Shareholder Newsletter

Quarter 3, 2013

From the CEO

Gavin Currie, CEO

Dear Shareholders,

Welcome to Biosceptre's third shareholder update for 2013. I'm delighted to be able to share some of the highlights of our progress from the last quarter.

High on the list of highlights is the progress made in the Phase 1 clinical trial for the Topical program. This program is well underway with recruiting finished for all participants. Our aim was to recruit a minimum of 20 patients and I can confirm that 21 enrolled in total. At the time of writing, 7 of these had completed the trial and no adverse events have been experienced.

You will recall that the focus on a Phase 1 trial is safety, and so it is a good sign that this appears to be going as expected. This is a significant advantage for us, as the topical therapeutics currently available for superficial Basal Cell Carcinoma (Aldara and 5FU) have strong side effects for many users, including severe itching and burning.

The Dendritic Cell Vaccination clinical trial is getting ever closer to being underway, with the submission to the Singapore authorities being well received. We are waiting on final approval to proceed, and current expectation is that this will be underway in October.

I'm very pleased to announce that we have made an appointment to a key position this month, Cynthia Robbins. Cynthia will take on the role of head of regulatory affairs and clinical trials for us and we will welcome her expertise. Cynthia comes to us from BDI Pharma and has a strong background in clinical, regulatory and business development. As we move forward, having a strong person managing these programs for us will be key to our success. This role will also further enable us to ensure that we are managing our resources of money and time most efficiently.

Our commercial team has spent much of this quarter researching and considering the benefits, costs and requirements for a re-domiciling of our corporate headquarters to the UK. The grounds for such a restructure are compelling, particularly with regards to:

- *attracting more Europe and US based investors*
- *access to UK and European grant funding available for life sciences*
- *tax benefits*
- *the overall strengthening of our share value, especially in the event of an IPO.*

Considering the rationale above, a move to the UK would ensure that we are giving ourselves the best chance of commercializing our technology as effectively as possible, whilst maximizing shareholder value to the greatest extent possible.

We have devoted this shareholder's update to providing a commercial update, particularly in respect to the rationale for recommending a change of corporate headquarters to the UK, outlining the process that we will be recommending to shareholders necessary to effect this change, and to also outline how we currently value the company and what we believe we should be targeting in terms of share valuation.

On August 29th I attended a Scientific Advisory Board (SAB) meeting chaired by Sir Greg Winter. While we have the usual challenges in developing our scientific findings into a commercial product, it is a privilege for us to have an SAB with the experience of Sir Greg, Dr Rabbits and Dr Fearon. We were also privileged to have Dr Toh attend. Dr Toh is Deputy Director of the National Cancer Centre Singapore – one of our new collaboration partners. We look forward to bringing you more comprehensive news of our scientific progress in the Quarter 4 update.

We will shortly be starting another fund raising, and I encourage you to read the section in our commercial update about how we are going to manage this. Please consider being part of this fund raising as the price for existing shareholders will be at a considerable discount to the price we will be raising at when we open the opportunity for new investors in March next year.

As always, if you have any questions, or suggestions, please do not hesitate to contact me, or the management team, on ceo@biosceptre.com.

Gavin Currie
Chief Executive Officer

Commercial Update

Funding

With our scientific and product development programs gaining in momentum, ensuring that we have appropriate levels of funding to support these programs is a clear priority. Managing a delicate balance between the safety of cash in the bank, and limiting the dilution of current shareholder's investment with Biosceptre is part of the remit of the commercial team and our fund raising plans reflect this by seeking to avoid the need to raise new funds under conditions of financial-stress, whilst at the same time going to the market with as much scientific and clinical data as possible to support the strongest possible share price.

Preparations for the next funding round have already commenced, with rounds scheduled to be closed in October this year, March 2014, and July 2014. We are looking to raise circa $15 million with these three rounds, which we expect would see our development program well and truly into a Phase 1 clinical trial for a systemic therapeutic product. Details of these raises as follows:

Round Close:	October 2013
Offering:	Current Shareholders (sophisticated)
Share Price:	$2.50 per share
Raise:	$5 million

Round Close:	March 2014
Funding Source:	External Offering
Share Price:	To be set by the board in February (dependent on program performance)
Raise:	$5 million

Round Close:	July 2014
Funding Source:	External Offering
Share Price:	To be set by board in June (dependent on program performance)
Raise:	$5 million

Regrettably, due to Australian securities laws, we are only able to offer these shares to "sophisticated" investors, which is defined in Australian securities law as someone who has:

- had an income of >$250k per year for last 2 years; or
- $2 million in assets; or
- managed investments of >$10 million in assets; or
- is investing >$500k

For any current shareholders falling outside of this guideline, please feel free to contact Mr Ian North on 0417412448 for more information.

Pricing Basis and Business Valuation

The fundraising round in October 2013 at $2.50 per share represents a significant discount on our most recent valuation, which values the company at circa $9 per share. This valuation work, completed by KPMG as part of the assessment of transferring the group head office to the UK, values the business at $340 million if the business remains in Australia, or $430 million ($11 per share) if the business is relocated to the UK - figures expected to be agreed by both the Australian and UK tax offices.

The key valuation assumptions, built around the systemic therapeutic asset, include:

Development

- Development costs to get to market - $370 million, including clinical trials to phase 3
- Time to market – 11 years. Our goal will be to hit the market as early as possible, but 11 years is the industry average from our current stage of development. To this end we have hired Cynthia Robbins as Vice President – Clinical Trials & Regulatory Affairs to develop regulatory strategies for fast track clinical development and approval.

Operational

- Peak Revenues - $21 billion. This has been based on Avastin and Herceptin sales (two monoclonal antibody drugs targeting primarily lung cancer and HER2 indicated breast cancer respectively), which achieved sales in 2012 of approximately $7 billion each. These drugs are available for a limited number of cancer types, and given the Biosceptre technology is pan-cancer, we have included revenue forecasts at a conservative three times these products
- Time to peak revenues from market entry – 5 years
- Gross Profit Margin – 80%
- Sales, General and Admin costs of 30%

Financial

- Probability Discount Factor:

		(Cum)
Pre-clinical > Phase 1	75%	75%
Phase 1 > Phase 2	56%	42%
Phase 2 > Phase 3	44%	18%
Phase 3 > NDA Submit	79%	15%
NDA Approval	79%	12%

- The discount factors are based on industry averages – ie. the percentage of biological drugs that will enter pre-clinical development, and will progress to the following stages. From where Biosceptre is with the systemic therapeutic the industry experience suggests it has a 12% chance of reaching the market. We're obviously more optimistic than this, however, we have used industry averages as a conservative basis for the valuation

- Discount Rate: 16%. Used to discount future cashflows at the average cost of capital. The industry standard for small biotech companies with limited portfolio diversification has been used.
- Valuation Methodology - Economic Net Present Value (eNPV). This method takes a forecast of future cash flows (prepared on the assumptions above), discounts cashflows in the various phases of development by the Probability Discount Factors, and then discounts the amended cashflow forecast with the discount rate to provide the economic Net Present Value

As mentioned above, the valuation model built using these assumptions values the business (Australian domiciled) at circa $340 million, or $9 per share at the current level of issued shares. Successfully moving from one stage of development to another will have a significant impact on the valuation, with the assumptions above giving a business value of $601 million should the project move into a Phase 1 clinical trial, and $1.1 billion should the project move into a Phase 2 clinical trial.

Notwithstanding the above valuation forecast, the market ultimately determines the share price, and the best indicator of value is what an interested party is prepared to pay for shares. This type of valuation would generally inform an investor and be part of their decision to invest. An important element of why the board has set the price at $2.50 for the current round is that it will only be open to existing shareholders. Future raises from external investors will be targeted towards moving our share price towards a higher valuation target.

Re-domiciling to Cambridge, UK

As discussed in our previous newsletter, the management team has been considering a relocation of the Biosceptre headquarters from Sydney, Australia to Cambridge, UK. After much research, analysis and consideration, the arguments for re-domiciling are quite compelling, and a decision has been made by the board to put to the shareholders that we proceed with this course of action.

The key rationale for this decision include:

- Cambridge, UK, is a world-renowned hub for biomedical activity, and is home to the largest biotech and high tech cluster in Europe. Being located in this hub would give Biosceptre far greater access to talent, research and development support services, commercial relationships, and exposure to innovation. Ultimately, this is expected to accelerate the development and commercialization of the Biosceptre technology
- We believe there will be stronger investor support for a biotech located in Cambridge UK, and our ability to raise funds at an appropriate valuation will be improved. The UK also provides strong tax incentives to UK investors, through the Enterprise Investment Scheme, which would further strengthen the pool of willing investors for Biosceptre
- A UK located company will have the opportunity to apply for funding grants from a number of EU and UK life science funding programs, including the UK Technology Strategy Board Biomedical Catalyst Awards, which is currently offering grants of up to £2.4 million to UK commercial businesses
- UK corporate regulations provide a far simpler path to listing on an exchange than is available in Australia, supporting a drive to providing Biosceptre shareholders with liquidity by 2015
- There is also a likely tax benefit, particularly important with regards to funding working capital during our clinical development phase and the early stages of being in the market. With an effective rate of corporate tax in the UK of 10% under the Patent Box legislation, compared with the 30% corporate tax rate in Australia, the benefits to our funding program, and also our underlying business valuation, will be significant.

This is a significant move, and something that we would not move ahead with without the support of the shareholders. To this end, a members "Scheme of Arrangement" will be prepared, documenting the proposed transaction, the benefits, potential disadvantages, risks, and the recommendation of the Biosceptre board of directors, as well as the opinion of an independent expert.

The scheme booklet should be available to shareholders in November this year. It is intended that a vote will be taken on this at an EGM which we will target to hold directly following the next AGM, to be held November. The AGM date for your diaries will be November 27.

Scheme of Arrangement

For the more technically minded amongst our shareholders, a more detail outline of the scheme of arrangement and proposed re-structure will be provided when we send out a notice of meeting for a scheme meeting. This notice will include a scheme booklet, which will further outline the scheme process and rationale.

The Board

Michael Lovett	**Non-executive Director**
Peter Newton	**Non-executive Director**
Ron Watts	**Non-executive Director**
Gavin Currie	**Executive Director and CEO**
Ivan Gunatilleke	**Executive Director and Group CFO**
Kevin Moulder	**Executive Director and CSO**

Meet the Team

Kati Rasenen

Kati is a cancer research scientist with 10 years of experience in basic and translational research focusing on carcinoma progression and cancer therapeutics. She has worked in academia, research institutes and biotech in Finland, United Kingdom and United States.

Having obtained her MSc degree from the University of Jyvaskyla, Finland, majoring in biotechnology, she relocated to United Kingdom to work at the Institute of Cancer Research's Cancer Therapeutics unit, later returning to Finland to commence a PhD project in the field of cancer biology at the University of Helsinki. Upon obtaining the PhD degree, Kati relocated to United States to work as a postdoctoral fellow at the Wistar Institute.

These positions combined with her educational background have given Kati a broad scientific knowledge and extensive skills in biochemistry and molecular and cell biology. Kati joined Biosceptre to work on the Cell Biology team at the Babraham facility this April.

Braden Roberts
Chief Commercial Officer

Braden joined Biosceptre as Chief Commercial Officer in February this year after five years with private wealth fund Creata Ventures.

With over 20 years experience in the area of business analysis and planning, across a range of industries, including biotech, FMCG, financial services, healthcare, property development, and retail, Braden brings a broad perspective to the commercial function of the business.

Having graduated in 1991 with a Bachelor of Business (Dist), Braden qualified as a Certified Practicing Accountant with the Australia Society of CPA's in 1995 and has worked in Australia, the UK, Germany and the US.

In his current role, Braden will focus on ensuring that the organisation is aligned to meet its strategic commercial objectives.