



ASX ANNOUNCEMENT

24 SEPTEMBER 2013

ECO QUEST LIMITED EXERCISES OPTIONS TO ACQUIRE STEM CELL COMPANY – CYNATA INC

Highlights:

- Eco Quest moves to acquire 100% of Cynata Inc
- Company name proposed to be changed to Cynata Therapeutics Limited
- Cynata licensed technology: unique, proprietary stem cell technology originating from renowned University of Wisconsin - Madison
- Conditionally underwritten minimum capital raising to initiate stem cell product development program
- Exciting transformational event taking Eco Quest into the vibrant field of regenerative medicine

Eco Quest Limited (ASX:ECQ) (**ECQ** or the **Company**) is pleased to announce that it has exercised the options to acquire the balance of Cynata Incorporated (**Cynata**) shares that it does not already own (**Acquisition**). This follows the Company's announcement on 12 July 2013 that it had entered into option agreements with the shareholders of Cynata to acquire their shares in that company. Completion of the Acquisition is subject to various conditions described below, including ECQ shareholder approval.

Consideration for the Acquisition, by which ECQ's interest in Cynata would increase from 33.2% to 100% of Cynata's issued shares, is a total of 200,000,000 fully paid, ordinary shares in ECQ (subject to consolidation of those ECQ shares prior to their issue as described below).

The Managing Director and Chief Executive Officer of ECQ, Dr Ross Macdonald, stated:

"This is an exciting transformation for ECQ that will result in the Company proposing to change the nature and scale of its activities to include stem cell research and product development. Clinical medicine has seen rapid progress in this very promising field and through its focus on Cynata's licensed proprietary stem cell technology, the Company aims to secure a leading position in this high-growth sector."

Cynata's Business

Cynata was established to commercialise an outstanding stem cell platform technology, originating from the University of Wisconsin-Madison, a world leader in stem cell research. Stem cells, and particularly mesenchymal stem cells (MSCs), are the subject of widespread research and use in clinical trials around the world. Recently two stem cell products (which Cynata and ECQ have no interest in) have been approved for commercial use.

The Cymerus™ technology of which Cynata is a licensee, is hoped to address a critical shortcoming in existing methods of production of MSCs; that is the ability to achieve economic manufacture at commercial scale. Current methods of obtaining MSC's for therapeutic uses generally involve isolating them directly from donor tissues, such as bone marrow or adipose (fat) tissue. However, cell therapies based on such tissue-derived MSCs are critically dependent upon a ready supply of screened and qualified donors. Moreover, their limited expansion capability in culture, and variations in quality, makes commercial-scale manufacture of tissue-derived MSCs problematic. The Cymerus™ technology is aimed to facilitate the commercial-scale production of a particular type of MSC precursor cell, called a mesenchymoangioblast (MCA). The Cynata MCA platform provides a source of MSCs that is independent of donor-limitations and is the subject of a recently-granted USA patent of which Cynata is a licensee.

Cymerus™ is a potential “off-the-shelf” stem cell platform for therapeutic product use, facilitating a potential pharmaceutical business model and economies of scale. The technology has the potential to create a new standard in the emergent arena of stem cell therapeutics and provides both a unique differentiator and an important competitive position.

Investment highlights for Cynata include:

- Cynata's licensed proprietary stem cell technology originates from a patent with James Thomson and Igor Slukvin as inventors. These renowned scientists have laboratories at the University of Wisconsin School of Medicine and Public Health, where the first human embryonic stem cell line was isolated;
- Platform technology with potential for multiple indications and partnering;
- Patent protection (USA) under key licensed intellectual property until at least 2028;
- Ethically sound– Cynata's MCAs may be sourced from non-embryonic cells;
- Pilot studies in an animal model of Critical Limb Ischaemia completed with highly promising results; and
- Biopharma business model with the potential for commercial manufacture and supply.

The ASX has advised that the Company will have to re-comply with Chapters 1 and 2 of the ASX Listing Rules in relation to the Acquisition and seek shareholder's approval to the Acquisition pursuant to ASX Listing Rule 11.1.

Option agreements terms

Pursuant to various option agreements agreed with the holders of Cynata shares which the Company does not already own (together the **Agreement**), the Company has the right to acquire 100% of the issued share capital in Cynata which it does not already own. A summary of the material terms of the Agreement are as follows:

1. Consideration Shares

Subject to satisfaction or waiver of conditions to the Acquisition, at settlement of the Acquisition, the Company has agreed with the other Cynata shareholders to issue to them in aggregate 200,000,000 fully paid ordinary shares in the capital of the Company (**Shares**) on a pre consolidation basis in consideration of the Acquisition.

2. Conditions

Completion of the Acquisition is subject to a number of conditions, including:

- (a) ECO subscribing for 6,250,000 Cynata shares, which has occurred as announced by ECO on 12 July 2013;
- (b) each option agreement, collectively forming the Agreement not having not been terminated;
- (c) the Company obtaining all shareholder and regulatory approvals (other than re-compliance with Chapters 1 and 2 of the ASX Listing Rules) as are required to effect completion;
- (d) the Company receiving in principle approval from ASX for the readmission of its securities to the official list of ASX on conditions reasonably acceptable to the Company; and
- (e) the Company having cash equal to at least A\$1,500,000 (less any amounts loaned or transferred to Cynata during the option period).

3. Completion

Subject to the satisfaction of the conditions precedent, the Cynata shareholders other than the Company will be deemed to sell, and the Company deemed to purchase the Cynata shares. Unless otherwise agreed between the parties, completion must occur within 45 days of the expiry of the option period, which option period expires 18 months after 11 July 2013. Completion of each option comprising the Agreement is interdependent, on the basis that completion of the exercise of each option for the Company to acquire Cynata shares must occur simultaneously.

Change of Activities

As the proposed Acquisition constitutes a change in the nature and scale of the Company's activities to include a greater focus on the Cynata stem cell business, the Company will be required, pursuant to Listing Rule 11.1, to obtain approval from ECO's shareholders at a general meeting (proposed to be the 2013 AGM) and re-comply with Chapters 1 and 2 of the Listing Rules. The indicative timetable to achieve this is set out below.

If the Acquisition and related resolutions are approved by ECO's shareholders, the Company's securities will remain suspended from trading following the Company's Annual General Meeting until the requirements of Chapters 1 and 2 of the Listing Rules have been satisfied.

Further information regarding the acquisition and the change of activities will be available in the notice of meeting convening the Company's Annual General Meeting, to be dispatched to shareholders in due course.

The Company's business strategy for its biodegradable hygiene products involves licensing this technology to companies that are best positioned in their markets to maximise the potential for commercial return. The Company has a net profit royalty license agreement with Containers and Packaging Corporation (CPC) in the Philippines covering the Asia Pacific region and is pursuing similar arrangements in other markets. The Company notes that there is no guarantee that its biodegradable hygiene intellectual property or products

derived from such intellectual property can or will be commercialised. The Board will consider all alternative opportunities to maximise shareholder benefit from these assets while conserving capital to allocate to those activities which pose the largest opportunity.

Capital Raising and Underwriting

In accordance with the requirements of the Listing Rules and for the purpose of funding the costs of the Acquisition and the Company's future activities (among other things), the Company proposes to issue a prospectus to raise by a public offer, subject to shareholders' approval at the AGM, at least 12,500,000 Shares and up to a maximum of 15,000,000 Shares at an issue price of \$0.40 per Share on a post consolidated basis, by which it is proposed to raise a minimum of \$5,000,000 or up to a maximum of \$6,000,000 (**Capital Raising**). The Capital Raising has been conditionally underwritten to \$5,000,000 by Forrest Capital Pty Ltd and KTM Capital Pty Ltd (**Underwriters**) who have each committed to subscribe for half of the shortfall (or may nominate parties giving firm commitments to subscribe) of the \$5,000,000 minimum Capital Raising. The Underwriters and the Company have signed an underwriting agreement, which is subject to conditions precedent, being the Underwriters' satisfaction with due diligence, procuring any firm commitments to subscribe for the minimum Capital Raising which the Underwriters deem necessary, the Underwriters consenting to be named in the Capital Raising prospectus and the prospectus being lodged with ASIC by 14 October 2013. The Underwriters may terminate the underwriting agreement if the conditions precedent are not satisfied by close of business on 21 October 2013.

The underwriting agreement also contains indemnities given by the Company in favour of the Underwriters and is also subject to various restrictions on ECQ's activities as is typical of such agreements and various customary warranties and termination events, by which the underwriting proposals may not eventuate.

In consideration for the underwriting commitment the Company must pay to each Underwriter an underwriting fee of \$150,000 (being in aggregate 6% of the underwritten minimum subscription of the Capital Raising). In addition, the Company must pay to each Underwriter a fee equal to 3% of any amount raised pursuant to the Capital Raising above the minimum subscription. The Company will pay and will indemnify and keep indemnified the Underwriters against and in relation to, their reasonable costs and expenses of and incidental to the Capital Raising offer.

Consolidation

As part of the Company's proposed re-compliance with Chapters 1 and 2 of the Listing Rules, the Company will be required to consolidate its issued Share and option capital. Accordingly, the Company proposes to consolidate its issued capital on a 1:20 basis (**Consolidation**). Shareholder approval to undertake the Consolidation is proposed to be sought at the Company's AGM, which is indicatively set for around 29 October 2013. The 200,000,000 Shares comprising consideration for the Acquisition are proposed to be issued on a post-Consolidation basis, equating to 10,000,001 post-Consolidation Shares.

Proposed change of name

In line with its proposed change in activities, the Company will be seeking shareholders' approval at the AGM to change the Company's name to "Cynata Therapeutics Limited".

Indicative Timetable

Action	Target Dates
Dispatch of notice of AGM, including resolutions to approve change of activities, the issue of Shares as consideration under the Acquisition, the Capital Raising and the Consolidation, among other resolutions	Late September 2013
Proposed lodgement of the prospectus for the Capital Raising	14 October 2013
Annual General Meeting of ECO shareholders	29 October 2013
Consolidation of the Company's issued capital	Early November 2013
Targeted Completion of the Acquisition and Capital Raising and reinstatement to the Official List of the ASX (subject to ASX approval)	Late November 2013

The above timetable is indicative only and is subject to change without notice.

Indicative Capital Structure

Set out below is the indicative capital structure of the Company following completion of the Acquisition, Capital Raising and Consolidation, which is subject to change.

	Shares	Options
Current issued capital	635,972,491	245,574,487
Issues of Director options subject to shareholders' approval at the General Meeting to be held on 27 September 2013	Nil	100,000,000 ⁴
Issued capital prior to the Consolidation	635,972,491	345,574,487
Approximate issued capital following the Consolidation (subject to rounding) ¹	31,798,625	17,278,725
Issue of Shares in consideration for Cynata shares under the Acquisition (post-consolidation basis)	10,000,001	Nil
Issue of Shares pursuant to the maximum subscription pursuant to the Capital Raising (post-consolidation basis) ²	15,000,000	Nil
Total estimate³	56,798,626	17,278,725

Notes:

1. Assumes no further securities are issued and no options are exercised prior to the completion of the Acquisition, other than as set out in the table. The post-Consolidation issued capital of the Company is only an estimate and is subject to variation, for example arising from rounding of individual security holdings.
2. Assumes the Capital Raising is fully subscribed for a maximum raising of 15,000,000 Shares. If a lesser raising is achieved under the Capital Raising, the total number of Shares estimated on completion of the Acquisition would be a lesser amount. For example, if the minimum raising of 12,500,000 Shares is issued under the Capital Raising, the total estimated Shares on issue in ECQ on completion of the Acquisition and Capital Raising on a post-Consolidation basis would be approximately 54,298,626 Shares.
3. Assumes that no Options are exercised.
4. Assumes the issue of 50,000,000 unlisted Options exercisable at \$0.02 each and expiring 5 years after their issue (subject to vesting conditions) to each of Dr Stewart Washer and Dr Ross Macdonald (both Directors) are approved at a shareholders' meeting to be held on 27 September 2013.

Proposed Budget

The Company has current cash reserves of approximately \$1.7 million.

The Company intends to apply the current cash reserves as follows over the next two years, when combined with the minimum or maximum Capital Raising funds, which when aggregated with existing cash reserves respectively would give a total of approximately \$6.7 million and \$7.7 million funds available respectively:

Item	minimum Capital Raising (\$5 million) plus existing cash	maximum Capital Raising (\$6 million) plus existing cash
Development of the Company's existing assets	\$200,000	\$200,000
Estimated cost of the Acquisition and Capital Raising and associated matters	\$512,635	\$574,580
Development of regulatory strategy	\$300,000	\$125,000
Pilot scale product manufacture	\$200,000	\$200,000
Manufacturing process development	\$1,500,000	\$1,500,000
Pre-clinical development	\$1,650,000	\$1,650,000
Clinical trial preparation	\$600,000	\$300,000
Clinical trial	-	\$1,310,000
Contingency	\$400,000	\$454,000
Working capital and corporate administration	\$1,337,365	\$1,386,420
TOTAL	\$6,700,000	\$7,700,000

The above budget is indicative only and is subject to change. Intervening events may alter the way funds are ultimately applied by the Company.

Pro-forma balance sheet

A pro-forma balance sheet is set out in Schedule 1 showing the estimated financial impact of the Acquisition, Capital Raising and Consolidation on the Company.

For more information about ECO visit www.ecoquest.com.au.

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Forward Looking Statement Assumptions

Some of the statements appearing in this announcement are in the nature of forward looking statements. You should be aware that such statements are only predictions and are based on assumptions of the Board of the Company concerning, among other things, the Acquisition and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which the Company and Cynata operate as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. None of the Company or its officers or any person involved in the preparation of this announcement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this announcement reflect the Company's Board's views held only as at the date of this announcement.

SCHEDULE 1 – PRO-FORMA BALANCE SHEET

The pro forma balance sheets, of the Company assuming completion of the Acquisition, Consolidation and Capital Raising and showing alternatively the minimum or the maximum Capital Raising which is anticipated to be \$5,000,000 and \$6,000,000 respectively, are set out below. The historical and pro-forma information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements:

		Historical (Audited) 30 Jun 2013	Pro-forma A (Settlement of Acquisition) 30 Jun 2013	Pro-forma B (Settlement of Acquisition) 30 Jun 2013
	Notes	\$	\$	\$
Current Assets				
Cash & cash equivalents	1-6	1,116,587	6,158,518	7,106,573
Trade & other receivables		33,261	35,677	35,677
Total Current Assets		1,149,848	6,204,195	7,142,250
Non-Current Assets				
Investments in associates	4	642,695	-	-
Property, plant & equipment			892	892
Intangible assets	7,8		4,805,565	4,805,565
Total Non-Current Assets		642,695	4,806,457	4,806,457
TOTAL ASSETS		1,792,543	11,010,652	11,948,707
Current Liabilities				
Trade & other payables		13,988	-	-
Provisions	5	135,712	7,592	7,592
Total Current Liabilities		149,700	7,592	7,592
TOTAL LIABILITIES		149,700	7,592	7,592
NET ASSETS		1,642,843	11,003,060	11,941,115
Equity				
Contributed equity	1-3, 7	12,338,120	22,054,526	22,922,581
Reserves	9	1,544,052	2,526,052	2,526,052
Accumulated losses	6,8,9	(12,239,329)	(13,577,518)	(13,577,518)
TOTAL EQUITY		1,642,843	11,003,060	11,941,115

Notes:

The historical information as at 30 June 2013 is based on the audited financial statements of the Company as at that date. The pro-forma balance sheets have been included for illustrative purposes to reflect the

position of the Company and include the following assumptions:

1. Assuming the issue of a minimum of 12,500,000 Shares pursuant to the Capital Raising at an issue price of \$0.40 per Share to raise \$5 million (Pro-forma A) and the issue of a maximum of 15,000,000 Shares pursuant to the Capital Raising at an issue price of \$0.40 per Share to raise \$6 million (Pro-forma B).
2. Estimated Capital Raising expenses of \$512,635 assuming a minimum Capital Raising of \$5 million and \$574,580 assuming a maximum Capital Raising of \$6 million.
3. Placement of \$300,000 at \$0.01 completed on 7 August 2013. Exercise of \$550,000 in listed Options in August 2013 at \$0.01 each. The raising of \$457,490 pursuant to a Share Purchase Plan at \$0.01 was completed on 2 September 2013. Capital raising costs of \$78,449 associated with the aforementioned are also accounted for.
4. The investment by the Company of US\$250,000 in Cynata on 12 July 2013.
5. Settlement of legal disputes with former directors and contractors of the Company totalling \$93,507 in August 2013.
6. Allowance for expenditure for the 3 months to 30 September 2013.
7. Payment of certain creditors and accruals from 30 June 2013.
8. The issue of 10,000,001 post-consolidation Shares to acquire the shares in Cynata that the Company does not already own at a deemed issue price of \$0.40 per Share.
9. Consolidation of Cynata and its subsidiary from Completion of the Agreement and the equity accounting of the Company's share of Cynata's losses for the 3 months to 30 September 2013.
10. The issue of 5 million post consolidated Share Options in aggregate to Drs Washer and Macdonald (Directors of the Company), exercisable at \$0.40 each (subject to vesting conditions) with an assessed fair value of \$982,000. The issue of the options is subject to ECQ's shareholders' approval at a meeting to be held on 27 September 2013 and the value of the Options may vary.