**bph**energy

ACN 095 912 002

# NOTICE OF GENERAL MEETING

**TIME**: 11:00 am (WST)

**DATE**: Thursday 15 September 2011

**PLACE**: 14 View Street
North Perth
Western Australia

***This Notice of Meeting should be read in its entirety. If you are in doubt as to how you should vote, you should seek advice from your professional advisers prior to voting.***

***Shareholders should carefully consider the Independent Expert's Report prepared by MGI Corporate for the purposes of Resolution 1 which comments on the fairness and reasonableness of the proposed Share buy-back to the non-associated Shareholders in the Company and concludes that the proposed transaction is FAIR AND REASONABLE.***

***Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary, Ms Deborah Ambrosini on +61 8 9328 8366.***

## CONTENTS



## TIME AND PLACE OF GENERAL MEETING AND HOW TO VOTE

### Venue

The general meeting of the Shareholders to which this Notice of Meeting relates will be held at 11:00 am (WST) on Thursday 15 September 2011 at:

14 View Street, North Perth, Western Australia

### Your Vote is Important

The business of the General Meeting affects your shareholding and your vote is important.

### Voting in Person

To vote in person, attend the General Meeting on the date and at the place set out above.

### Voting by Proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

## NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Shareholders will be held at 11:00 am (WST) on Thursday 15 September 2011 at 14 View Street, North Perth, Western Australia.

The Explanatory Statement provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 7:00pm (AEST) on Tuesday 13 September 2011.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

## AGENDA

### 1. RESOLUTION 1 – SELECTIVE SHARE BUY-BACK

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

> *"That, in accordance with section 257D of the Corporations Act and for all other purposes, approval is given for the Company to make a selective buy-back of such number of Shares that, when multiplied by the buy-back price, is equal in value to $1.35 million from MEC Resources on the terms and conditions set out in the Explanatory Statement."*

**Short Explanation**: Under the Corporations Act, a company may make a selective buy-back by a special resolution passed at a general meeting. The Company has entered into an agreement with MEC Resources for the buy-back and cancellation of Shares to the value of $1.35 million (based on the buy-back price) held by MEC Resources. Please refer to the Explanatory Statement for details.

**Expert's Report**: Shareholders should carefully consider the Independent Expert's report prepared by MGI Corporate, which comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company.

**Voting Exclusion**: The Company will disregard any votes cast on this resolution by MEC Resources and any of its associates.

### 2. RESOLUTION 2 – RENEWAL OF EMPLOYEE INCENTIVE OPTION SCHEME

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That, for the purposes of ASX Listing Rule 7.2 (Exception 9) and for all other purposes, approval is given for the Directors to adopt the Company's Incentive Option Scheme and to issue securities under that plan as set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by the Directors of the Company and any of their associates, and by Key Management Personnel or their Closely Related Parties. However, unless restricted by the Corporations Act, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form.

**Short Explanation**: The Scheme is designed to be an incentive to key people who assist in the successful development and operation of the Company. Please refer to the Explanatory Statement for further details.

---

**Dated: 17 August 2011**

**By order of the Board**

D Ambrosini

**Deborah Ambrosini**
**Company Secretary**

## EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at 11:00 am (WST) on Thursday 15 September 2011 at 14 View Street, North Perth, Western Australia.

This purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

## 1. RESOLUTION 1 – SELECTIVE SHARE BUY-BACK

### 1.1 Background to proposed selective Share buy-back

The Company has received an offer from MEC Resources to buy back up to $1.35 million of MEC Resources' shareholding in the Company.

As at the date of this Notice, MEC Resources holds 48,539,482 Shares, amounting to 26.85% of the Company's issued Share capital. Following completion of the buy-back (if approved by Shareholders), MEC Resources' holding will reduce by the number of buy-back Shares equal in value to $1.35 million (based on the buy-back price) and its voting power will therefore decrease accordingly.

The Board has considered the buy-back proposal and believes it presents an attractive opportunity to achieve a more manageable capital structure and consolidate the ownership interests of remaining Shareholders at a time when the Company has ample cash to fund the buy-back, whilst at the same time reducing the controlling interest of one of the Company's major Shareholders.

The Board considers it would not be in the best interests of Shareholders for the buy-back Shares to be disposed of on-market. Accordingly, the Company and MEC Resources have agreed to proceed with the selective buy-back subject to receipt of Shareholder approval.

### 1.2 Corporations Act

The Corporations Act provides that the rules relating to share buy-backs are designed to protect the interests of shareholders and creditors by:

(a) addressing the risk of the transaction leading to the company's insolvency;

(b) seeking to ensure fairness between the shareholders of the company; and

(c) requiring the company to disclose all material information.

In particular, Section 257A of the Corporations Act requires that a company may buy back its own shares if:

(d) the buy-back does not materially prejudice the company's ability to pay its creditors; and

(e) the company follows the procedures laid down in Division 2 of Part 2J.1 of the Corporations Act.

Pursuant to Section 257D(1) of the Corporations Act, a share buy-back must be approved by either:

(f) a special resolution passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person whose shares are to be bought back or by their associates; or

(g) a resolution agreed to, at a general meeting by all ordinary shareholders.

The phrase "no votes being cast" is intended to operate in a similar way to the way in which voting exclusion statements operate in the context of the Listing Rules.

Pursuant to Section 257D(2) of the Corporations Act, the Company must include with this Notice of Meeting a statement setting out all information known to the Company that is material to the decision on how to vote on the Resolution. However, the Company does not have to disclose information if it would be unreasonable to require the Company to do so because the Company has previously disclosed the information to Shareholders.

### 1.3 Summary of and effect of proposed selective buy-back

The consideration for the proposed selective buy-back is \$1.35 million (**Consideration**). The number of buy-back Shares will be determined by dividing the total Consideration by the 5-day volume weighted average closing price of Shares prior to the date of the buy-back (**Number of Buy-back Shares**).

The overall effect on the Company of the proposed selective buy-back of Shares will be to reduce the total number of Shares on issue (being 206,731,207 as at the date of this Notice) by the Number of Buy-back Shares.

Whilst the exact dilutionary effect of the buy-back will not be determined until the Number of Buy-back Shares is known, the selective buy-back is not expected to have an effect on the control of the Company.

The financial effect on the Company of the selective buy-back will be to reduce Shareholders' funds (net assets) by \$1.35 million.

### 1.4 Advantages and disadvantages of the proposed selective buy-back

The Board believes that the selective buy-back as proposed by Resolution 1 will provide the following advantages to Shareholders:

(a) there will be a lesser number of Shares on issue, consequently the ownership interest in the Company of each Shareholder will increase;

(b) there will be a reduction in the controlling interest of one of the Company's major Shareholders;

(c) it prevents a large parcel of Shares being disposed on-market which could potentially affect the depressing of the Company's Share price; and

(d) the buyback will assist in achieving a more efficient capital structure for the Company.

The Board believes the disadvantage to Shareholders of the selective buy-back is the reduction in Shareholders' funds as described in section 1.3, however the Directors believe this will not prejudice the Company's ability to pay its creditors or the interests of Shareholders generally.

### 1.5 Trading price of Shares

The latest trading price of Shares on ASX prior to the date of this Notice of Meeting was $0.035 on 12 August 2011.

### 1.6 Directors' recommendation and Independent Expert's finding

Mr David Breeze, Mr Hock Goh and Ms Deborah Ambrosini are associates of MEC Resources on the basis that they are directors of MEC Resources. As they are also directors of BPH Energy, they decline to make a recommendation to Shareholders in relation to Resolution 1.

The non-associated Director (being Mr Greg Gilbert) believes that the selective buy-back as proposed by Resolution 1 will not prejudice the Company's ability to pay its creditors. Mr Gilbert recommends that Shareholders vote in favour of Resolution 1 and confirms that he intends to vote in favour of the Resolution.

Mr Gilbert's recommendation is supported by the findings of the independent expert, MGI Corporate, which has concluded that the proposed buy-back is **fair and reasonable** to the non-associated Shareholders in the Company.

### 1.7 Other material information

There is no information material to the making of a decision by a Shareholder whether or not to approve Resolution 1 being information that is known to any of the Directors and which has not been previously disclosed to Shareholders, other than as disclosed in this Explanatory Statement.

Pursuant to Section 257H(3) of the Corporations Act, immediately after the registration of the transfer to the Company of the Shares bought back from MEC Resources, the Shares will be cancelled.

## 2. RESOLUTION 2 – RENEWAL OF EMPLOYEE INCENTIVE OPTION SCHEME

### 2.1 Background

To ensure that the Company has appropriate mechanisms to continue to attract and retain the services of directors and employees of a high calibre, the Company established an employee incentive option scheme in 2005 (**Plan**).

Resolution 2 seeks Shareholder approval under exception 9(b) of ASX Listing Rule 7.2 to allow the grant of Options under the Plan (**Plan Options**), and the issue of Shares upon exercise of the Plan Options, as an exception to ASX Listing Rule 7.1.

The grant of Plan Options will only fall within exception 9(b) of ASX Listing Rule 7.2 if the Plan Options are issued under an employee incentive scheme approved by Shareholders within 3 years before the date of grant.

If Resolution 2 is passed, the Company will have the ability to issue Plan Options to eligible participants under the Plan over a period of 3 years without impacting on the Company's 15% placement capacity under ASX Listing Rule 7.1.

The Directors and employees of the Company have been, and will continue to be, instrumental in the growth of the Company. The Directors consider that the Plan is an appropriate method to:

(a) reward Directors and employees for their past performance;

(b) provide long term incentives for participation in the Company's future growth;

(c) motivate Directors and generate loyalty from senior employees; and

(d) assist to retain the services of valuable Directors and employees.

The Plan will be used as part of the remuneration planning for executive Directors and employees. The Corporate Governance Council Guidelines recommend that executive remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the company's circumstances and goals. The Plan will also be used as part of the remuneration planning for non-executive Directors. Although this is not in accordance with the recommendations contained in the Corporate Governance Council Guidelines, the Company considers that it is appropriate for non-executive Directors to participate in the Plan given the size of the Company.

Since the last date Shareholders approved the issue of Options under the Plan, 8,825,000 Options have been issued under the Plan.

A full copy of the Plan is set out in Schedule 2.

## 2.2 Amendments to proxy voting

A Shareholder entitled to attend and vote at the General Meeting may appoint a proxy to attend and vote on the General Meeting on their behalf in relation to Resolution 2. If that person appointed is Key Management Personnel or a Closely Related Party of Key Management Personnel, the Shareholder should have regard to the follow new provisions recently introduced in the Corporations Act.

These changes have been included in the Proxy Form attached to this Notice of Meeting.

***Undirected proxies***

Key Management Personnel and any Closely Related Party are prohibited from voting on Resolutions connected directly or indirectly with the remuneration of Key Management Personnel.

The adoption of the Plan is regarded as a remuneration matter, and accordingly, Key Management Personnel and their Closely Related Parties are prohibited from voting undirected proxies on Resolution 2.

However, the Chair (even if they are Key Management Personnel) may vote undirected proxies, provided the Shareholder who has lodged the Proxy Form has provided informed consent for the Chair to exercise the proxy even if the Resolution is connected with the remuneration of a member of the Key Management Personnel. For an undirected proxy's vote to be counted on Resolution 2 where they have appointed the chair as their proxy, the Shareholder must indicate, by marking the box specified on the Proxy Form, that the proxy appointment expressly authorises the chair to exercise the undirected proxy even if the Resolution relates directly or indirectly to Key Management Personnel remuneration.

Accordingly, a Shareholder should appoint a person other than Key Management Personnel and any Closely Related Party as their proxy in relation to Resolution 2, or ensure that if they intend their proxy to be exercised by the Chair, that they direct how the proxy is to vote in relation to Resolution 2.

*Cherry picking proxies*

New measures have been introduced into the Corporations Act to prevent proxy holders from "cherry picking" the proxies they exercise. Directed proxies not voted on a Resolution where a poll is demanded will now default to the person chairing the General Meeting, who must exercise those proxies as directed.

*Unexercised votes*

If a person appointed as a proxy for a Shareholder who is entitled to vote (and such proxy is not chairing the General Meeting) abstains from voting and the directions on the Proxy Form require that person to vote, the votes not exercised by that person will be given to the person chairing the meeting to vote in accordance with the directions on the Proxy Form. A proxy holder who holds contradictory instructions from multiple Shareholders must not vote on a show of hands.

### 2.3 Disclosure relief

ASIC Class Order 03/184 provides that the Company is not required to issue a prospectus for the offer of Options to employees under the Plan provided a number of conditions are satisfied, including without limitation:

(a) the Options may not be exercised until the Company's Shares have been quoted on ASX throughout the 12 month period immediately before the exercise of the Options without suspension for more than a total of 2 trading days during that period; and

(b) the total number of Shares that would be issued under the Plan, were each Option issued pursuant to the Plan exercised, and the number of Shares issued by the Company pursuant to any employee share or option scheme implemented by the Company during the previous 5 years, may not exceed 5% of the total number of Shares on issue as at the date any Options are offered pursuant to the Plan.

## 3. ENQUIRIES

Shareholders are requested to contact Ms Deborah Ambrosini, the Company Secretary on + 61 8 9328 8366 if they have any queries in respect of the matters set out in these documents.

## GLOSSARY

**$** means Australian dollars.

**AEST** means Australian Eastern Standard Time.

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

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

**ASX Listing Rules** means the Listing Rules of ASX.

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

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Closely Related Party** means:

(a) a spouse or child of the Shareholder;

(b) a child of the Shareholder's spouse;

(c) a dependent of the Shareholder or the Shareholder's spouse;

(d) anyone else who is one of the Shareholder's family and may be expected to influence the Shareholder, or be influenced by the Shareholder, in the Shareholder's dealing with the Company;

(e) a company the Shareholder controls; or

(f) a person prescribed by the regulations, as defined in the Corporations Act.

**Company** means BPH Energy Ltd (ACN 095 912 002).

**Constitution** means the Company's constitution.

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

**Directors** means the current directors of the Company.

**Explanatory Statement** means the explanatory statement accompanying the Notice of Meeting.

**General Meeting** or **Meeting** means the meeting convened by the Notice.

**Independent Expert** means MGI Corporate.

**Key Management Personnel** means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

**MEC Resources** means MEC Resources Ltd (ACN 113 900 020).

**MGI Corporate** means MGI Perth Corporate Finance Pty Ltd (ACN 009 342 661).

**Notice** or **Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement and the Proxy Form.

**Proxy Form** means the proxy form accompanying the Notice.

**Resolutions** means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

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

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

**WST** means Western Standard Time as observed in Perth, Western Australia.

**MGI Perth Corporate Finance**
ABN 14 105 426 064
Level 7, The Quadrant,
1 William Street,
GPO Box 2570,
Perth, Western Australia 6001
T: +61 8 9463 2463
F: +61 8 9463 2499
E: corporate@mgiperth.com.au

12 August 2011

PRIVATE & CONFIDENTIAL

The Directors
BPH Energy Limited
14 View Street
NORTH PERTH WA 6006

Dear Sirs/Madam

INDEPENDENT EXPERT REPORT

## 1. INTRODUCTION

MGI Perth Corporate Finance Pty Ltd ("MGICF") has been requested by BPH Energy Limited ("BPH" or "the Company") to prepare an Independent Expert Report in relation to the proposed selective buy-back and cancellation of Shares in the Company to the value of $1.35 million (based on the buy-back price) held by MEC Resources ("MEC") ("the Proposed Transaction") which under Section 257D(1) of the Corporations Act requires shareholder approval.

The Proposed Transaction is the subject of Resolution 1 of the attached Notice of Meeting to be considered at the Company's forthcoming Extraordinary General Meeting ("EGM"), provisionally set down to be held on or about 15 September 2011.

Resolution 1 seeks shareholder approval of the following special resolution:

> ***"That, in accordance with section 257D of the Corporations Act and for all other purposes, approval is given for the Company to make a selective buy-back of such number of Shares that, when multiplied by the buy-back price, is equal in value to $1.35 million from MEC Resources on the terms and conditions set out in the Explanatory Statement."***

To assist shareholders in making a decision on the Proposed Transaction, the Directors have requested that MGICF prepare an Independent Expert's Report, which must state whether, in the opinion of the Independent Expert, the Proposed Transaction is fair and reasonable having regard to the interests of BPH shareholders other than those involved in the Proposed Transaction or associated with such persons and whose approval of the Resolution giving effect to this transaction is required at the Extraordinary General Meeting ("non-associated shareholders of BPH").

The Summary of our opinion is set out in Section 2 of this Report.

A brief summary of the Proposed Transaction is set out in Section 3 of this Report and a more detailed outline is set out fully in the Explanatory Statement accompanying the Notice of Meeting of BPH to be held on or about 15 September 2011.

We understand that this Report will accompany the Notice of Meeting and Explanatory Statement.

## 2. Summary of Opinion

2.1. Based upon the information set out in this Report, we are of the opinion that the Proposed Transaction is **fair and reasonable** having regard to the interests of the non-associated shareholders of BPH.

MGICF has formed the opinion that the Proposed Transaction is fair because the value of the Company's Shares *post* the Proposed Transaction is greater than the value of the Company's Shares prior to the Proposed Transaction.

ASIC Regulatory Guide 111 (RG 111), states that an offer is reasonable if it is fair. Notwithstanding this, MGICF has also had regard to other relevant considerations in assessing the reasonableness of the Proposed Transaction. Further details are set out in Section 8 of this Report.

2.2. Our opinion is based solely on the information available at the date of the Report as detailed in Section 9 of the Report.

2.3. The principal factors that we have taken into account in forming our opinion are set out in the supporting detail to this Report.

2.4. The decision of each shareholder as to whether to approve the Proposed Transaction is a matter for individual shareholders. This decision should be based on each shareholder's views as to matters including value and future market conditions, risk profile, liquidity preferences, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If shareholders are in any doubt, they should consult an independent professional adviser.

2.5. The opinion should be read in conjunction with the full text of this Report which follows after our Financial Services Guide, which sets out our scope and findings.

The supporting detail of our Report (set out in the sections that follow after our Financial Services Guide and Qualifications Declarations and Consents), comprises the following sections:

3. Summary of the Proposed Transaction
4. Purpose of the Report
5. Basis of the Assessment
6. Valuation of BPH Energy Limited Shares *Pre* Proposed Transaction
7. Valuation of BPH Energy Limited Shares *Post* Proposed Transaction
8. Assessment as to Fairness and Reasonableness
9. Sources of Information

Appendix 1 – Overview of valuation methodologies

**Yours sincerely**
**MGI PERTH CORPORATE FINANCE PTY LTD**

**T J SPOONER CA FCA(UK) ACIS** | Director

## MGI Perth Corporate Finance Pty Ltd ("MGICF")
## FINANCIAL SERVICES GUIDE

1. MGICF (ABN 84 009 342 661) provides valuation advice, valuation reports, Independent Expert's Reports and Investigating Accountant's Reports in relation to takeovers and mergers, prospectuses and disclosure documents, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes. MGICF holds Australian Financial Services Licence No. 289358.
2. MGICF has been engaged to provide general financial product advice in the form of the attached Report to be provided to you.

**Financial Services Guide**

3. The Corporations Act 2001 authorises MGICF to provide this Financial Services Guide (FSG) in connection with its provision of an Independent Expert's Report (IER) to accompany the Notice of Meeting to be sent to BPH shareholders.
4. This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about MGICF generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

**Financial services we are licensed to provide**

5. Our Australian financial services licence allows us to carry on a financial services business to provide financial product advice for securities and deal in a financial product by arranging for another person to issue, apply for, acquire, vary or dispose of a financial product in respect of securities to retail and wholesale clients.

**General Financial Product advice**

6. The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. It is not intended to take the place of professional advice and you should not make specific investment decisions in reliance upon the information contained in this Report.
7. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. You may wish to obtain personal financial product advice from the holder of an Australian Financial Service Licence to assist you in this assessment.

**Fees, commissions and other benefits we may receive**

8. MGICF charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity which engages MGICF to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us.
9. Neither MGICF nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
10. All of our employees receive a salary and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
11. We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

**Complaints**

12. If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
13. If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman's Service (FOS), an external complaints resolution service. You will not be charged for using FOS.

**Contact details**

14. MGICF contact details are contained on the first page of our Independent Expert's Report.

**QUALIFICATIONS, DECLARATIONS AND CONSENTS**

**Qualifications**

1. MGICF is licensed under the Corporations Act to carry on a financial services business to provide the financial services referred to in section 5 of our Financial Services Guide (refer above). MGICF's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have undertaken a significant number of valuations, IER's, IAR's and similar assignments.
2. This Report was prepared by Mr TJ Spooner, who is an authorised representative of MGICF. Mr Spooner has substantial experience in the provision of valuation and similar advice and has been a qualified Chartered Accountant (UK and Australia) for over 25 years.

**Declarations**

3. This Report has been prepared at the request of the Directors of BPH to accompany the Notice of Meeting to be sent to BPH shareholders. It is not intended that this Report should serve any purpose other than as stated therein.

**Interest**

4. MGI is not the auditor of BPH. At the date of the attached Report, neither MGICF, nor Mr TJ Spooner or any other director, executive or employee of MGICF or MGI has any material interest in BPH either directly or indirectly, or in the outcome of the offer, other than in the preparation of this Report for which normal professional fees of approximately $14,000 + GST will be received. Such fee will be payable regardless of whether or not shareholders approve the Proposed Transaction.

**Indemnification**

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

**Consents**

6. MGICF was not involved in the preparation of any other part of the Explanatory Statement to accompany the Notice of Meeting (Explanatory Statement), and accordingly makes no representations or warranties as to the completeness and accuracy of any information contained in any other part of the Explanatory Statement. MGICF consents to the inclusion of this Report in the Explanatory Statement in the form and context in which it is included. At the date of this Report, this consent has not been withdrawn.

## 3. Summary of the Proposed Transaction

### 3.1 Background to the transaction

The Company has received a share buy-back agreement from MEC Resources whereby the Company will buy back up to $1.35 million of MEC Resources' shareholding in the Company ("buy-back"). The directors expect to execute the agreement very shortly.

The consideration for the proposed selective buy-back is $1.35 million ("Consideration"). The number of buy-back Shares will be determined by dividing the total Consideration by the 5-day volume weighted average closing price of Shares prior to the date of the buy-back ("Number of buy-back Shares").

The overall effect on the Company of the proposed selective buy-back of Shares will be to reduce the total number of Shares on issue (being 216,106,207 as at the date of this Notice) by the Number of buy-back Shares.

As at the date of this Notice, MEC Resources holds 57,914,482 Shares, amounting to 26.8% of the Company's issued Share capital. Following completion of the buy-back (if approved by Shareholders), MEC Resources' holding will reduce by the number of buy-back Shares equal in value to $1.35 million (based on the buy-back price) and its voting power will therefore decrease accordingly. Based on the most recent transactions in the Company's shares at 2.9 cents on 10 August 2011, the estimated number of buy-back shares is 46,551,724 shares.

As a result, MEC's shareholding in the Company will fall to approximately 6.7% (depending on the prevailing Buy-back price). Of the total shares held by MEC in the Company, 9,375,000 of these are held in escrow until 4 October 2011.

The financial effect on the Company of the selective buy-back will be to reduce Shareholders' funds (net assets) by $1.38 million (including estimated transaction costs of $30,000).

The directors do not consider that the selective buy-back is likely to have an effect on the control of the Company.

At Completion, the Company must deliver minutes of a special resolution, agreed to at a general meeting of all Shareholders, approving the acquisition of the Shares by the Company as contemplated under section 257D of the Corporations Act. Completion will occur one Business Day after the General Meeting, or such other date as may be agreed in writing between the parties.

## 4. Purpose of the Report

As referred to in the Explanatory Statement that accompanies the attached Notice of Meeting, the Corporations Act provides that the rules relating to share buy-backs are designed to protect the interests of shareholders and creditors by:

(a) addressing the risk of the transaction leading to the company's insolvency;

(b) seeking to ensure fairness between the shareholders of the company; and

(c) requiring the company to disclose all material information.

## 4. Purpose of the Report (Continued)

In particular, Section 257A of the Corporations Act requires that a company may buy back its own shares if:

(d) the buy-back does not materially prejudice the company's ability to pay its creditors; and

(e) the company follows the procedures laid down in Division 2 of Part 2J.1 of the Corporations Act.

Pursuant to Section 257D(1) of the Corporations Act, a share buy-back must be approved by either:

(f) a special resolution passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person whose shares are to be bought back or by their associates; or

(g) a resolution agreed to, at a general meeting by all ordinary shareholders.

The phrase "no votes being cast" is intended to operate in a similar way to the way in which voting exclusion statements operate in the context of the Listing Rules.

Pursuant to Section 257D(2) of the Corporations Act, the Company must include with this Notice of Meeting a statement setting out all information known to the Company that is material to the decision on how to vote on the Resolution. However, the Company does not have to disclose information if it would be unreasonable to require the Company to do so because the Company has previously disclosed the information to Shareholders.

## 5. Basis of the Assessment

Set out in the Notice of Meeting accompanying this Report are the Australian Securities Exchange ("ASX") Listing Rules provisions relevant to the Proposed Transaction and information in relation thereto. In preparing our Report, we have had regard to ASIC Regulatory Guide 111 and 112 relating to independent experts' reports.

The term 'fair and reasonable' has no legal definition although over time a commonly accepted interpretation has evolved. However, fair and reasonable has different meanings for different regulatory purposes.

ASIC Regulatory Guide 111 provides that the assessment of whether a proposal is fair and reasonable should involve a comparison of the likely advantages and disadvantages for non-associated shareholders if the Proposed Transaction is implemented and if they are not.

In essence, the proposal will be "fair and reasonable" if the non associated shareholders are better off if the proposal is implemented. They will be better off if the expected benefits outweigh the disadvantages to the non associated shareholders.

## 5. Basis of the Assessment (Continued)

ASIC regulatory Guide 111, states, inter alia:

- an offer is considered 'fair' if the value of the offer price or consideration is equal to, or greater than, the value of the securities that are the subject of the offer.
- an offer is considered 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

ASIC Regulatory Guide 111 requires the assessment of 'fair' to be made assuming 100% ownership of the Company. It considers it to be inappropriate to apply a discount to the value of the securities under the offer that would normally be considered in the valuation of a minority interest to reflect such factors as a lack of control. ASIC Regulatory Guide 111 also provides examples of factors that are relevant in an assessment of reasonableness. The form of analysis the expert uses to evaluate a transaction should address the issues faced by security holders.

In our opinion, for the purposes of this Report 'fairness' is taken to mean a reference to quantification of respective values of consideration being paid compared to the value of assets being transferred. 'Reasonableness' is taken to include consideration of other qualitative factors which can be assessed on objective grounds.

The assessment as to the fairness and reasonableness of the Proposed Transaction is set out in Section 8 of this Report.

## 6. VALUATION OF BPH ENERGY LIMITED SHARES – PRE PROPOSED TRANSACTION

### 6.1. VALUATION OVERVIEW

The usual approach to the valuation of an asset is to seek to determine what a willing but not anxious buyer, acting at arm's length, with adequate information, would be prepared to pay and a willing, but not anxious seller would be prepared to accept in an open market.

In valuing BPH prior to consideration of the Proposed Transaction, we have considered the following valuation approaches (further details on which are included as Appendix 1 to this Report):

- Discounted cash flow (DCF) approach;
- Capitalisation of future maintainable earnings (earnings based) approach;
- Orderly realisation of assets (asset based) approach;
- Quoted price for BPH listed securities (market value) approach; and
- Comparable Market Transactions.

In applying the above methodologies, it would be open to an expert to have regard to the amount an alternative bidder might be willing to offer if all the securities in the target were available for purchase, for example, in selecting earnings multiples and underpinning any overall judgment as to value.

### 6.2 VALUATION APPROACH

The traditional valuation method used to value companies is the capitalisation of future maintainable earnings, with such earnings being estimated using historical results. However, in order to adopt such a basis of valuation, a business must have a track record of profitability. As BPH does not have a track record of profitability having incurred consolidated losses of \$2.2 million, \$0.2 million and \$1.5 million (unaudited) for the years ended 30 June 2009, 2010 and 2011 respectively, we consider a valuation on this basis to be inappropriate.

MGICF believes that the most appropriate method for valuing the issued Shares in BPH is the asset-based approach. The most common form of asset-based approach is the Net Realisable Value method. The resultant net realisable assets of the Company can then be expressed in terms of a value per share.

As noted in Section 6.3 of this Report, the majority of BPH's assets (other than Cash and cash equivalents) are Financial Assets and Investments (Equity Method). In determining the net realisable value of the intangible assets, we have considered available information regarding its key projects and, in particular, BPH's half yearly report lodged with ASX on 14th February 2011 ("2010 Half Year Report"), and BPH's draft unaudited 30 June 2011 Annual Report 2011 ("30.06.11 Annual Report"). In particular, we note the following disclosures in the 2010 Half Year Report and 30.06.11 Annual Report in respect of the carrying values of its available for sale financial assets and its intangible assets (comprising mainly intellectual property), and subsequent events:

Financial Assets:

- These comprise secured and unsecured loans. Secured loans to Advent Energy, Cortical Dynamics and Molecular Discovery Systems Pty Ltd ("MDS") totalled approximately $2.3 million as at 30 June 2011. Subsequent to the year end Advent Energy has notified the Company that it intends to repay approximately $1.778 million of its debt.
- Unsecured loans as at 30 June 2011 totalled approximately $400,000, of which approximately $100,000 is not repayable for 12 months.

Interest in Associates:

This comprises a 20% interest in MDS and 27.4% interest in Advent Energy as at 30 June 2011.

- On 7 September 2010 MEC Resources Ltd ("MEC") sold 3 million shares in Advent Energy to BPH at 50c per share. MEC was issued 18.75M ordinary shares in BPH as consideration for this sale.
- On 16th December 2010 BPH increased its holding in Advent Energy Ltd ("Advent") to 27.4%. BPH subscribed for 11.4 million shares at an issue price of $1.25 under the Advent Bookbuild.
- Advent Energy completed the drilling operations of New Seaclem 1 in early January 2011. Whilst no hydrocarbons were encountered at prognosed target horizons reservoir quality sandstones of considerable thickness were observed. Invaluable information was obtained from the drilling that will allow Advent to further assess the numerous prospects and leads within PEP 11.
- The principal movement in the year ended 30 June 2011 comprises the additional investment in Advent Energy Limited referred to above. Management have made an assessment and believe that there was no material change in the fair value of the investment at Balance Sheet date (30.06.11). The investment in Advent Energy Limited was an arm's length transaction.

Intellectual Property Impairment:

- We note that intellectual property has been reviewed and the Directors are of the opinion that there have been no impairment triggers activated during the financial year. There has been no impairment charged to the unaudited profit and loss for the year.

Subsequent Events

- Subsequent to the year end, Advent Energy has notified the Company that it intends to repay approximately $1.778 million of its debt.

As a crosscheck to the valuation on the above basis, MGICF has used the market value approach with reference to the market price of BPH Shares prior to the announcement of the Proposed Transaction. This valuation crosscheck calculation is set out in Section 6.4.5 of this Report.

### 6.3 VALUE OF BPH'S SHARES *PRE* PROPOSED TRANSACTION

In establishing the value of BPH prior to the Proposed Transaction, the net asset backing per share has been determined based upon the unaudited position as at 30 June 2011, as adjusted for the anticipated loan repayment by Advent energy referred to in Section 6.2 above. We are not aware of any further material transactions. BPH's principal assets comprise Financial Assets, Cash and Cash Equivalents, and Investments (Equity). Valuation assessments were then carried out on BPH's other assets and liabilities, with no adjustments being made in this respect.

**Based on the unaudited 30 June 2011 Balance Sheet, as adjusted for the anticipated loan repayment by Advent Energy expected in August 2011, this has resulted in a net asset backing per share of 25.96 cents *pre* Proposed Transaction, as calculated below:**

#### 6.3.1 BPH ENERGY LIMITED

| Consolidated Balance Sheet | **Unaudited** 30 June 2011 | **Adjustments** | **Note** | **Adjusted** Unaudited 30 June 2011 |
|---|---|---|---|---|
| Current Assets | | | | |
| Cash and Cash Equivalents | 2,922,830 | 1,778,000 | 1 | 4,700,830 |
| Trade and Other Receivables | 2,857 | | | 2,857 |
| Financial Assets | 2,620,293 | (1,778,000) | 1 | 842,293 |
| Other Current Assets | 8,778 | | | 8,778 |
| Total Current Assets | 5,554,758 | - | | 5,554,758 |
| Non-Current Assets | | | | |
| Financial Assets | 149,019 | | | 149,019 |
| Investments in Associates | 51,143,364 | | | 51,143,364 |
| Intangible Assets | 72,454 | | | 72,454 |
| Property, Plant & Equipment | 2,060 | | | 2,060 |
| Total Non-Current Assets | 51,366,897 | | | 51,366,897 |
| Total Assets | 56,921,655 | | | 56,921,655 |
| Current Liabilities | | | | |
| Trade and Other Payables | 382,479 | | | 382,479 |
| Financial Liabilities | 434,853 | | | 434,853 |
| Short Term Provisions | 9,161 | | | 9,161 |
| Total Liabilities | 826,493 | | | 826,493 |
| Net Assets | 56,095,162 | | | 56,095,162 |
| Total number of Shares on issue – pre-consolidation | 216,106,227 | | | 216,106,227 |
| **Net asset backing per share (undiluted)** | | | | **25.96 cents** |

1 This comprises the anticipated repayment of $1.778 million by Advent Energy Limited.

## 6.4 ISSUED CAPITAL AND SHARE TRANSACTIONS

### 6.4.1 ISSUED CAPITAL

As at the date of this Report, the total issued share capital of BPH comprises 216,106,207 fully paid ordinary Shares. Movements in BPH's share capital since 31 December 2010 are provided in the table below. The values below are net of share issue costs.

| | Number of Shares | Note | $ |
|---|---|---|---|
| Balance as at 31 December 2010 [1] | 215,668,707 | Fully paid ordinary Shares | 42,825,310 |
| Issued 21 January 2011 | 437,500 | Payment for consulting services | 35,000 |
| As at the date of this Report [1] | **216,106,207** | | **42,860,310** |

[1] There are 9,375,000 shares on issue that are subject to escrow and hence are not currently listed on ASX, therefore the number of shares currently listed on ASX is 206,731,207.

### 6.4.2 OPTIONS

At the date of this Report, there are 14,051,356 Options on issue. Movements in BPH's Options on issue since 31 December 2010 are provided in the table below.

| | Number of Options | Note | $ |
|---|---|---|---|
| Balance as at 31 December 2010 | 13,896,356 | | 397,946 |
| Issued 21 January 2011 | 625,000 | Issued under Employee Option Scheme | 9,820 |
| As at the date of this Report | **14,521,356** | | **407,766** |

Of the total number of 14,051,356 Options on issue, 10,196,356 Options are listed on ASX and are exercisable at 20 cents each on or before 8 December 2011; there are 4,325,000 unlisted Options exercisable at varying prices between 16 cents and 89.4 cents, as detailed in the table below:

### 6.4.2 Options (Continued)

| Total Number | Exercise Price | Expiry Date | Type |
|---|---|---|---|
| 250,000 | (i) | 17 October 2011 | Unlisted |
| 250,000 | (i) | 29 April 2013 | Unlisted |
| 1,125,000 | $0.294 | 30 June 2013 | Unlisted |
| 500,000 | $0.294 | 16 December 2013 | Unlisted |
| 75,000 | $0.594 | 16 December 2013 | Unlisted |
| 1,500,000 | $0.894 | 30 September 2014 | Unlisted |
| 625,000 | $0.16 | 31 December 2014 | Unlisted |
| **4,325,000** | | | |

(i) The exercise price will be the average amount determined by the market price for the 5 days prior to the exercise.

### 6.4.3 Share Trading

The following summary provides details of the monthly trading volumes of BPH's Shares on ASX since 1 January 2011:

| Month | High | Low | Total Monthly Volume |
|---|---|---|---|
| August 2011 | 0.04 | 0.03 | 1,418,100 |
| July 2011 | 0.05 | 0.03 | 9,969,900 |
| June 2011 | 0.04 | 0.03 | 11,401,100 |
| May 2011 | 0.05 | 0.04 | 9,941,700 |
| April 2011 | 0.06 | 0.05 | 4,782,500 |
| March 2011 | 0.07 | 0.04 | 15,548,200 |
| February 2011 | 0.08 | 0.06 | 9,045,200 |
| January 2011 | 0.10 | 0.06 | 31,967,900 |

*Source: Yahoo Finance*

In the past 8 months the Company's share price has fluctuated from an initial low of 6 cents (rounded) at the beginning of January 2011 to a high of 10 cents later that month, returning to a low of 4 cents (rounded) in May and fluctuating predominantly between 3 and 4 cents (rounded) thereafter. Note the volume for the month of August is for a part month only to 8$^{th}$.

The Company's share price has fallen since its high of 10 cents in January after issuing its Appendix 4C for the quarter to 31 December 2010. Trading volumes have ranged from zero to 7.5 million shares per day, with an average of 530,206 since 4 January 2011. The highest trading volume occurred on 4 January 2011, pursuant to the announcement regarding the PEP 11 drilling update and the reinstatement of the Company to Official Quotation on ASX.

### 6.4.3 Share Trading (continued)

BPH Recent Share Price History:

The chart below represents the movement in BPH listed share price since mid-January 2011:


*Source: asx.com.au*

### 6.4.4 Schedule of Recent ASX Announcements

Recent announcements since the lodgement of the company's 31 December 2010 Half Year Financial Report on 14th February 2011 are summarised below:

| Date | ASX Announcement |
|---|---|
| 28/02/2011 | Amended Securities Trading Policy |
| 23/03/2011 | Swinburne University Magazine features BAR Monitor Unit |
| 23/03/2011 | BPH Investee Company features on Mining Matters Program |
| 29/03/2011 | MMR: Advent PEP 11 Permit Variation |
| 04/04/2011 | MMR: Advent Energy Ltd - Exploration Permit 386 Update |
| 06/04/2011 | Appendix 4C - quarterly |
| 27/05/2011 | Updated Capital Structure - Expiry of Unlisted Options |
| 02/06/2011 | Cortical Dynamics Ltd - Initial Public Offering |
| 14/06/2011 | Advent Energy Ltd - PESA Presentation |
| 14/06/2011 | Cortical Dynamics Ltd Update - Japanese Patent Granted |
| 24/06/2011 | MMR: Advent Energy Ltd - RL1 Independent Resource Audit |
| 06/07/2011 | MMR: Advent EP386/RL-1 and Ord Expansion Project |
| 12/07/2011 | Appendix 4C - quarterly |
| 21/07/2011 | MMR: MEC Resources - Boardroom Radio Broadcast |
| 25/07/2011 | Molecular Discovery Systems - Key HLS5 Cancer Role Report |

#### 6.4.5 MARKET VALUE

Since January 2011, the Company's share price has fluctuated from an initial low of 6 cents (rounded) at the beginning of January 2011 to a high of 10 cents later that month, returning to a low of 4 cents (rounded) in May and fluctuating predominantly between 3 and 4 cents (rounded) thereafter. Note the volume for the month of August is for a part month only to 8th.

The valuation per share determined in Section 6.3.1 should be considered in the light of the market's negative reaction (significant fall in MEC's share price) pursuant to its announcement regarding Advent's drilling update regarding PEP11 issued on 4th January 2011.

## 7. VALUATION OF BPH ENERGY LIMITED SHARES *POST* PROPOSED TRANSACTION

### 7.1 COMPONENTS OF THE PROPOSED TRANSACTION

The Company has received a share buy-back agreement from MEC Resources whereby the Company will buy back up to $1.35 million of MEC Resources' shareholding in the Company ("buy-back"). The directors expect to execute the agreement very shortly. The transaction is subject to the relevant provisions of the Corporation Act pertaining to selective share buy-backs.

### 7.2 NET ASSET VALUATION *POST* PROPOSED TRANSACTION

In establishing the value of BPH following completion of the Proposed Transaction, the net asset backing per share has been determined based upon the unaudited position as at 30 June 2011 as referred to in Section 6.3.1 of this Report, as further adjusted for the Buy-back resolution in the attached Notice of Meeting (NoM). Valuation assessments were then carried out on assets and liabilities, with the following matters being of particular relevance:

a) Fair Value of Investment in Advent

This is addressed in Sections 7.2.2 to 7.2.4 below and provides evidence that in our view no impairment adjustment to the carrying value of the proposed investment in Advent is necessary.

b) Cash Assets

These have been adjusted for the anticipated loan repayment of $1,778,000 from Advent Energy and the payment to be made in respect of the Buy-back and associated transaction costs.

c) Unexercised Options

It has been assumed that none of the BPH Options referred to in Section 6.4.2 are exercised. In the event that some, or all, of these are exercised, this will increase the available funds by the payment of the applicable exercise price and the issued share capital and the computation of net asset backing per share would need to be adjusted accordingly.

d) No adjustment has been made in respect of any potential taxation consequences in respect of the Proposed Transaction.

**This has resulted in a net asset backing per share of 32.27 cents *post* Proposed Transaction and on a post consolidation basis, as calculated below:**

7.2.1 Adjusted Unaudited Balance Sheet as at 30 June 2011 *Post* Proposed Transaction

| | Unaudited 30.06.11 $ | Loan repayment $ | NoM adjustments $ | Total Adjustments $ | Adjusted Post Proposed Transaction $ | Notes |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Cash | 2,922,830 | 1,778,000 | (1,380,000) | 398,000 | 3,320,830 | (ii) |
| Trade Receivables | 2,857 | - | | - | 2,857 | |
| Financial Assets | 2,620,293 | (1,778,000) | - | (1,778,000) | 842,293 | |
| Other current assets | 8,778 | - | | - | 8,778 | |
| Total current assets | 5,554,758 | - | (1,380,000) | (1,380,000) | 4,174,758 | |
| **Non Current Assets** | | | | | | |
| Financial Assets | 149,019 | - | - | - | 149,019 | (iii) |
| Investment in Associates | 51,143,364 | - | - | - | 51,143,364 | (iii)(v) |
| Intangibles | 72,454 | - | - | - | 72,454 | (iii) |
| PPE | 2,060 | - | - | - | 2,060 | |
| Total Non Current assets | 51,366,8927 | - | - | - | 51,366,897 | |
| **Total Assets** | 56,921,655 | - | (1,380,000) | (1,380,000) | 55,541,655 | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Payables | 382,479 | - | - | - | 382,479 | |
| Financial Liabilities | 434,853 | - | - | - | 434,853 | |
| Provisions | 9,161 | - | - | - | 9,161 | |
| **Total Liabilities** | 826,493 | - | - | - | 826,493 | |
| **Net Assets** | **56,095,162** | **-** | **(1,380,000)** | **(1,380,000)** | **54,715,162** | |
| **Equity** | | | | | | |
| Share Capital | 42,860,310 | - | (1,350,000) | (1,350,000) | 41,510,310 | (iv) |
| Reserves | 21,857,766 | - | - | - | 21,857,766 | |
| Retained Earnings | (8,568,986) | - | (30,000) | (30,000) | (8,598,986) | |
| Non-controlling Interest | (53,928) | - | - | - | (53,928) | |
| **Total Equity** | **56,095,162** | **-** | **(1,380,000)** | **22,362,792** | **54,715,162** | |

7.2.1 Adjusted Unaudited Balance Sheet as at 30 June 2011 *Post* Proposed Transaction (continued)

The above Balance Sheets should be read in conjunction with the attached Notes and Assumptions below and the matters referred to in Section 7.2 above.

Net Asset per share computation

| | Unaudited 30.06.11 | Loan repayment | NoM adjustments | Total Adjustments | Adjusted Post Proposed Transaction |
|---|---|---|---|---|---|
| Shares on issue | 216,106,207 | | (46,551,274) | (46,551,724) | 169,554,483 |
| Net Asset Backing per share (undiluted) | | | | | **0.3227** |

Notes and Assumptions

(i) The adjusted Balance Sheet comprises the unaudited consolidated balance sheet at 30 June 2011, as adjusted for the anticipated loan repayment by Advent Energy expected in August 2011 and completion of the Proposed Transaction as referred to in the attached NoM.

(ii) The Post transaction cash balance comprises:

| | $ |
|---|---|
| Consolidated Cash Balance as at 30 June 2011 | 2,922,830 |
| Loan repayment from Advent Energy (refer section 6.2 above) | 1,778,000 |
| Share Buy-back pursuant to Resolution 1 | (1,350,000) |
| Associated Costs | (30,000) |
| Cash Balance Post Proposed Transaction | 3,320,830 |

The Company's net cash backing per share will increase from 13.5 cents per share (at 30 June 2011) to 19.6 cents per share p*ost* proposed transaction - but fall from 21.8 cents per share after Advent's loan repayment expected in August 2011.

(iii) We have assumed that no impairment adjustments are necessary. Based on our review of the draft 2011 Annual Report, we are not aware of the necessity for any such adjustment.

(iv) The total number of Shares on issue at completion of the Proposed Transaction is set out below.

| | Number of Shares issued |
|---|---|
| Total on issue *pre* Proposed Transaction | 216,106,207 |
| Share Buy-back pursuant to Resolution 1 | (46,551,724) |
| On Issue *Post* Proposed Transaction [1] | 169,554,483 |

7.2.1 Adjusted Unaudited Balance Sheet as at 30 June 2011 *Post* Proposed Transaction (continued)

[1] The number of buy-back Shares will be determined by dividing the total Consideration by the 5-day volume weighted average closing price of Shares prior to the date of the buy-back. MEC Resources' holding will reduce by the number of buy-back Shares equal in value to $1.35 million (based on the buy-back price).

Based on the most recent transactions in the Company's shares at 2.9 cents on 10 August 2011, the estimated number of buy-back shares is 46,551,724 shares.

(v) Investment in associates comprises the Company's 20% interest in MDS and 27.4% in Advent Energy Limited. Further information and background is provided on these two companies in Sections 7.2.2 and 7.2.3 below.

7.2.2 Investment in MDS

MDS was launched in 2006 and was the subject of a 'spin off' by the Company in 2009. It is engaged in drug discovery and the validation of biomarkers for disease, therapy and diagnostics. It is intended that MDS will be the subject of an Initial Public Offering ("IPO") in the foreseeable future.

On 25 July 2011, MDS announced the confirmation of the publication of a peer reviewed scientific paper supporting the role of the cancer tumour suppressor gene, HLS5 (also known as TRIM35). Extracts of the announcement are reproduced below:

*"The study conducted by independent researchers in China found that reduced HLS5 levels were shown to correlate with worse tumour grade, increased tumour size and elevated serum AFP levels, a marker of liver cancer. The paper indicated that the loss of HLS5 expression is a critical event in liver cancer.*

*"The research paper, a collaborative effort between Fudan University, Shanghai Cancer Institute, Shanghai Jiao Tong University and Qi Dong Liver Cancer Institute, has been accepted for publication in the prestigious international journal Hepatology, and is titled 'Genome-Wide Copy Number Analyses Identified Novel Cancer Genes in Hepatocellular Carcinoma'. The research paper can be accessed at:*

*http://onlinelibrary.wiley.com/doi/10.1002/hep.24495/abstract*

*"This article defines key genes involved in liver cancer by identifying genes that are frequently altered in liver cancer. The paper identified 362 genes that were differentially expressed in liver cancers. Further investigations reduced the 362 genes down to 20 genes of interest, of which HLS5 was one. The study used a sizeable cohort of 207 paired liver cancer samples.*

*"By over-expressing HLS5 in two liver tumour cell lines, SMMC-7721 and Huh-7, the Chinese scientists determined that HLS5 was capable of significantly inhibiting the growth of liver cancer cells in vitro (within Petri dish) and tumour growth in vivo (animal studies). Furthermore, when the HLS5 gene was deliberately switched off by the researchers there was a significant increase in proliferation of liver cancer cells.*

*"Arguably the most significant finding was that out of a sizeable cohort, 207 paired liver tumour samples, HLS5 was negatively correlated with tumour size, tumour grade and AFP levels. The Authors suggest that the loss of HLS5 expression is a critical event in the development and progression of liver cancer.*

7.2.3 Investment in MDS (continued)

*"MDS has exclusive rights to the tumour suppressor gene HLS5, both as a potential therapeutic target and also underpinning its involvement in a variety of diseases. In recognition of its potential in detecting and treating cancer; HLS5 has attracted research funding from the NHMRC, Cancer Council of WA, the national Breast Cancer Foundation, the Medical Research Foundation of Royal Perth Hospital and the Scott Kirkbride Melanoma Research Centre. MDS is working with Professor Peter Klinken and his group in the Western Australian Institute for Medical Research (WAIMR).*

*"David Breeze, Chairman of BPH Energy, said, "The extensive overseas testing of the HLS5 gene by an independent research team has strongly correlated levels of HLS5 with liver cancer.*

*"The results indicate that the loss of HLS5 expression is a critical event in the development and progression of this cancer. This new study greatly supports the research by MDS and WAIMR on this tumour suppressor gene."*

7.2.3 Investment in Advent Energy

BPH Energy currently holds a passive interest of 27.4% in unlisted Australian exploration company Advent Energy Limited.

Advent Energy has assembled a range of hydrocarbon permits which contain near term production opportunities with pre-existing infrastructure and exploration upside.

Advent's assets include EP386 and RL1 (100%) in the onshore Bonaparte Basin in the north of Western Australia and Northern Territory, PEP11 (85%) in the offshore Sydney Basin and EP325 (8.3%) in the Exmouth Sub-basin of the Carnarvon Basin near Exmouth in WA. Advent's portfolio of assets has an estimated $156m invested historically on exploration.

An independently audited mean Contingent Resource of 18.4 Bcf for the Weaber Gas Field (RL1) has recently been assessed as a component of Advent's drive to commercialise its 100% owned onshore Bonaparte Basin assets. The current rapid development of the Kununurra region in northern Western Australia, including the Ord Irrigation Expansion Project and numerous resource projects, provides an opportunity for Advent to potentially develop its nearby gas resources.

The Sydney Basin is a proven petroleum basin with excellent potential for the discovery of gas and oil. The demonstration of an active hydrocarbon system with seeps reported in the offshore area and sampling indicated the presence of thermogenic hydrocarbon gas; this is considered to occur in basins actively generating hydrocarbons and /or that contain excellent migration pathways. Drilling during the period has shown that the early Permian geological sequence is mature for hydrocarbons.

Undiscovered prospective recoverable gas resources for structural targets within the PEP11 offshore permit have been estimated at 6 trillion cubic feet (at the P50 level) or up to 23.5 Tcf on a probabilistic mean calculation. PEP11 lies adjacent to the most populous region of Australia and the major industrial hub of Newcastle where LNG production facilities are being developed (independently of Advent).

Further more detailed information provided by Advent Energy on each of its exploration opportunities is provided below.

7.2.3 Investment in Advent Energy (continued)

PEP 11 Oil and Gas Permit

PEP 11, Covered by PEP 11, a 200km long, 8,250km$^2$ permit, the Offshore Sydney Basin is a significant exploration area with large scale structuring and potentially multi-Trillion cubic feet (Tcf) gas charged Permo-Triassic reservoirs.

The prospectivity of this proven petroleum basin has been enhanced by the confirmation of the presence of apparent ongoing hydrocarbon seeps. Sub-bottom profile data, swath bathymetry, seismic and echosounder data collected by Geoscience Australia along the continental slope / permit margin has demonstrated active erosional features in conjunction with geophysical indications of gas escape.

Advent has previously interpreted significant seismically indicated gas features. Key indicators of hydrocarbon accumulation features have been interpreted following review of the 2004 seismic data, reprocessed in 2010. The seismic features include apparent Hydrocarbon Related Diagenetic Zones (HRDZ), Amplitude Versus Offset (AVO) anomalies and potential flat spots.

Mapped prospects and leads within the Offshore Sydney Basin are generally located less than 50km from Australia's largest energy market, the Sydney-Wollongong-Newcastle greater metropolitan area. This area has a population of approximately 5,000,000 people. Traditionally, all natural gas used in New South Wales has been piped in from South Australia and the Bass Strait. However, studies by the Australian Bureau of Agricultural and Resource Economics (ABARE) and the Australian Petroleum Production and Exploration Association (APPEA) state that those sources may not be able to meet the demand for gas in the medium to longer term.

Although there have been over a thousand wells drilled in offshore Australia, Advent was the first company to conduct a petroleum exploration drilling exercise in the Offshore Sydney Basin. The New Seaclem-1 well concluded in January 2011. The well obtained a significant volume of valuable and new information about the offshore Sydney Basin – a previously unexplored area off NSW. Hydrocarbons were not recorded. Included in these discoveries was the identification of reservoir rocks consisting of high porosity tertiary sandstones. One such sandstone was interpreted to comprise 40 metres thickness with an average porosity of 30%, with considerable thickening updip potential for future exploration.

Other interpretations derived from the drilling of New Seaclem-1 included sedimentary age dating and hydrocarbon maturity through palynological studies. Results of these studies demonstrated that the sediments were of Early Permian age below the Unconformity separating these sediments and the Cainozoic seabed sediments. These sediments likely correspond with the Branxton Formation. In addition, these Early Permian sediments have been demonstrated to be mature for hydrocarbons.

Advent has demonstrated considerable gas generation and migration elsewhere within PEP11, with the previously observed mapped prospects and leads remaining highly prospective for gas.

Advent and its Joint Venture (JV) partner are discussing the future exploration programme in PEP11 with the excellent foundation of information obtained from New Seaclem-1. The JV is well positioned for future drilling having completed pre-drilling site surveys over four locations in June 2010. These are likely to be enhanced by 3D seismic acquisition prior to further exploration drilling. Details of future works will be advised in due course.

7.2.3 Investment in Advent Energy (continued)

Northern Territory/Western Australia – Onshore Bonaparte Basin

Advent Energy holds 100% in EP 386 and RL 1 in the onshore Bonaparte Basin in Northern Australia. The Bonaparte Basin is a hydrocarbon-bearing sedimentary basin straddling the border between the Northern Territory (NT) and Western Australia (WA). Most of the basin is located offshore, covering 250,000 square kilometres, compared to just over 20,000 square kilometres onshore. In April 2010, Advent successfully renewed EP386 for a further 5 year term.

EP 386 comprises an area of 2,568 square kilometres and covers the majority of the Western Australian section of the onshore Bonaparte Basin. Since 1960 twelve wells have been drilled in or near EP 386 and only sixteen in the whole of the onshore basin. Although no commercial fields have yet been developed, six exploration wells are classified as gas discoveries. The current West Australian gas prices enable the Company to re-evaluate the commercial development of these discoveries. The tenements contain five sub-commercial gas fields which could be advanced to commercial status with additional work, in particular the Garimala Gas Field which may have an areal extent of more than $10km^2$ and could trap more than 25 Bcf OGIP.

The main exploration target has been sandstone within a late Devonian-early Carboniferous sequence. This thick marine shale dominated sequence is interpreted to be the main source rock sequence for the greater Bonaparte Basin, including the offshore portion where gas resources have been identified.

Three modest gas discoveries have been made along the western edge of the basin, in an area characterised by a structural-stratigraphic trapping and active migration known as the Waggon Creek Embayment. In EP 386 the three main discoveries made so far, Vienta, Waggon Creek and Bonaparte, contain possible recoverable gas resources of 8 Bcf, 12 Bcf and 4 Bcf, respectively.

Waggon Creek-1, drilled in 1995, and Vienta-1, drilled in 1998, provided strong evidence of significant sweet gas-charged stratigraphic traps with fair to good quality sandstone reservoirs within the upper Milligans Formation. Preliminary reviews have indicated that:

- potential gas resources could be significantly higher than previously estimated;
- severe formation damages due to fines migration may have masked the true gas flow rate potential;
- true flow rate could be significantly higher than the calculated undamaged reservoir flow rates as experienced in similarly damaged reservoirs elsewhere in Australia and internationally; and
- there is strong evidence from the pressure data that there is considerable upside potential in the area if formation damage can be avoided.

Previous logging of Waggon Creek-1 indicated that it contains 28.5m of gross hydrocarbon bearing sandstone with an average log porosity of 22%. Drill stem testing demonstrated flow rates of over 1.3 million standard cubic feet of natural gas per day, including the recovery of oil of 31° API.

Drilling of Vienta-1 in 1998 demonstrated numerous gas shows within Enga Sandstone units, with dry gas flowed to surface and visual porosity described in the cuttings. A gas show was encountered whilst drilling in Enga shales, resulting in the well being shut in after taking a significant kick (spike in pressure). The well was flowing and gas was flared while circulating out the kick. The early onset of the wet season resulted in early termination of the programme before the Vienta-1 well could be tested.

7.2.3 Investment in Advent Energy (continued)

Both Waggon Creek-1 and Vienta-1 were cased and suspended for future production.

Advent has been preparing to perform workover and production tests on Waggon Creek-1 and Vienta-1 this dry season. The exceptional late wet season experienced around March 2011 hampered early efforts to access the sites, though Advent is on track for these activities to be achieved this dry season.

In the NT, Advent holds Retention Licence RL-1 (166 square kilometres in area), which covers the Weaber Gas Field which was originally discovered in 1985.

During the year, Advent undertook a review of all available well data from the Weaber wells, reprocessed all available seismic data covering the Weaber Gas Field and re-mapped the field. An independent resource audit was completed by respected petroleum industry consulting firm RISC Pty Ltd.

Advent has advised that the 2C Contingent Resources* for the Weaber Gas Field in RL1 are 11.5 billion cubic feet (Bcf) of natural gas following an independent audit by RISC. Significant upside 3C Contingent Resources of 45.8 Bcf have also been assessed by RISC.

Achieving the resources upgrade has been a major milestone for Advent, and is one of the first steps in unlocking substantial value as Advent moves forward to commercialise its onshore Bonaparte Basin assets.

The current rapid development of the Kununurra region in northern Western Australia, including the Ord River Irrigation Area phase 2, the township of Kununurra, and numerous regional resource projects provides an exceptional opportunity for Advent to potentially develop its nearby gas resources.

Advent believes the Ord Expansion project will impact positively on EP386.

The Department of State Development (WA) has described the Ord-East Kimberley Expansion Project as a nation building project to create stronger, sustainable regional communities in the East Kimberley. The $415 million investment includes $195 million from the Commonwealth Government for the East Kimberley Development Package, and $220 million from the WA Government for the Ord Irrigation Expansion Project.

The initial phase of works is currently underway north of Kununurra and adjacent to Advent's EP386 permit. The current Ord expansion project will bring road infrastructure to within 15 kilometres of Advent's Vienta-1 gas well in EP386 and will allow for the development of Advent's onshore Bonaparte Basin gas assets. The construction of all-weather sealed roads within the Ord phase two project provides for suitable infrastructure developments to support a commercial development of the field.

These important investments by the Commonwealth and WA governments provide the impetus for Advent to pursue its objective of developing its wholly owned petroleum resources within EP386 and RL1. Significantly, these investments will impact markedly on the energy requirements of the Kununurra region which is currently supplied by hydroelectricity from the Lake Argyle hydroelectric facility and diesel power generation.

Advent is in an exceptional position where it remains the operator and 100% owner of the only petroleum permits in the vicinity of this region.

7.2.3 Investment in Advent Energy (continued)

Western Australia – Exmouth Sub-Basin (EP325)

Advent Energy Ltd has an 8.3% interest (Permit Operator: Strike Energy Ltd) in a shallow, near shore permit in the Exmouth sub-Basin region of the Carnarvon Basin, which contains the undeveloped Rivoli Gas Field. The Rivoli Gas Field contains approximately 6.8 – 18 PJ of gas. The permit also contains the Rivoli Deep prospect and other leads. The Joint Venture is in ongoing discussions with The Department of Defence and Exmouth Power regarding potential gas supply.

Central Australia – Amadeus, Pedirka, Basins

Advent holds a large shareholding in Australian onshore hydrocarbon explorer Central Petroleum Ltd (ASX: CTP). Central Petroleum is actively exploring in its exploration tenements that cover approximately 270,000km2 of central Australia.

Advent has reserved its right to claim damages from Central Petroleum Ltd and its subsidiaries following repudiatory breach of contract regarding farmin by Advent to Central's permits.

7.3 Oil and Gas Industry

7.3.2 Short Term Energy Outlook

*Crude Oil and Liquid Fuels Overview*

Global oil demand growth, led by China, is expected to outpace the growth in supplies from countries outside of the Organisation of the Petroleum Exporting Countries (OPEC), leading markets to rely on both a drawdown of inventories and production increases in OPEC countries to close the gap. However, OPEC countries are not expected to markedly increase production over the next few months.

Among the major upside risks in the crude oil price outlook are additional supply disruptions in producing regions and higher-than-expected demand growth, particularly in the countries that are not members of the Organisation for Economic Co-operation and development (OECD). Downside risks for oil prices include the rate of global economic recovery and fiscal issues facing national and sub-national governments.

*Global Crude Oil and Liquid Fuels Consumption*

World crude oil and liquid fuels consumption grew to a record high 86.8 million barrels per day (bbl/d) in 2010. Despite continued concerns over the pace of the global economic recovery, particularly in OECD countries, the US's Energy Information Administration *("*EIA") expects that world consumption to grow by 1.4 million bbl/d in 2011 and by 1.6 million bbl/d in 2012, outpacing average global demand growth of 1.3 million bbl/d from 1998-2007, prior to the onset of the global economic downturn). Countries outside the OECD make up almost all of the projected growth in consumption over the next two years, with China accounting for almost half of this growth. Chinese oil demand continues to show strong growth despite Chinese measures to cool its economy down, and EIA's projections for Chinese oil demand growth have again been revised upwards.

7.3.2 Short Term Energy Outlook (continued)

*Non OPEC Supply*

EIA projects that non-OPEC crude oil and liquid fuels production will increase by an average 650 thousand bbl/d in 2011 and 2012. The greatest increases in non-OPEC oil production during 2011 and 2012 occur in Brazil, Canada, China, Columbia, Kazakhstan, and the United States, with annual average growth in each country of over 100 thousand bbl/d. At the same time, EIA expects production declines this year in the North Sea region of 140 thousand bbl/d, particularly in the United Kingdom, as well as declines in Yemen of 140 thousand bbl/d stemming from ongoing strife.

*OPEC Supply*

Forecast OPEC crude oil production is unchanged from last month's *Outlook*. EIA expects OPEC crude oil production will decline by about 250 thousand bbl/d in 2011, in large part due to the supply disruption in Libya. EIA assumes that about one-half of Libya's pre-disruption production will resume by the end of 2012, contributing to an overall increase in OPEC production of 500 thousand bbl/d in 2012. EIA projects that OPEC surplus crude oil production capacity will fall from 4.0 million bbl/d at the end of 2010 to 3.5 million bbl/d at the end of 2011, followed by a further decline to 3.3 million bbl/d by the end of 2012. Forecast OPEC non-crude liquids production, which is not subject to production targets, is expected to increase by 520 thousand bbl/d in 2011 and by 410 thousand bbl/d in 2012.

*OECD Petroleum Inventories*

EIA expects that OECD commercial inventories will decline in both 2011 and 2012. Days of supply (total inventories divided by average daily consumption) drop from a relatively high 58 days during the fourth quarter of 2010 to 56 days and 55 days in the fourth quarters of 2011 and 2012, respectively.

*Crude Oil Prices*

West Texas Intermediate ("WTI") crude oil spot prices fell from an average of $110 per barrel in April to $97 per barrel in July. During the first week of August, world crude oil prices fell by about $10 per barrel reflecting market concerns about world economic and oil demand growth.

However, EIA still expects oil markets to tighten as growing liquid fuels demand in emerging economies continues to outpace supply growth with continuing upward pressure on oil prices. EIA expects that WTI spot prices, which averaged $79 per barrel in 2010, will average $96 per barrel in 2011 and $101 per barrel in 2012, while the U.S. refiner average crude oil acquisition cost is projected to average $100 and $107 per barrel in 2011 and 2012, respectively.

Energy price forecasts are highly uncertain. WTI futures for October 2011 delivery over the 5-day period ending August 4 averaged $93 per barrel and implied volatility averaged 33 percent, establishing the lower and upper limits of a 95-percent confidence interval for the market's expectations of monthly average WTI prices in October of $75 per barrel and $116 per barrel, respectively. Last year at this time, WTI for October 2010 delivery averaged $82 per barrel and implied volatility averaged 30 percent. The corresponding lower and upper limits of the 95-percent confidence interval were $67 per barrel and $100 per barrel.

*Source: Energy Information Administration - Short Term Energy Outlook released 9 August 2011*

## 8. ASSESSMENT AS TO FAIRNESS AND REASONABLENESS

8.1 Assessment as to Fairness

As noted in Section 5 of this Report, an offer is considered "fair" if the value of the consideration being offered is equal to, or greater than, the value of the securities that are the subject of the offer. MGICF's assessment as to the fairness of the Proposed Transaction is set out below:

| MGICF valuation of BPH share prior to the Proposed Transaction | MGICF valuation of BPH share after completion of the Proposed Transaction |
|---|---|
| **25.96 cents** | **32.27 cents** |

After consideration of the above, the Proposed Transaction is considered to be **fair** to the non-associated shareholders of BPH as the preferred value of a share after completion of the Proposed Transaction is higher than the current value of a BPH share.

8.2 Assessment as to Reasonableness

ASIC Regulatory Guide 111 states that an offer is reasonable if it is fair. Under this criterion as the value of BPH Shares after completion of the Proposed Transaction is greater than their value prior thereto, the offer is reasonable. There are a number of other relevant factors to be considered in assessing the reasonableness of the Proposed Transaction. These factors are set out below as advantages and disadvantages.

**8.2.1** Advantages and Disadvantages of the Proposed Transaction proceeding:

*Advantages of the Proposed Transaction proceeding*

- The cash consideration to be paid for the Buy-back shares under the proposed Buy-back is currently lower than the fair value we have assessed for a BPH share. Therefore, the Company is acquiring the Buy-back shares at a discount;
- The collective interests in BPH of the non-associated shareholders will increase as a result of the reduction in the total number of shares on issue in BPH, thereby providing an attractive opportunity to achieve a more manageable capital structure and consolidate the ownership interests of the non-associated shareholders;
- The Company's has sufficient cash to fund the Buy-back and hence will incur minimal impact on its ability to pay its creditors;
- With fewer shares on issue, the Company's future earnings per share ("EPS") will increase after the Buy-back compared to what it would have been prior to the Buy-back.
- Whilst the Company's net cash backing will fall marginally, the Company's Net Asset backing per share will improve and hence there will be no dilution in the Company's Net Assets as a result of the Buy-back; and
- The Buy-back will remove the risk of an overhang in the market for the Company's listed shares that could result pursuant to a large parcel of BPH listed shares being placed for sale on the market at one time.

*Disadvantages of the Proposed Transaction proceeding*

- The relative size (percentage interest) of existing shareholders' interest in the Company will be increased which may provide certain shareholders with the ability to increase their influence on the Company; and

*Disadvantages of the Proposed Transaction proceeding (continued)*

- The Company's available cash reserves will be decreased which could otherwise be used in acquiring alternative investments or to further diversify the Company's existing investment portfolio.

8.2.2 Advantages and Disadvantages of the Proposed Transaction not Proceeding:

*Advantages of the Proposed Transaction not proceeding*

- The Company will avoid the disadvantages referred to above; and

*Disadvantages of the Proposed Transaction not proceeding*

- If the Proposed Transaction is not approved, the non-associated shareholders will miss out on the opportunity to own a proportionately greater interest in the Company and hence in any future increase in the Company's underlying value.

In our opinion, on balance, the advantages of approving the Proposed Transaction are greater than the disadvantages. These advantages arise both as a result of implementing the Proposed Transaction and of avoiding the disadvantages that may arise as a result of not implementing the Proposed Transaction. Accordingly, in our opinion, the Proposed Transaction is reasonable to the non-associated shareholders of BPH.

8.3 Conclusion

**Based on the valuation of a BPH share and on the above assessment, MGICF is of the opinion that the Proposed Transaction is fair and reasonable to the non-associated shareholders of BPH.**

## 9. Sources of Information

In making our assessment as to whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of BPH, we have reviewed relevant published available information and other unpublished information of the Company which is relevant in the circumstances. In addition, we have held discussions with the Company's Directors and management. Information we have received includes, but is not limited to the following:

- BPH's draft unaudited financial statements for the year ended 30 June 2011;
- BPH's Half Year Report to 31 December 2010;
- Information on Advent's projects provided by Advent Energy;
- Recent ASX announcements lodged by BPH;
- Recent ASX announcements lodged by MEC;
- Share price data for BPH;
- Information in the public domain;
- Discussions with Directors of BPH;
- BPH's buy-back agreement with Advent; and
- Draft Notice of Meeting and Explanatory Statement this Report will accompany.

## APPENDIX 1 OVERVIEW OF VALUATION METHODOLOGIES

Discounted cash flow (DCF) approach

- Discounted cash flow valuations ("DCF") involve projected cash flows being discounted by a discount rate which reflects the time value of money and the risk inherent in the cash flows. DCF valuations are arguably the most technically accurate method of valuing an asset or business, however, they suffer from the practical impediment that few companies have prepared cash flow forecasts of sufficient reliability over the necessary long time frame.
- The DCF methodology is typically the most appropriate valuation methodology where there is adequate information about likely future cash flows and usually over a finite term.

Capitalisation of future maintainable earnings (earnings based) approach

- The capitalisation of earnings methodology involves capitalising the earnings of the business at a multiple which reflects the risks of the business and the stream of income it generates. This methodology requires the estimation of future maintainable earnings having regard to historical and forecast operating results, including sensitivity to key industry risk factors, future growth prospects and the general economic outlook. The estimated realisable value of any surplus assets is then added to the capitalised earnings.
- The determination of an appropriate capitalisation rate will typically reflect a potential purchaser's required rate of return, risks inherent in the business, future growth prospects and alternative investment opportunities. This methodology is the most commonly used method for the valuation of industrial companies, which have a proven operating history and a consistent earnings trend.

Orderly realisation of assets (asset based) approach

- The realisation of net assets methodology is considered most appropriate where a business or company is not making an adequate return on its assets, where there are surplus non-operating assets or where investments are the primary asset. This methodology involves determining the net realisable value of the business' or company's assets assuming an orderly realisation of those assets.

Quoted price for BPH listed securities (market value) approach

- This approach reflects the quoted price for the listed securities of the company being valued and is most suited when there is a liquid and active market in those securities (and allowing for the fact that the quoted price may not reflect their value where 100% of the securities are available for sale).

Comparable market transactions approach

- This methodology entails obtaining information on any comparable transactions in the same industry for a similar entity to that being valued. If such transactions exist and the entity being valued is directly comparable to that being acquired then the assets, revenue or earnings multiples, or other relevant measures employed in the actual transaction can be utilised in the valuation.
- This methodology suffers from the difficulty in sourcing detailed information on the transaction to determine the basis of the consideration and the comparability of the two businesses or entities.

# SCHEDULE 2 – TERMS OF EMPLOYEE INCENTIVE OPTION SCHEME

# INCENTIVE OPTION SCHEME

The Directors are empowered to operate the Biopharmica Limited Incentive Option Scheme (**Scheme**) on the following terms and in accordance with the Listing Rules of ASX:

## 1. DEFINITIONS AND INTERPRETATION

### 1.1 Definitions

For the purposes of the Scheme, the following words have the following meanings:

**Associate** has the meaning given to that term in Section 12(2) of the Corporations Act.

**Associated Body Corporate** means:

(a) a related body corporate (as defined in the Corporations Act) of the Company;

(b) a body corporate which has an entitlement to not less than 20% of the voting Shares of the Company; and

(c) a body corporate in which the Company has an entitlement to not less than 20% of the voting shares.

**ASX** means Australian Stock Exchange Ltd.

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

**Business Day** means those days other than a Saturday, Sunday, New Year's Day, Australia Day, Good Friday, Easter Monday, Anzac Day, Christmas Day, Boxing Day and any other day which the ASX shall declare and publish is not a business day.

**Ceasing Date** has the meaning given in Rule 8.5.

**Ceasing Event** has the meaning given in Rule 8.6.

**Class Order** means ASIC Class Order 03/184 (or any amendment to or replacement of that Class Order).

**Company** means Biopharmica Limited (ACN 95 912 002).

**Corporations Act** means the Corporations Act 2001 (Cth), as amended from time to time.

**Directors** means the directors of the Company.

**Eligible Participant** means full or part time employees, Directors and consultants of the Company or an Associated Body Corporate, or any other persons working directly or indirectly for the Company on specified projects.

**Exercise Condition** means in respect of an Option, any condition set out in the Offer which must be satisfied before that Option can be exercised or any other restriction on exercise of that Option specified in the Offer or in these Rules.

**First Quotation** means the day on which Shares are first quoted on the official list of ASX.

**Group** means the Company or an Associated Body Corporate.

**Income Tax Assessment Act** means the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) as appropriate.

**Lapsing Date** means, in respect of an Option, the date which is two (2) years after the date of the grant of that Option, or such other date as the Board determines in its discretion with respect to that Option at the time of the grant of that Option.

**Listing Rules** means the official listing rules of ASX as amended from time to time.

**Offer** means an offer made to an Eligible Participant to subscribe for one or more Options under the Scheme.

**Offer Document** means an offer document in substantially the same form as set out in Schedule 2, or such other form as prescribed by the Corporations Act or the Class Order.

**Option** means an option granted pursuant to these Rules to subscribe for one Share upon and subject to the terms of these Rules and the terms of the Offer.

**Option Exercise Price** means the exercise price of an Option, as determined in accordance with clause 7.1.

**Marketable Parcel** has the meaning given to that term in the Listing Rules.

**Participant** means an Eligible Participant to whom Options have been granted under the Scheme, or if Rule 6.4 applies, an Associate of the Eligible Participant to whom Options have been granted under the Scheme.

**Permanently Disabled** means, in relation to a Participant, a Participant who is deemed, at the discretion of the Board, to be totally and permanently disabled.

**Relevant Person** means:

(a) in respect of an Eligible Participant, that person; and

(b) in respect of a Nominee of an Eligible Participant being a permitted Nominee under Rule 6.4, that Eligible Participant.

**Rules** means the rules of the Scheme set out in this document.

**Scheme** means the scheme established in accordance with these Rules.

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

**Shareholder** means a holder of Shares.

**Trigger Event** means:

(a) the despatch of a notice of meeting to consider a scheme of arrangement between the Company and its creditors or members or any class thereof pursuant to section 411 of the Corporations Act;

(b) the announcement of a takeover bid or receipt by the Company of a bidder's statement in respect of the Company; or

(c) the date upon which a person or a group of associated persons becomes entitled, subsequent to the date of grant of the Option, to sufficient Shares to give it or them the ability, in general meeting, to replace all or allow a majority of the Board in circumstances where such ability was not already held by a person associated with such person or group of associated persons.

## 2. INTERPRETATION

In this Scheme unless the context otherwise requires:

(a) headings are for convenience only and do not affect its interpretation;

(b) an obligation or liability assumed by, or a right conferred on, 2 or more Parties binds or benefits all of them jointly and each of them severally;

(c) the expression **person** includes an individual, the estate of an individual, a corporation, an authority, an association or joint venture (whether incorporated or unincorporated), a partnership and a trust;

(d) a reference to any party includes that party's executors, administrators, successors and permitted assigns, including any person taking by way of novation;

(e) a reference to any document (including this Scheme) is to that document as varied, novated, ratified or replaced from time to time;

(f) a reference to any statute or to any statutory provision includes any statutory modification or re-enactment of it or any statutory provision substituted for it, and all ordinances, by-laws, regulations, rules and statutory instruments (however described) issued under it;

(g) words importing the singular include the plural (and vice versa) and words indicating a gender include every other gender;

(h) reference to parties, clauses, schedules, exhibits or annexures are references to parties, clauses, schedules, exhibits and annexures to or of this Scheme and a reference to this Scheme includes any schedule, exhibit or annexure to this Scheme;

(i) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning; and

(j) a reference to **$** or **dollar** is to Australian currency.

## 3. PURPOSE

The purpose of the Scheme is to:

(a) encourage participation by Eligible Participants in the Company through Share ownership; and

(b) attract, motivate and retain Eligible Participants.

## 4. COMMENCEMENT

This Scheme will commence on the date determined by the Board.

## 5. OPTION GRANTS

### 5.1 Entitlements

The formula by which the entitlements of Eligible Participants shall be determined shall be at the absolute discretion of the Directors and shall take into account skills, experience, length of service with the Company, remuneration level and such other criteria as the Directors consider appropriate in the circumstances.

### 5.2 Number of Options

Subject to Rule 5.4, the number of Options (if any) to be offered to an Eligible Participant from time to time will be determined by the Board in its discretion and in accordance with the Rules and applicable law.

### 5.3 No Consideration

Options issued under the Scheme will be issued for no consideration.

### 5.4 Limitation of Offers

If the Company makes an Offer where:

(a) the total number of Shares to be received on exercise of Options the subject of that Offer, exceeds the limit set out in the Class Order; or

(b) the Offer does not otherwise comply with the terms and conditions set out in the Class Order,

the Company must comply with Chapter 6D of the Corporations Act at the time of that Offer.

## 6. OFFERS OF OPTIONS

### 6.1 Determination by the Board

The Board, acting in its absolute discretion, may:

(a) offer Options to any Eligible Participant from time to time as determined by the Board and in exercising that discretion, may have regard to some or all of the following:

  (i) the Eligible Participant's length of service with the Group;

  (ii) the contribution made by the Eligible Participant to the Group;

  (iii) the potential contribution of the Eligible Participant to the Group; or

  (iv) any other matter the Board considers relevant; and

(b) impose conditions, including performance-related conditions, on the right of a Participant to exercise any Option granted.

### 6.2 Offer Document

An Offer must be made using an Offer Document.

### 6.3 Personal Offer

Subject to Rule 6.4 and the other provisions of these Rules, an Offer is personal and is not assignable.

### 6.4 Renunciation

Upon receipt of an Offer, an Eligible Participant may, by notice in writing to the Board, nominate an Associate of that Eligible Participant (**Nominee**) in whose favour the Eligible Participant wishes to renounce the Offer. The Board may, in its discretion, resolve not to allow a renunciation of an Offer in favour of a Nominee without giving any reason for that decision. If the Board resolves to allow a renunciation of an Offer in favour of a Nominee, the Eligible Participant will procure that the permitted Nominee accepts the Offer made to that Eligible Participant and that both the Eligible Participant and the Nominee agree to be bound by the Rules.

### 6.5 Time Period

An Eligible Participant (or permitted Nominee) may only accept an Offer within the time period specified in the Offer Document.

## 7. EXERCISE PRICE

### 7.1 Option exercise price

In respect of any proposed Offer, the Board may determine the Option Exercise Price for that Offer in its absolute discretion.

### 7.2 Minimum Exercise Price

Subject to the Listing Rules, the Option Exercise Price may be nil but to the extent the Listing Rules specify or require a minimum price, the Option Exercise Price in respect of an Offer made following First Quotation must not be less than any minimum price specified in the Listing Rules.

## 8. WHEN OPTIONS MAY BE EXERCISED

### 8.1 Exercise

(a) Subject to Rules 1.1(b), 8.4 and 8.5, a Participant will be entitled to exercise Options granted as a result of an Offer in respect of which all Exercise Conditions have been satisfied and which are otherwise capable of exercise in accordance with the terms of the relevant Offer and the Rules.

(b) An Option may not be exercised if it was issued in accordance with the Class Order and the Class Order prohibits the exercise of the Option.

(c) Once an Option is capable of exercise in accordance with this Rule 8.1, it may be exercised at any time up until 5.00pm in Perth on the Lapsing Date.

### 8.2 One or Several Parcels

Subject to Rule 8.1, Options may be exercised in one or more parcels of any size, provided that the number of Shares issued upon exercise of the number of Options in any parcel is not less than a Marketable Parcel.

### 8.3 Adjustment to Terms of Exercise

(a) The Board will have the power to make adjustments to or vary the terms of exercise of an Option. Following First Quotation, any proposed variation or adjustment will be subject to any requirements of the Listing Rules.

(b) No adjustment or variation of the terms of exercise of an Option will be made without the consent of the Participant who holds the relevant Option if such adjustment or variation would have a materially prejudicial effect upon the Participant (in respect of his or her outstanding Options), other than an adjustment or variation introduced primarily:

(i) for the purpose of complying with or conforming to present or future State, Territory or Commonwealth legislation governing or regulating the maintenance or operation of the Scheme or like Schemes;

(ii) to correct any manifest error or mistake; or

(iii) to enable a member of the Group to comply with the Corporations Act, the Listing Rules, applicable foreign law, or a requirement, policy or practice of the ASIC or other foreign or Australian regulatory body.

### 8.4 Lapsing of Options

The options will expire at 5pm WST on the 30 June 2012 or such other date as the directors determine at the time of making the offer.

Subject to the terms of the Offer made to a Participant and unless Rule 8.6 or 8.7 applies, a Participant's Options will lapse immediately and all rights in respect of those Options will thereupon be lost if, in respect of a Participant or an Offer:

(a) the Relevant Person ceases to be an employee or director of, or to render services to, a member of the Group for any reason whatsoever (including without limitation resignation or termination for cause) and the Exercise Conditions have not been met;

(b) the Exercise Conditions are unable to be met;

(c) the Lapsing Date has passed; or

(d) the deadline provided for in Rule 8.5 has passed,

whichever is earlier.

### 8.5 Cessation of Employment where Exercise Conditions met

Where a Relevant Person ceases to be an employee or director of, or to render services to, a member of the Group for any reason whatsoever (including without limitation resignation or termination for cause) prior to the Lapsing Date in relation to the Options granted under an Offer (**Ceasing Date**) and the Exercise Conditions have been met, the Participant will be entitled to exercise Options granted as a result of an Offer in accordance with the terms of the Offer and the Rules, for a period of up to 30 days after the Ceasing Date, after which the Participant's Options will lapse immediately and all rights in respect of those Options will thereupon be lost.

**8.6 Death, Permanent Disability, Retirement or Redundancy**

If in respect of a Participant, the Relevant Person dies, becomes Permanently Disabled, resigns employment on the basis of retirement from the workforce or is made redundant by the relevant member of the Group, prior to the Lapsing Date of any Options granted to that Participant (**Ceasing Event**):

(a) the Participant or the Participant's legal personal representative, where relevant, may exercise those Options which at that date:

(i) have become exercisable;

(ii) have not already been exercised; and

(iii) have not lapsed,

in accordance with Rule 1.1(c);

(b) at the absolute discretion of the Board, the Board may resolve that the Participant, or the Participant's legal personal representative, where relevant, may exercise those Options which at that date:

(i) have not become exercisable; and

(ii) have not lapsed,

in accordance with Rule 1.1(c) and, if the Board exercises that discretion, those unexercisable Options will not lapse other than as provided in Rule 1.1(c);

(c) (i) The Participant or the Participant's legal personal representative (as the case may be) must exercise the Options referred to in Rule 1.1(a) and, where permitted, Rule 1.1(b), no earlier than First Quotation and not later than the first to occur of: (A) the Lapsing Date of the Options in question; and (B) the date which is 6 months after the Ceasing Event or 6 months after First Quotation (whichever occurs first) provided that in the case of Options referred to in Rule 1.1(b), all Exercise Conditions have been met at that time (unless the Board decides to waive any relevant Exercise Conditions, in its absolute discretion).

(ii) Options which have not been exercised by the end of the period specified in Rule 1.1(c)(i) lapse immediately at the end of that period and all rights in respect of those Options will thereupon be lost.

(iii) Where the Lapsing Date for an Option the subject of this Rule 8.6 occurs before First Quotation, that Option lapses at the end of its Lapsing Date and all rights in respect of that Option will thereupon be lost notwithstanding the terms of this Rule 8.6.

**8.7 Discretionary Exercise of Options**

Where, in respect of a Participant, the Relevant Person ceases to be an employee or director of, or to render services to, a member of the Group, for any reason, prior to the date on which Options become exercisable, the Board may, in its absolute discretion, determine that some or all of the Options held by that Participant do not lapse and may be exercised by the Participant, if otherwise permitted under the Rules, within such additional time as is determined by the Board following the

Ceasing Date. Options which have not been exercised by the end of that period lapse immediately and all rights in respect of these Options will thereupon be lost.

**8.8 Entitlement**

(d) Each Option entitles the holder to subscribe for and be allotted one Share.

(e) Shares issued pursuant to the exercise of Options will in all respects, including bonus issues and new issues, rank equally and carry the same rights and entitlements as other Shares on issue.

## 9. MANNER OF EXERCISE OF OPTIONS

**9.1 Delivery to Company Secretary**

Options granted to a Participant may only be exercised by delivery to the Company's secretary (at a time when the Options may be exercised) of:

(a) the certificate for the Options or, if the certificate for the Options has been lost, mutilated or destroyed, a declaration to that effect, accompanied by an indemnity in favour of the Company against any loss, costs or expenses which might be incurred by the Company as a consequence of its relying on the declaration that the certificate has been lost, mutilated or destroyed;

(b) a notice in the form of Schedule 1 addressed to the Company and signed by the Participant:

(i) stating that the Participant exercises the Options and specifying the number of Options which are exercised; and

(ii) specifying the subregister of the Company in which the Shares referred to in Rule 1.1(a) are to be recorded; and

(c) payment to the Company of an amount equal to the Option Exercise Price multiplied by the number of Options which are being exercised unless there is no exercise price payable in respect of the Options to be exercised.

**9.2 Issue of Shares**

If the items specified in Rule 9.1 are delivered in accordance with that Rule, the Company will, subject to the Listing Rules (if relevant):

(a) within 10 Business Days of delivery of the documents referred to in Rule 9.1 issue to the Participant the Shares credited as being fully paid in respect of which the Options are exercised together with any additional Shares an entitlement to which has arisen under Rules 9 and 10 in consequence of the exercise of the Options; and

(b) cancel the certificate delivered pursuant to Rule 1.1(a) and, if any Options which have not lapsed remain unexercised, deliver to the Participant a replacement certificate reflecting the number of those Options which remain unexercised.

**9.3 Death of Participant**

If a Participant has died, the Participant's legal personal representative will stand in the place of the Participant for the purposes of Rules 9.1 and 9.2 subject only to prior production to the Company of such evidence as would be required to permit the legal personal representative to become registered as a shareholder in respect of the Shares held by the Participant.

### 9.4 Beneficial Owner of Shares

From and including the date of issue to a Participant of any Shares in accordance with these Rules, the Participant will:

(a) be the beneficial owner of those Shares; and

(b) subject to Rule 9.6, the Corporations Act, the Constitution and, after First Quotation, the Listing Rules, be entitled to deal with those Shares as beneficial owner.

### 9.5 Equal Rank

A Share issued on exercise of an Option will rank equally in all respects with Shares already on issue on the date of exercise of the Option, except for entitlements which had a record date before the date of issue of that Share.

### 9.6 Official Quotation

After First Quotation, the Company will make application for Shares which are issued after that time pursuant to Rule 9.2 to be quoted in accordance with the Listing Rules.

## 10. NOTICE OF ADJUSTMENTS AND CUMULATION OF ADJUSTMENTS

### 10.1 Cumulation of Adjustments

Effect will be given to Rule 10 in such manner that the effect of the successive applications of them is cumulative, with the intention being that the adjustments they progressively effect will reflect previous adjustments.

### 10.2 Notice of Adjustments

Whenever the number of Shares comprised in an Option or the Option Exercise Price is adjusted pursuant to these Rules, the Company will give notice of the adjustment to the Participant and ASX together with calculations on which the adjustment is based.

## 11. NEW ISSUES AND ADJUSTMENTS FOR RIGHTS ISSUES

### 11.1 Participation generally

There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

### 11.2 Rights Issues

If the Company makes a pro rata issue of securities (except a bonus issue) to the holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the Option Exercise Price shall be reduced according to the formula specified in the Listing Rules.

**11.3 Bonus issues**

In the event of a bonus issue of Shares being made pro-rata to Shareholders, (other than an issue in lieu of dividends), the number of Shares issued on exercise of each Option will include the number of bonus Shares that would have been issued if the Option had been exercised prior to the record date for the bonus issue. No adjustment will be made to the exercise price per Share of the Option.

**11.4 Quotation**

Options will not be quoted on ASX. However, application will be made to ASX for official quotation of the Shares allotted pursuant to the exercise of Options if the Company's Shares are listed on ASX at that time.

**11.5 Applications**

An application to be issued Options may be made by persons invited to participate in the Scheme in such form and upon such terms and conditions concerning the closing date for applications as are approved by the Directors from time to time.

**11.6 Reorganisation**

The terms upon which Options will be granted will not prevent the Options being reorganised as required by the Listing Rules on the reorganisation of the capital of the Company.

**11.7 Assignment and Transfer**

An Option may not be transferred or assigned except in the following circumstances:

(a) to a legal personal representative of a holder of an Option who has died or whose estate is liable to be dealt with under laws relating to mental health after the production to the Directors of such documents or other evidence as the Directors may reasonably require to establish that entitlement; and

(b) upon the occurrence of a Trigger Event, in accordance with clause 14.

## 12. OVERRIDING RESTRICTIONS ON ISSUE AND EXERCISE

Notwithstanding the Rules or the terms of any Option, no Option may be offered, granted or exercised and no Share may be issued under the Scheme if to do so:

(a) would contravene the Corporations Act, the Listing Rules or any other applicable law; or

(b) would contravene the local laws or customs of an Eligible Participant's country of residence or in the opinion of the Board would require actions to comply with those local laws or customs which are impractical.

## 13. AMENDMENT OF RULES

Subject to and in accordance with the Listing Rules (including any waiver granted under such Listing Rules), the Directors (without the necessity of obtaining the prior or subsequent consent of Shareholders of the Company in a general meeting) may from time to time amend (including the power to revoke, add to or vary) all or any provisions of the Rules in any respect whatsoever, by an instrument in writing, provided that rights or entitlements in respect of any Option granted before the date of amendment shall not be reduced or adversely affected unless prior written approval from the affected holder(s) is obtained.

## 14. TRIGGER EVENT

Notwithstanding the Rules of the Scheme, upon the occurrence of a Trigger Event, the Directors may determine:

(a) that the Options may be exercised at any time from the date of such determination, and in any number until the date determined by the Directors acting bona fide so as to permit the holder to participate in any change of control arising from a Trigger Event, provided that the Directors will forthwith advise in writing each holder of such determination. Thereafter, the Options shall lapse to the extent they have not been exercised; or

(b) to use their reasonable endeavours to procure that an offer is made to holders of Options on like terms (having regard to the nature and value of the Options) to the terms proposed under the Trigger Event in which case the Directors shall determine an appropriate period during which the holder may elect to accept the offer and, if the holder has not so elected at the end of that period, the Options shall immediately become exercisable and if not exercised within 10 days, shall lapse.

## 15. ADMINISTRATION OF SCHEME

(a) The Directors may appoint for the proper administration and management of the Scheme, such persons as it considers desirable and may delegate thereto such authorities as may be necessary or desirable for the administration and management of the Scheme.

(b) Subject to the provisions of the Rules, the Directors may make such regulations and establish such procedures for the administration and management of the Scheme as they consider appropriate.

(c) The decision of the Directors as to the interpretation, effect or application of the Rules will be final.

## 16. RIGHTS OF ELIGIBLE PARTICIPANTS

Neither participation in the Scheme by the Company or an Associated Body Corporate or any Eligible Participants or Option holders or anything contained in these Rules shall in any way prejudice or affect the right of the Company or an Associated Body Corporate to dismiss any Eligible Participant or Option holder or to vary the terms of employment of any Eligible Participant or Option holder. Nor shall participation or the rights or benefits of an Eligible Participant or Option holder under the Rules be relevant to or used as grounds for granting or increasing damages in any action brought by an Eligible Participant or Option holder against the Company or an Associated Body Corporate whether in respect of any alleged wrongful dismissal or otherwise.

## 17. ATTORNEY

Each Participant, in consideration of an Offer:

(a) irrevocably appoints the Company and any person nominated from time to time by the Company (each an "attorney"), severally, as the Participant's attorney to complete and execute any documents including applications for Shares and Share transfers and to do all acts or things on behalf of and in the name of the Participant which may be convenient or necessary for the purpose of giving effect to the provisions of these Rules;

(b) covenants that the Participant will ratify and confirm any act or thing done pursuant to this power;

(c) releases each member of the Group and the attorney from any liability whatsoever arising from the exercise of the powers conferred by this Rule; and

(d) indemnifies and holds harmless each member of the Group and the attorney in respect thereof.

## 18. ASIC RELIEF

Notwithstanding any other provisions of the Scheme, every covenant or other provision set out in an exemption or modification granted from time to time by the ASIC in respect of the Scheme pursuant to its power to exempt and modify the Corporations Act and required to be included in the Scheme in order for that exemption or modification to have full effect, is deemed to be contained in the Scheme. To the extent that any covenant or other provision deemed by this Rule to be contained in the Scheme is inconsistent with any other provision in the Scheme, the deemed covenant or other provision shall prevail.

## 19. NOTICES

Any notice to Participants may be given in such manner as the Board determines.

## 20. GOVERNING LAW

This Scheme is governed by and shall be construed and take effect in accordance with the laws of Western Australia.

## SCHEDULE 1 – NOTICE OF EXERCISE OF OPTIONS

To: The Directors
Biopharmica Limited

I/ We ______________________________ of ______________________________________ ________________________________ being registered holder(s) of the options to subscribe for fully paid ordinary shares in the Company set out on the certificate annexed to this notice, hereby exercise ________________ of the abovementioned options. I/We enclose my/our cheque for $ _______________ in payment of the application monies due in respect of those shares calculated on the basis of $ _____________ per share.

I/ We authorise and direct the Company to register me/us as the holder(s) of the shares to be allotted to me/us and I/we agree to accept such shares subject to the provisions of the Constitution of the Company.

Dated the day of 2008.

________________________________

**Signature of Holder(s)**

Note:

1. Each holder must sign.
2. An application by a company must be executed in accordance with section 127 of the Corporations Act 2001 (Cth) and if signing for a company as a sole director/secretary – ensure "sole director" and "sole secretary" is written beside the signature.
3. Cheques should be made payable to Biopharmica Limited.

## SCHEDULE 2 – OFFER DOCUMENT

[Name and address of employee]

Dear [*]

**INCENTIVE OPTION SCHEME**

The board of directors of Biopharmica Limited (**Company**) is pleased to make an offer to you of [*] options pursuant to its employee incentive option scheme (**Scheme**).

In accordance with ASIC Class Order 03/184, the Company informs you of the following:

(a) accompanying this letter is a full copy of the terms of the Scheme;

(b) this offer remains open for acceptance by you for 14 days from the date of this letter (**Offer Period**);

(c) the options under the Scheme will be granted to you for nil consideration;

(d) the exercise price of each of the options is $0.15 and the expiry date is 30 June 2013;

(e) during the period commencing after 12 months and ending prior to 24 months from the date of issue of the options, only exercise up to one third of the options issued to you on the date of issue; during the period commencing after 24 months and ending prior to 36 months from the date of issue of the options, only exercise up to two thirds of the options issued to you on the date of issue; during the period commencing after 36 months and ending prior to 60 months from the date of issue of the options, all of the options issued to you on the date of issue.

(f) the Company undertakes that during the period commencing on the date of this letter and expiring at the end of the Offer Period, it will within a reasonable period of you so requesting, make available to you the current market price of the underlying shares to which the options relate;

(g) that, unless at the time of the exercise of the options the shares the subject of those options will be in the same class as securities which have been quoted on the financial market operated by Australian Stock Exchange Limited or an approved foreign market throughout the 12 month period immediately preceding the exercise date of the options without suspension for more than a total of 2 trading days during that period, the Company will have a prospectus available in relation to the shares the subject of the options which complies with the requirements of the Corporations Act; and

(h) employees cannot exercise the options being offered unless either a current prospectus is available to them or the shares the subject of the options are in the same class as securities which have been quoted on the financial market operated by Australian Stock Exchange Limited or an approved foreign market throughout the 12 month period immediately preceding the exercise date of the options without suspension for more than a total of 2 trading days during that period.

Could you please confirm your acceptance of the offer set out in this letter by signing in the appropriate place below and returning it to the Company on facsimile number 9 328 8733.

Yours faithfully

**[*]**
**For and on behalf of**
**BIOPHARMICA LIMITED**

Encl.

---

I agree to the terms and conditions set out above and accept the offer of options as contained in the letter set out above.

______________________________

Name:________________________

Date:_________________________

# PROXY FORM

**BPH ENERGY LTD**
**ACN 095 912 002**

**GENERAL MEETING**

I/We ______________________________

of ADDRESS ______________________________

being a member of BPH Energy Ltd entitled to attend and vote at the General Meeting, hereby appoint:

NAME OF PROXY ______________________________

**Please note**: Leave the above box blank if you have selected the Chair of the Meeting as your proxy.

***OR*** ☐ the Chair of the General Meeting as my proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the General Meeting to be held at 11:00am (WST), on Thursday 15 September 2011 at 14 View Street, North Perth, Western Australia, and at any adjournment thereof.

If no directions are given, the Chair intends to vote in favour of all the Resolutions.

If the Chair of the General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolutions 1 to 2** please place a mark in this box: ☐

By marking this box, you acknowledge that the Chair of the General Meeting may exercise your proxy even if s/he has an interest in the outcome of Resolutions 1 to 2 and that votes cast by the Chair of the General Meeting for Resolutions 1 to 2 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 1 to 2 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 1 to 2.

***OR***

**Voting on Business of the General Meeting**

| | **FOR** | **AGAINST** | **ABSTAIN** |
|---|---|---|---|
| Resolution 1 – Selective Share Buy-back | ☐ | ☐ | ☐ |
| Resolution 2 – Renewal of Employee Incentive Option Scheme | ☐ | ☐ | ☐ |

**Please note**: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is ________%

**Signature of Member(s):** **Date:** ____________________

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

**Contact Name:** ______________________________ **Contact Ph (daytime):** ______________________________

This form should be signed by the Shareholder. If a joint holding, either holder may sign. If signed by the Shareholder's attorney, the power of attorney must have been previously noted by the Company or registry (as the circumstances require) or a certified copy must be attached to this form when it is returned. If executed by a company, the form must be executed in accordance with the company's constitution or section 127(l) of the *Corporations Act* 2001 (Cth).

# BPH ENERGY LTD
# ACN 095 912 002

**Instructions for Completing 'Appointment of Proxy' Form**

1. (**Appointing a Proxy**): A member entitled to attend and vote at the General Meeting is advised:

   - they are entitled to appoint a proxy to attend and vote on the meeting on their behalf;
   - a duly appointed proxy need not be a member of the Company; and
   - a member entitled to attend and cast two or more votes at a meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf.

   A member may appoint the Chair as their proxy by marking the box at the beginning of the Proxy Form. If the Chair is appointed, a member may direct how the Chair is to vote by marking one of the boxes opposite each item of business, and they must vote as directed. If the appointed Proxy is the Chair and the member does not direct how they are to vote, the member will be taken to have directed the Chair to vote as the Chair intends in respect of the Resolution. If the person to be appointed as a proxy is someone other than the Chair that person's name or name of the office of that person must be written in the specified box on the Proxy Form. If this box is left blank, or the named proxy does not attend the meeting, the Chair will be the member's proxy.

   The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.

2. (**Direction to Vote**): A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked, the proxy may vote as they choose. If a member wishes to apportion their voting rights, they may do so by inserting a percentage or number of securities in they wish to vote in the 'For', 'Against' or 'Abstain' boxes. The sum of the votes cast must not exceed their voting entitlement or 100%. If a person appointed as a proxy for a member who is entitled to vote (and such proxy is not chairing the meeting) abstains from voting and the directions on the Proxy Form require that person to vote, the votes not exercised by that person will be given to the Chair to vote in accordance with the directions on the Proxy Form. A proxy holder who holds contradictory instructions from multiple members must not vote on a show of hands. Unless authorised by ASIC, if a member of Key Management Personnel or their Closely Related Parties is appointed as a proxy, they are not permitted to vote undirected proxies on remuneration matters (arising directly or indirectly in connection with remuneration of Key Management Personnel), related party benefit matters under Chapter 2E of the Corporations Act and any spill resolutions. However, the chair may vote a proxy that does not specify how it is to be voted, provided the member who has lodged the proxy has provided their consent in the Proxy Form for the chair to exercise the proxy in its discretion (save in relation to the remuneration report where a direction is required). Where more than one box is marked on an item the vote will be invalid on that item.

3. (**Signing Instructions**):

   - (**Individual**): Where the holding is in one name, the member must sign.
   - (**Joint Holding**): Where the holding is in more than one name, all of the members should sign.
   - (**Power of Attorney**): If you have not already provided the Company or registry (as the circumstances require) with a Power of Attorney, please attach a certified photocopy of the Power of Attorney to the Proxy Form when it is returned.
   - (**Companies**): Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.

4. (**Attending the Meeting**): Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.

5. (**Return of Proxy Form**): To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

   (a) post to BPH Energy Ltd, 14 View Street, North Perth, Western Australia, 6006; or

   (b) facsimile to the Company on facsimile number +61 8 9328 8733; or

   (c) email to the Company at deborah@grandbridge.com.au,

   so that it is received at least 48 hours before the General Meeting.

   **Proxy forms received later than this time will be invalid.**