniture and fittings (\$0.06 million).
4. Intangible assets as at 30 June 2022 consist of patents and trademarks (\$1.04 million), capitalised development costs (\$1.41 million) and computer software (\$136).
5. Trade and other payables increased from \$1.17 million in FY2021 to \$2.05 million in HY2022 due to the timing of a number of one-off charges incurred and not paid before 30 June 2022.
6. Current contract liabilities in FY2020 amounting to \$1.9 million primarily related to income yet to be recognised from the remaining milestone payment received from the 3M distribution contract. It was decided not to renew this distribution agreement with 3M for BlastX, with the majority of the current contract liability therefore recognised in FY2021. No new contract liability was recognised as the distribution of the BlastX product was subsequently handled by the in-house sales team. The contract liability at HY2022 relates to the long-term distribution agreement between Next Science and Zimmer for the Bactisure product.
7. The large non-current lease liability increases in HY2022 to \$1.1 million from \$0.11 million in FY2021 was due to a change in the Group's US Jacksonville Greystone Park commercial lease. This amendment included a modification to expand the premises, as well as a five-year extension on the existing lease. These factors led to an additional lease liability of \$1.2 million.
8. Current employee benefits relate to annual leave provisions and non-current employee benefits relate to long service leave provisions.
9. As at 30 June 2022, reserves include (\$42.6 million) in common control reserves, (\$1.76 million) in foreign currency translation reserves offset by \$2.14 million in share option reserves. The common control reserve relates to the accounting for the acquisition of Microbial Defense Systems Holdings Inc in 2017. As it was accounted for a common control transaction the difference between the consideration paid and the net assets was accounted for as an equity reserve.

#### Tax losses

Next Science had Australian unused tax losses of A\$43.1 million and US unused tax losses of US\$27.9 million on 31 December 2021.

#### Contingent liabilities

Next Science does not have any contingent liabilities.

## 5.6 Capital Structure

### 5.6.1 Ordinary shares

Next Science's issued capital as at 31 October 2022 comprised 214,790,134 fully paid ordinary shares. The top ten shareholders, as at 31 October 2022, hold 62.09% of the issued capital of Next Science. A summary of ordinary shareholders are set out below:

Shareholder	Shareholding	% Total
Auckland Trust Company Ltd	56,019,938	26.08%
Walker Group Holdings Pty Ltd	27,602,250	12.85%
Dr Matthew Franco Myntti	12,517,789	5.83%
HSBC Custody Nominees	11,606,430	5.40%
Judith Lee Mitchell	6,420,000	2.99%
UBS Nominees Pty Ltd	5,424,041	2.53%
HSBC Custody Nominees	4,664,401	2.17%
Sandhurst Trustees Ltd	3,107,788	1.45%
Mr Charles Robert Dirck	3,000,000	1.40%
JP Morgan Nominees Australia	2,995,317	1.39%
<b>Top ten shareholders</b>	<b>133,357,954</b>	<b>62.09%</b>
Other shareholders	81,432,180	37.91%
<b>Total shareholders</b>	<b>214,790,134</b>	<b>100.00%</b>

Source: Share registry as at 31 October 2022.

Walker Group and its associates currently hold 39.15% of equity interests in Next Science. Walker Group and Auckland Trust Company Ltd are associated through their ultimate beneficial ownership. Mr Bruce Hancox is associated as he is a director of Walker Group.

The table below summarises shareholders by the size of shareholding on 31 October 2022:

Range	No. of holders	Shares	% of Total
1 – 1,000	1,254	674,871	0.31%
1,001 – 5,000	1,563	4,459,746	2.08%
5,001 – 10,000	746	5,897,404	2.75%
10,001 – 100,000	1,062	31,513,587	14.67%
100,001 and over	121	172,244,526	80.19%
<b>Total</b>	<b>4,746</b>	<b>214,790,134</b>	<b>100.00%</b>

Source: Share registry as at 31 October 2022.

### 5.6.2 Share placements over the last 12 months

Since 1 January 2020, Next Science has issued a number of shares through share placements, share purchase plans, conversion of employee share options and performance shares, and shares issued in lieu of director fees. The table below summarises the shares issued from 1 January 2020:

Date	Nature of issue	Number of shares	Issue price (in A\$)
March 2020	Conversion of employee share options	162,500	\$0.47
April 2020	Conversion of partly paid shares to ordinary shares	650,000	-
May 2020	Shares issued in lieu of non-executive director fees	23,820	\$1.99
July 2020	Conversion of employee share options	650,000	\$0.45 - \$0.61
September 2020	Share placement	6,666,666	\$1.20
October 2020	Share purchase plan	4,236,898	\$1.18
October 2020	Conversion of employee share options	84,500	\$0.44
November 2020	Share placement	1,666,667	\$1.20
March 2021	Conversion of employee share options	84,500	\$0.54
April 2021	Conversion of employee share options	3,250,000	\$0.55
May 2021	Conversion of employee share options	438,000	\$0.72
February 2022	Conversion of employee performance shares	113,534	\$1.21
February 2022	Conversion of employee share options	78,000	\$0.58
March 2022	Share placement	6,666,667	\$0.90
March 2022	Share purchase plan	5,513,579	\$0.87
May 2022	Share placement	4,444,445	\$0.90

Source: Next Science's audited financial statements for the years ended 31 December 2020 and 31 December 2021 and reviewed financial statements for the six months ended 30 June 2022.

In September 2020, the Group issued 6,666,666 placement shares at A\$1.20 per share to raise A\$8.00 million (US\$5.63 million) in equity, with an additional A\$5.00 million (US\$3.56 million) raised through the issue of 4,236,898 shares at A\$1.18 per share pursuant to a share purchase plan in October 2020. A further A\$2 million (US\$1.45 million) was raised in November 2020 through the issue of 1,666,667 placement shares at A\$1.20 per share.

There were no shares issued in FY2021 through share placements or share purchase plans, however, a total of A\$2.15 million (US\$1.65 million) was raised through the conversion of employee share options into ordinary shares at an issue price ranging between A\$0.54 and A\$0.72 per share.

A total of A\$14.8 million (US\$10.9 million) was raised in HY2022 through the issue of 11,111,112 shares at A\$0.9 per share across two share placements in March 2022 and May 2022, in addition to 5,513,579 shares issued at A\$0.87 per share pursuant to a share purchase plan in March 2022. In February 2022, 113,534 performance rights were converted into ordinary shares at A\$1.21 per share. A\$45,240 (US\$32,760) was raised when 78,000 employee options were converted to ordinary shares in February 2022 at A\$0.58 per share.

### 5.6.3 Options and warrants

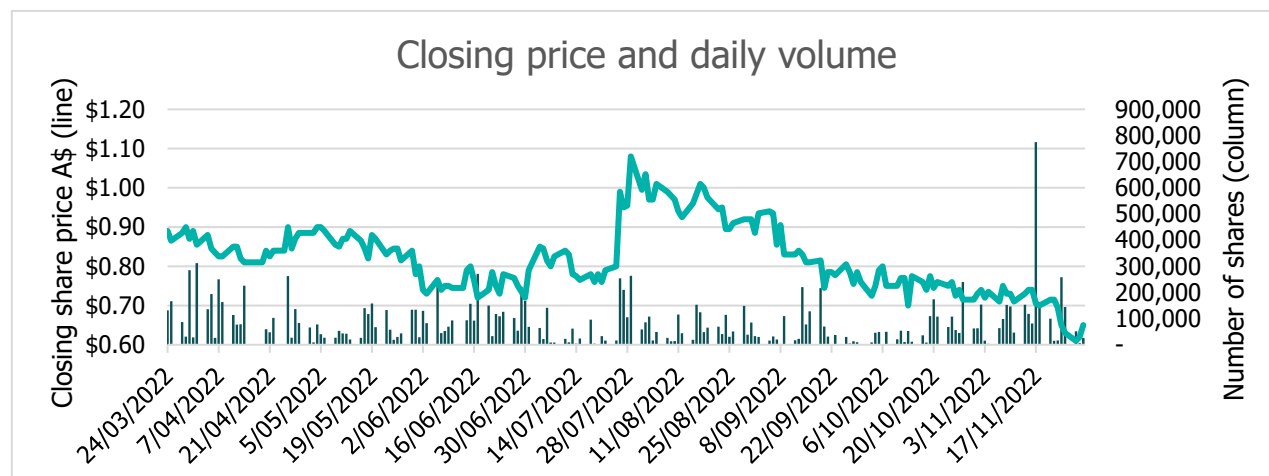
The Group has the following options on issue:

Type of options	Vesting date	Expiry date	Exercise price	# Options
Unlisted NXSAF	Vested	17-Dec-23	US\$0.56	1,820,000
Unlisted NXSAFH	Vested	17-Dec-23	US\$0.56	992,000
<b>Total unlisted options</b>				<b>2,812,000</b>

Source: Share registry as at 31 October 2022.

## 5.7 Share Price and Volume Trading Analysis

The following chart provides a summary of the trading volumes and prices for Next Science shares over the last 180 trading days to 30 November 2022:



Source: S&P CapitalIQ

The chart above indicates that the share price of Next Science has traded within a range of A\$0.61 and A\$1.08 over the previous 180 trading days with a closing price of A\$0.66. We note Next Science released their June 2022 quarterly reports after the close of trading on 25 July 2022 with an accompanying updated investor presentation which saw the closing share price increase from A\$0.80 to the peak of A\$1.08 on 29 July 2022 before falling to levels consistent with prior trading.

The volume of Next Science shares that have been traded over the last 180-day period has been low and prices and volumes for the last 180 trading days to 30 November 2022 are summarised in the table below.

Period to 30 November 22	Share Price Low (A\$)	Share Price High (A\$)	Cumulative volume traded	VWAP (A\$)
1 Day	\$0.655	\$0.655	25,373	\$0.650
7 Days	\$0.610	\$0.715	517,252	\$0.659
30 Days	\$0.610	\$0.760	3,498,693	\$0.724
90 Days	\$0.610	\$1.080	6,969,162	\$0.806
180 Days	\$0.610	\$1.080	14,970,608	\$0.814

Source: S&P Capital IQ and Nexia analysis

Next Science's shares have a low level of liquidity, with 13.2% of Next Science's capital being traded in the last 90 trading days on an annualised basis and 14.1% in the last 180 trading days on an annualised basis.

## 6. MARKET OVERVIEW<sup>1</sup>

### 6.1 Overview

The wound care manufacturing industry create products that protect injured parts of the body and aid the restoration of surfaces of the body. The four primary activities of this industry are researching, developing, manufacturing, and marketing all wound care products.

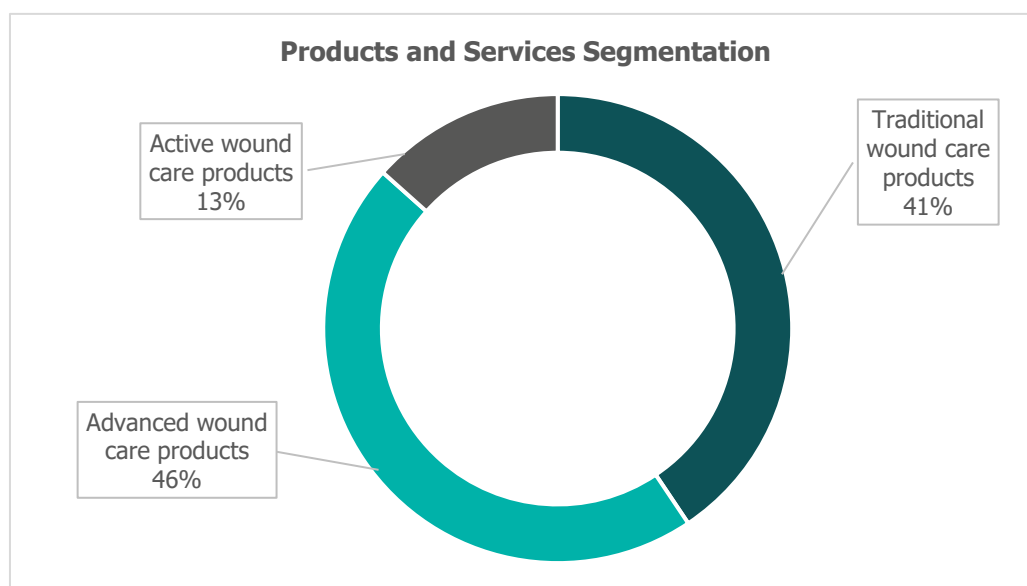
The wound care product manufacturing industry is heavily associated with the healthcare sector, which has experienced strong growth in recent years. COVID-19 has led to higher hospitalisation rates, which in turn has led to stronger demand for industry products like those of Next Science.

Over the past decade there has been a large increase in the number of Americans with public and private healthcare due to the Patient Protection and Affordable Care Act (PPACA). Although the PPACA has increased the size of those requiring the goods from this industry it has also emphasized cost-cutting efforts on the part of healthcare providers. Moreover, fluctuating commodity prices have put the industry's margins under further pressure. Despite all this, the wound care manufacturing industry has managed to grow its EBIT as a percentage of revenue to 8.1% in 2021, up from 6.5% in 2016.

For industry operators, the five-year outlook to 2026 remains strong. As US private health members increase in an aging population, the demand for wound care products is expected to grow an annualised 0.5%.

### 6.2 Products and services segmentation

Companies in the wound care product industry manufacture within three main product groupings displayed in the graph below.



Source: IBISWorld Industry Report OD4099 Wound Care Product Manufacturing in the US by Dmitry Diment in January 2022.

<sup>1</sup> Source: IBISWorld Industry Report OD4099 Wound Care Product Manufacturing in the US by Dmitry Diment in January 2022.

Traditional wound care products will continue to be sourced by the healthcare sector, specifically in international markets as they are more affordable and have reliable results. The US remains a key player in the development of new technologies and advanced wound care products. Finally, currently with the smallest product percentage in the industry, active wound care products use bioactive compounds that help repair through biosynthetic materials. The advanced and active product sectors are expected to grow as new and more effective technologies are uncovered in the industry.

### **6.3 Demand determinants**

Demand in the wound care manufacturing industry is determined by a variety of factors, these attributes have been divided into two sections:

Product trends relate to demand determinants associated with the manufactured goods themselves. As in all consumer segments, price plays a large role in determining the demand of a product. This is especially the case with traditional wound care products since generic brand competition increases in times when consumers have less income. Product functionality also has a large influence on demand as consumers seek wound treatments that offer additional healing or comfort benefits. Medical professionals also seek products within the industry with multiple uses. New products introduced in the market can also have an influence over demand. Products entering the market that have a positive environmental, social or governance (ESG) impact may lead to consumers and medical professionals purchasing additional products from the industry.

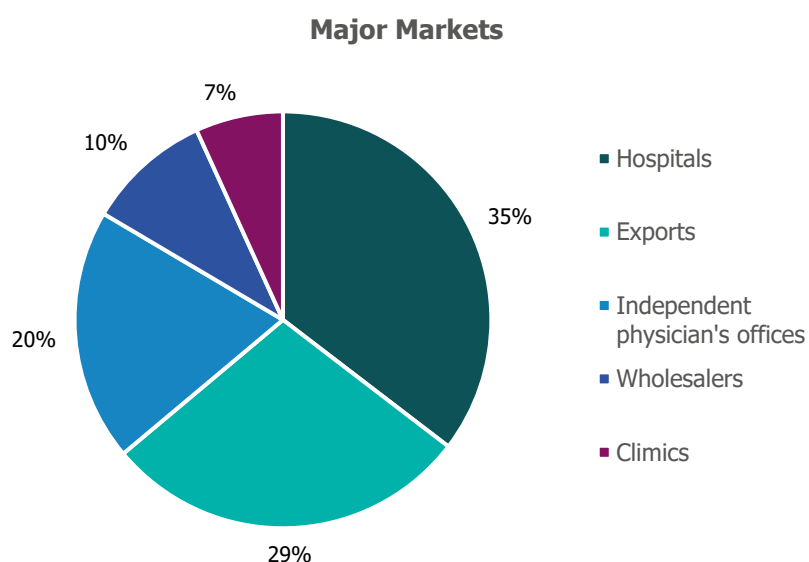
Healthcare trends related to the demand for wound care products are also influenced by the likelihood of people visiting a medical professional when procedures involving these goods would normally be performed. The intervention of government bodies in the affordability of healthcare drives demand. As previously mentioned, the PPACA has allowed millions of Americans to afford health insurance that they previously couldn't, this has a flow on affect the demand for any healthcare products.

### **6.4 Major markets**

Hospitals, clinics, and physicians make up most of the market for the wound care product manufacturing industry. As there is such a variety of wounds that vary in severity and cause, hospitals, clinics, and physicians require a range of products to best fit the wound repair requirements of each patient. Over the past five years leading up to 2021, clinics and other outpatient facilities have increased in popularity due to their rising functionality. Moreover, ambulatory surgery centres have also increased the number of services they offer in recent years, which further expands this sector of the market.

Exports represent a key opportunity for industry operators, being the second largest segment identified in the market. Exports are primarily provided to Mexico, Canada, China, and Germany and is only an option for advanced and active wound care products, as patents and other IP restrictions often prevent the production of these goods outside of the original manufacturer. Manufacturers in the US can earn significant revenue through this service stream.

Wholesalers purchase goods from industry operators and then resell them to retail operators or direct to consumers. Over the past five years this segment has moved in line with the overall industry as consumer demand tends to follow the other large areas of the industry.



*Source: IBISWorld Industry Report OD4099 Wound Care Product Manufacturing in the US by Dmitry Diment in January 2022.*

## 6.5 Industry revenue

According to IBIS World, industry revenue growth is projected over the next five years because of consistent healthcare expenditure. Over the next five years, total health expenditure, which is a measure of all public and private medical spending, is projected to grow at an annualised rate of 4.1% to \$4.2 trillion.

The industry is predicted to continue on its current trajectory of increased research and development in advanced and active wound care treatments while relying on importation for low-value-added traditional wound care products.

On aggregate, IBISWorld expects industry revenue to grow at an annualized 2.3% to \$2.8 billion by 2026. This growth is largely supported by the healthcare market expansion, the introduction of high-value innovative products and increased M&A activity in the industry to support organic growth.





*Source: IBISWorld Industry Report OD4099 Wound Care Product Manufacturing in the US by Dmitry Diment in January 2022.*

## **7. VALUATION METHODOLOGIES**

### **7.1 Definition of market value**

In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Next Science shareholders, we have assessed the value of the issued shares of Next Science on a fair value basis. RG 111 defines fair value as the amount:

*"assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length..."*

### **7.2 Selection of Methodology**

RG 111 provides guidance on the valuation methods that an independent expert should consider. These methods include:

- the discounted cash flow method and the estimated realisable value of any surplus assets;
- the application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- the amount that would be available for distribution to security holders on an orderly realisation of assets;
- the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale;
- any recent genuine offers received by the target for the entire business, or any business units or assets as a basis for valuation of those business units or assets; and
- the amount that an alternative bidder might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly applied in valuing such an asset and the availability of appropriate information.

In determining the fair value of Next Science, we have applied the quoted market share price valuation methodology. We have determined this to be the most appropriate methodologies due to:

- Although not highly liquid there is consistent trading in Next Science's shares;
- Next Science has not generated profits throughout the period,
- Next Science has a different growth profile as compared to its peers on the market, therefore, although Next Science generates revenue a revenue multiple based on the peers does not capture the future growth potential of the Group;
- Next Science has not prepared forecast cash flows other than for internal management reporting purposes; and
- Next Science does not heavily invest in tangible assets; therefore, the asset approach disregards the prospective earning potential of Next Science.

## 8. FAIR VALUE OF NEXT SCIENCE BEFORE THE PROPOSED TRANSACTION

### 8.1 Fair value of Next Science on a control basis prior to the Proposed Transaction

As detailed in section 5.7 above, the share price of Next Science experienced a significant peak in July 2022 prior to returning to a level more consistent with historical trading. Therefore, we have considered it is reasonable to use the volume-weighted average price ("VWAP") over the last 30 days which more accurately reflects the current and longer terms trading of Next Science.

We have determined the fair value of Next Science's shares on a control basis to be as follows:

<b>Fair value on a control basis</b>	<b>Low</b>	<b>Preferred</b>	<b>High</b>
Quoted market price (A\$)	0.65	0.69	0.72
Control premium (%)	20%	25%	30%
<b>Fair value of a share in Next Science on a control basis (A\$)</b>	<b>0.78</b>	<b>0.86</b>	<b>0.94</b>

The low and high quoted market price represents the VWAP for 1 day and 30 days to 30 November 2022, respectively.

The control premium has been applied to the quoted market price to increase the value to reflect a controlling interest. This premium is based on academic studies and other market research which reflect that control premiums can range from 20% to 30%.

## 9. FAIR VALUE OF NEXT SCIENCE FOLLOWING THE PROPOSED TRANSACTION

The fair value of Next Science based on a minority basis following the proposed transaction is set out below:

A\$000	Note	Low	Mid	High
Fair value before the Proposed Transaction on a control basis (A\$)	1	0.78	0.86	0.94
Ordinary shares on issue before the Proposed Transaction	2	214,790,134	214,790,134	214,790,134
<b>Equity value of Next Science - control basis</b>		<b>167,536</b>	<b>184,471</b>	<b>202,202</b>
Minority discount	3	17%	20%	23%
<b>Equity value of Next Science - minority basis</b>		<b>139,614</b>	<b>147,577</b>	<b>155,540</b>
Proceeds from Convertible Notes	4	10,000	10,000	10,000
Interest on Convertible Notes	5	(488)	(244)	-
Transaction costs	6	(124)	(124)	(124)
<b>Fair value of Next Science on a minority basis after the Proposed Transaction</b>		<b>149,002</b>	<b>157,209</b>	<b>165,416</b>
Ordinary shares on issue before the Proposed Transaction (#)	2	214,790,134	214,790,134	214,790,134
Issue of ordinary shares to settle the Convertible Notes (#)	7	14,566,210	14,227,549	13,888,889
<b>Ordinary shares on issue post the Proposed Transaction</b>		<b>229,356,344</b>	<b>229,017,683</b>	<b>228,679,023</b>
<b>Value per share on a minority basis (A\$)</b>	<b>5</b>	<b>0.65</b>	<b>0.69</b>	<b>0.72</b>

Notes:

1. As discussed in section 8.1. These have been rounded to two decimal places.
2. The current number of ordinary shares on issue is detailed in section 5.6.1.
3. The discount for minority interest represents the discount applicable for a non-controlling interest and is the inverse of the control premium applied in section 8.1 at each value range. The minority interest discount is calculated based on the control premium applied in section 8.1 as  $(1/(1+\text{control premium}))$ .
4. The proceeds from the issue of A\$10.0 million Convertible Notes.
5. Interest on the Convertible Notes is calculated using simple interest at 5% per annum to be a minimum of nil assuming the Convertible Notes are immediately converted and a maximum of A\$0.49 million assuming the accrual period is from 9 February 2023 to 31 January 2024.
6. Transaction costs relate to estimated costs associated with the Proposed Transaction.
7. Upon conversion, the face value of the Convertible Notes and the amount of interest accrued will convert into ordinary Next Science shares at \$0.72 a share.

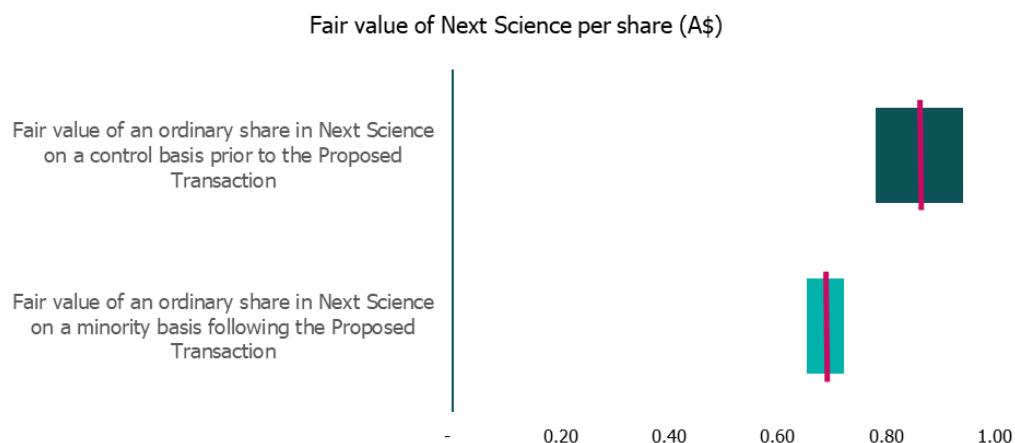
## 10. ASSESSMENT OF FAIRNESS

To determine whether or not the transaction is fair to Next Science shareholders, we have compared the fair value of a share in Next Science on a control basis to the interest a Next Science shareholder will retain following the Proposed Transaction, being a minority interest in the Company.

The fair value per share is summarised below:

A\$	Low	Preferred	High
Fair value of a Next Science share before the Proposed Transaction on a control basis	0.78	0.86	0.94
Fair value of a Next Science share following the Proposed Transaction on a minority basis	0.65	0.69	0.72

The above valuation ranges are graphically presented below:



As shown in the table and chart above, the fair value of an ordinary share in Next Science following the Proposed Transaction is less than the share price before the Proposed Transaction. Therefore, **we have concluded that the Proposed Transaction is not fair.**

## 11. ASSESSMENT OF REASONABLENESS

### 11.1 Approach to assessing Reasonableness

In forming our conclusions in this Report, we have compared the advantages and disadvantages to shareholders if the Proposed Transaction proceeds.

### 11.2 Advantages of the transaction

We outline below the potential advantages of the Proposed Transaction:

Advantage	Explanation
<p><b>The Proposed Transaction will provide the Group with additional funding to continue to develop and commercialise its products.</b></p> <p><b>If converted, then the Group will not be required to repay the funds.</b></p>	<p>The funds raised from the convertible notes will provide additional funding to the business.</p> <p>Walker Group can elect to convert the convertible notes for ordinary shares. If converted this will maintain the Group's funding position from the issue of the notes.</p>
<p><b>If the Group is able to redeem the convertible notes shareholder dilution will not occur.</b></p>	<p>The Company can ask Walker Group to convert or redeem the notes on or prior to 31 October 2023 as long as giving written notice to the noteholders.</p> <p>If Walker Group chooses to redeem the notes, it protects the existing shareholder's equity interests in the Company.</p>
<p><b>If the notes are converted, the Company intends, and Walker Group has agreed, before conversion to offer the existing shareholders the opportunity to acquire a number of shares at \$0.72 a share reducing their potential dilution.</b></p>	<p>Under the terms of the convertible note, it is acknowledged by Walker Group that the Company intends at time of the conversion offer the Company's shareholders broadly the same number of shares as issued on conversion at the same issue price.</p> <p>To the extent that shareholders participate in the offer it will reduce their dilution.</p>

### 11.3 Disadvantages of the transaction

We outline the following the potential disadvantages of the Proposed Transaction:

Disadvantage	Explanation
<p><b>If the convertible notes are exercised, Walker Group and its associates will have a minimum interest of 42.84% and a maximum interest of 43.01% in Next Science giving it significant influence.</b></p>	<p>If the Proposed Transaction is successful, Walker Group and its associates will increase their interest from 39.15% to a minimum of 42.84% and a maximum of 43.01% of Next Science's share capital. This will give Walker Group and its associates significant influence over the Group and allowing them to influence the ongoing operations of the business.</p>

#### **11.4 Alternatives to the transaction**

The directors advised that they have considered alternative sources of equity or debt financing. However, the Proposed Transaction was considered to have the best probability to raise the required funds.

#### **11.5 Implications of the transaction not proceeding**

The directors advised that if the Proposed Transaction does not proceed, the Group will seek alternative forms of equity and debt financing that may or may not be on as attractive terms as the Proposed Transaction. If the Company cannot attract alternative forms of financing, it will need to significantly curtail its operations and undertake a strategic review as it is currently not cashflow positive

#### **11.6 Conclusion as to Reasonableness**

In accordance with RG 111, a transaction is reasonable if:

- the transaction is fair; or
- despite not being fair, but considering other significant factors, shareholders should obtain an overall benefit if the transaction proceeds.

Taking into account other significant factors, **we have concluded that the Proposed Transaction is reasonable.**

### **12. OPINION**

**Accordingly, in our opinion, the Proposed Transaction is not fair but reasonable to the Next Science shareholders.**

The ultimate decision on whether to approve the Proposed Transaction should be based on shareholders' own assessment of their circumstances. We strongly recommend that shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Notice of Meeting, and consider their own specific circumstances before voting in favour of or against the Proposed Transaction.

**APPENDIX A – GLOSSARY**

<b>Term</b>	<b>Definition</b>
<b>Notice of Meeting</b>	Document to be sent to shareholders on or about the date of this Report in which this Report is included
<b>AFCA</b>	Australian Financial Complaints Authority
<b>AFSL</b>	Australian Financial Services License
<b>ASIC</b>	Australia Securities and Investment Commission
<b>ASX</b>	Australian Securities Exchange
<b>CEO</b>	Chief Executive Officer
<b>Company or Next Science</b>	Next Science Limited
<b>Convertible Notes</b>	10 million convertible notes at a face value of A\$1 per note
<b>Corporations Act</b>	Corporations Act 2001 (Cth)
<b>DME</b>	Durable Medical Equipment
<b>Document</b>	Notice of meeting
<b>FDA</b>	Food and Drug Administration
<b>ESG</b>	Environmental, social and governance
<b>FSG</b>	Financial Services Guide
<b>FY2020</b>	the financial year ended or as at 31 December 2020
<b>FY2021</b>	the financial year ended or as at 31 December 2021
<b>Group</b>	Next Science and its subsidiaries
<b>HY2021</b>	the six months ended or as at 30 June 2021
<b>HY2022</b>	the six months ended or as at 30 June 2022
<b>IP</b>	Intellectual property
<b>IPO</b>	Initial Public Offering
<b>LTM June 22</b>	The last twelve months ended 30 June 2022
<b>Nexia entities</b>	Nexia Sydney Group and related entities
<b>Nexia Sydney Group</b>	Nexia Sydney Group Pty Ltd group entities
<b>NSCA</b>	Nexia Sydney Corporate Advisory Pty Ltd (ABN 68 114 696 945)
<b>NSFS</b>	Nexia Sydney Financial Solutions Pty Ltd (AFSL 247300)
<b>NSLLC</b>	Next Science LLC.
<b>NSTPL</b>	Next Science Technologies Pty Ltd
<b>PPACA</b>	Patient Protection and Affordable Care Act
<b>Proposed Transaction</b>	The issue of convertible notes of \$10 million to the Walker Group
<b>Report</b>	Independent Expert's Report
<b>RG 111</b>	ASIC Regulatory Guide 111: Content of expert reports
<b>RG 112</b>	ASIC Regulatory Guide 112: Independence of expert's report
<b>RG 74</b>	ASIC Regulatory Guide 74: Acquisitions approved by members
<b>RG 76</b>	ASIC Regulatory Guide 76: Related party transactions
<b>Secured Convertible Note Deed</b>	Secured convertible note agreement
<b>Security</b>	Security over the Company and all of the Company's property
<b>TGA</b>	Therapeutic Goods Administration
<b>US\$</b>	US Dollar
<b>VWAP</b>	Volume Weighted Average Price of shares
<b>Walker Group</b>	Walker Group Holdings Pty Limited
<b>Walker Group and its associates</b>	Walker Group, Auckland Trust Company and Mr Bruce Hancox



## **APPENDIX B - SOURCES OF INFORMATION**

- Australia Securities and Investment Commission's (ASIC) database
- Audited financial statements of Next Science for the years ended 30 June 2020 and 2021.
- Reviewed financial statements of Next Science and its subsidiaries for the six months to 31 December 2020 and 31 December 2021.
- Draft Notice of Annual General Meeting and Explanatory Memorandum
- IBIS World Report OD4099 Wound Care Product Manufacturing in the US by Dmitry Diment in January 2022.
- S&P Capital IQ

## **APPENDIX C - STATEMENT OF DECLARATION & QUALIFICATIONS**

### **Confirmation of Independence**

Prior to accepting this engagement Nexia Sydney Corporate Advisory Pty Ltd ("NSCA") determined its independence with respect to Next Science with reference to ASIC Regulatory Guide 112: Independence of expert's Reports ("RG 112"). NSCA considers that it meets the requirements of RG 112 and that it is independent of Next Science.

Also, in accordance with s648(2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with Next Science, its related parties or associates that would compromise our impartiality.

Mr Brent Goldman, authorised representative of NSCA, has prepared this Report. Neither he nor any related entities of NSCA have any interest in the promotion of the Proposed Transaction nor will NSCA receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this Report. Our fee is not contingent upon the success or failure of the Proposed Transaction, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, NSCA does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

NSCA provided a draft copy of this Report to the Directors and management of Next Science for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of NSCA alone. Changes made to this Report, as a result of the review by the Directors and management of Next Science, have not changed the methodology or conclusions reached by NSCA.

### **Qualifications**

NSCA carries on business at Level 16, 1 Market Street, Sydney NSW 2000. NSCA is an authorised corporate representative of Nexia Sydney Financial Solutions Pty Ltd, which holds Australian Financial Services Licence No 247300 authorising it to provide financial product advice on securities to retail clients. NSCA's representatives are therefore qualified to provide this Report.

Brent Goldman specifically was involved in the preparing and reviewing this Report. Brent Goldman is a Fellow of the Institute of Chartered Accountants in Australia and New Zealand, a Business Valuation Specialist of the Institute of Chartered Accountants in Australia and New Zealand and a Fellow of the Financial Services Institute of Australasia. He has over 15 years of corporate finance experience in both Australia and the UK.

### **Consent and Disclaimers**

The preparation of this Report has been undertaken at the request of the Directors of Next Science. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the Report should be used for any other purpose than to accompany the Notice of Meeting to be sent to Next Science shareholders. In particular, it is not intended that this Report should be used for any purpose other than as an expression of NSCA's opinion as to whether or not the Proposed Transaction is fair and reasonable to Next Science shareholders.

NSCA consent to the issue of this Report in the form and context in which it is included in the Notice of Meeting to be sent to Next Science shareholders.

Shareholders should read all documents issued by Next Science that consider the issue of options in their entirety, prior to proceeding with a decision. NSCA had no involvement in the preparation of these documents, with the exception of our Report.

This Report has been prepared specifically for the non-associated shareholders of Next Science. Neither NSCA, nor any member or employee thereof undertakes responsibility to any person, other than a shareholder of Next Science, in respect of this Report, including any errors or omissions howsoever caused. This Report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

**APES 225**

Our report has been prepared in accordance with APES 225 Valuation Services.

## **APPENDIX D - VALUATION METHODOLOGIES**

In preparing this Report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- the discounted cash flow method;
- the capitalisation of earnings method;
- asset based methods; and
- analysis of share market trading.

### **Discounted Cash Flow Method**

#### Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- a forecast of expected future cash flows;
- an appropriate discount rate; and
- an estimate of terminal value.

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

A terminal value reflects the value of cash flows that will arise beyond the explicit forecast period. This is commonly estimated using either a constant growth assumption or a multiple of earnings (as described under capitalisation of future maintainable earnings below). This terminal value is then discounted to current day terms and added to the net present value of the forecast cash flows.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

### Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- early stage companies or projects;
- limited life assets such as a mine or toll concession;
- companies where significant growth is expected in future cash flows; or
- projects with volatile earnings.

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if reliable forecasts of cash flow are not available and cannot be determined.

### **Capitalisation of Earnings Method**

#### Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- a level of future maintainable earnings; and
- an appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

**Revenue** – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

**EBITDA** - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

**EBIT** - in most cases EBIT will be more reliable than EBITDA as it takes account of the capital intensity of the business.

**NPAT** - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT value the whole businesses, or its enterprise value irrespective of the gearing structure. NPAT (or P/E) values the equity of a business

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources.

Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX or the NSX. The merger and acquisition method is a method whereby

multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. In Australia this has been called the comparable transaction methodology.

#### Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- there are no suitable listed company or transaction benchmarks for comparison;
- the asset has a limited life;
- future earnings or cash flows are expected to be volatile; or
- there are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets.

#### **Asset Based Methods**

##### Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- orderly realisation;
- liquidation value;
- net assets on a going concern basis;
- replacement cost; and
- reproduction cost.

The orderly realisation of assets method estimates Fair Market Value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame.

Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimate the market values of the net assets of a company but do not take account of realisation costs.

The asset / cost approach is generally used when the value of the business's assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

### Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- an enterprise is loss making and is not expected to become profitable in the foreseeable future;
- assets are employed profitably but earn less than the cost of capital;
- a significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments); or
- it is relatively easy to enter the industry (for example, small machine shops and retail establishments).

Asset based methods are not appropriate if:

- the ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets; or
- a business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets.

### **Analysis of Share Trading**

The most recent share trading history provides evidence of the Fair Market Value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.