



# **Rights Issue and Public Offer Replacement Prospectus**

## **Entellec Limited**

**(formerly Entellec Solutions Limited)**

**ABN 41 009 221 783**

For an Offer of eight (8) New Shares for every one (1) Share held at 0.5 cents per New Share by way of a non-renounceable Rights Issue to raise approximately \$3.5 million.

The Offer is fully underwritten.

### **Important Notice**

This is a replacement prospectus dated 17 June 2011. It replaces the prospectus lodged by the Company with ASIC on 2 June 2011 relating to securities in the Company.

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about New Shares being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser. The New Shares offered by this Prospectus should be considered as speculative.

# Important Notice

This Replacement Prospectus is issued by Entellect Limited (formerly Entellect Solutions Limited) ACN 009 221 783 (**Entellect** or **Company**) and is an invitation to apply for Shares under a non-renounceable rights issue of up to 697,911,448 New Shares to raise \$3,489,557. For every share held on the Record Date, Eligible Shareholders are entitled to subscribe for 8 New Shares at an issue price of \$0.005 (or 0.5 cents) per share. The Replacement Prospectus supersedes and replaces the Original Prospectus.

This Replacement Prospectus is dated 17 June 2011. A copy of this Prospectus has been lodged with ASIC on that date. Neither ASIC or ASX take responsibility for the contents of this Prospectus.

No securities will be issued or allotted on the basis of this Prospectus later than 13 months after the date of lodgement of this Prospectus.

Entellect (ASX Code: ESN) will apply to the ASX for quotation of the New Shares. The fact that the ASX may quote the New Shares is not to be taken in any way as an indication of the merits of Entellect.

Before deciding to invest in Entellect, you should read and understand the entire Prospectus and, in particular, in considering Entellect's prospects, you should consider the risk factors that could affect Entellect's performance. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek advice from your professional adviser before deciding to invest. Investing in Entellect involves risks. See 'Risk Factors' in section 6 for a discussion of certain risk factors that you should consider before deciding to invest in Entellect.

## Disclaimers

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus or has not been released to the ASX with the authorisation of Entellect.

The Shareholder Application Form and Non-Shareholder Application Form accompanying this Prospectus is important. Please refer to the instructions in section 5 of this Prospectus regarding, in the case of Eligible Shareholders, the acceptance of your Rights or, in the case of Non-Shareholder Applicants, the application for Shortfall Shares. Applications can only be submitted on a valid Application Form or Non-Shareholder Application Form (as the case may be) that is only available with this Prospectus.

## Restrictions on distribution

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to lodge this Prospectus in any jurisdiction outside of Australia or to otherwise permit a public offering of Rights or New Shares in any jurisdiction outside Australia. This Prospectus is not to be distributed in, and no offer of securities is to be made in, countries where it is not lawful to do so.

Neither the Rights nor New Shares have been or will be registered under the US Securities Act of 1933 and may only be offered, sold or resold in, or to persons in, the United States in accordance with an available exemption from registration.

It is the responsibility of any Applicant to ensure compliance with any laws of a country relevant to their Application. Return of a duly completed Shareholder Application Form or Non-Shareholder Application Form (as the case may be) or application by BPay®<sup>1</sup> will be taken by Entellect as a representation that there has been no breach of such laws, that the Applicant is an Eligible Shareholder where it lodges a Shareholder Application Form and that the Applicant is a legal resident of Australia or New Zealand or such other jurisdiction where it is lawful to make such an offer or invitation.

Eligible Shareholders outside Australia and New Zealand should refer to section 1.14 of this Prospectus for details of how your Rights will be dealt with.

## Exposure period and timing

Pursuant to the Corporations Act, this Replacement Prospectus is not subject to the usual exposure period from the date of lodgement with ASIC. Applicants should bear this in mind.

The Company reserves the right to extend the Offer, close the Offer Period early or withdraw the Offer, in each case without notice.

## Prospectus availability

This Prospectus is available in electronic form at [www.entellect.com.au](http://www.entellect.com.au) but the Offer is only available to persons within Australia and New Zealand and other jurisdictions where it is lawful to make such an offer or invitation. Persons who access the electronic form of this Prospectus must ensure that they download and read the entire Prospectus.

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<sup>1</sup> Registered to BPAY PTY LTD ABN 69 079 137 518.

A printed copy of this Prospectus is available free of charge by calling **+613 9665 0403**.

### **Definitions and glossary, financial amounts and time**

Definitions of certain terms used in this Prospectus are contained in section 8. Unless otherwise stated or implied, all references to currency are to Australian dollars and all references to time are to Melbourne time (AEST).

### **Privacy**

The personal information that you supply, or have previously supplied, to Entellect will be used for the primary purpose of processing your Application, establishing your investment in the New Shares, and corresponding with you as a Shareholder. If you do not supply Entellect with all the information it needs, it may be unable to process your application, establish your investment in the New Shares and correspond with you as a Shareholder.

Entellect may disclose personal information you provide to it to: any third party that Entellect engages to provide services such as registry, auditing, mailing or printing services; government bodies, when and to the extent required by law; and any professional advisers to Entellect (including legal and accounting firms, auditors and other advisers to Entellect). You may request access to your personal information held by, or on behalf of, Entellect or the Registry. You can access your personal information by contacting Entellect or the Registry (see Corporate Directory). It is important that incorrect or out of date personal information in Entellect's records is corrected by making that contact.

### **Enquiries**

For further information in relation to the Offer, please call **+613 9665 0403**.

# Corporate Directory

<b>Directors</b>	Andrew Plympton (Chairman) Jeffrey Bennett (Non-executive Director) James Kellett (Chief Executive Officer and Executive Director)
<b>Secretary</b>	Sophie Karzis
<b>Registered Office</b>	Level 3 1 Collins Street Melbourne, Victoria, 3000 Australia  Telephone: +61 3 9665 0403
<b>Legal adviser</b>	HWL Ebsworth Level 26 530 Collins Street Melbourne, Victoria, 3000 Australia
<b>Investigating Accountants</b>	Grant Thornton Corporate Finance Pty Ltd Level 17 383 Kent Street Sydney, New South Wales, 2000 Australia
<b>Auditors</b>	Grant Thornton Audit Pty Ltd Level 17 383 Kent Street Sydney, New South Wales, 2000 Australia
<b>Underwriter</b>	Furneaux Equity Limited 8 Royal Avenue Sandringham, Victoria, 3191 Australia
<b>Share Registry</b>	Registries Limited Level 7 207 Kent Street Sydney, New South Wales, 2000 Australia  Telephone: 1300 737 760 +61 2 9290 9600

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# Important Dates

<b>Event</b>	<b>Date</b>
Announcement of Issue	Wednesday, 1 June 2011
Application to ASX for quotation of New Shares	Thursday, 2 June 2011
Lodgement of Original Prospectus with ASIC	Thursday, 2 June 2011
Notice of Issue sent to Eligible Shareholders	Thursday, 2 June 2011
Entellect Extraordinary General Meeting	Friday, 10 June 2011
Record Date to determine Rights under the Rights Issue	Friday, 10 June 2011
Lodgement of Replacement Prospectus with ASIC	Friday, 17 June 2011
Opening Date for acceptance of Rights	Monday, 20 June 2011
Prospectus and Shareholder Application Form despatched	Monday, 20 June 2011
Closing Date for acceptances of Rights	Monday, 4 July 2011
Notification to ASX of under subscriptions	Wednesday, 6 July 2011
Allotment and Despatch Date	Friday, 8 July 2011
Anticipated reinstatement of Existing Shares	Monday, 11 July 2011
Trading of New Shares expected to commence	Monday, 11 July 2011

This timetable is indicative only and subject to change. Subject to the Listing Rules, the Directors reserve the right to vary these dates, including the Closing Date without prior notice. The Directors also reserve the right not to proceed with the whole or part of the Offer any time prior to allotment. In that event, Application Money will be returned without interest.

# Investment Highlights

**Entellect is an educational solutions company. In addition to the on-going development and commercialisation of its *vPublisher*<sup>™</sup> software Entellect has entered into a joint venture, Knowledge Nation, that facilitates the licensing and modification of world-class games for educational purposes.**

Funds raised from the Issue will be used primarily to further develop the Company's interests in the VCI business as well as the 60% owned Knowledge Nation.

## ***vPublisher***

In mid-2008, Entellect acquired Virtual Communications through its wholly-owned subsidiary MXL.

Virtual Communications was an on-line technology innovator that created digital media solutions and applications with its core product being *vPublisher*, a conversion tool that transfers standard PDF files into interactive, intelligent e-book applications.

On the 9th of April 2010, the Board of MXL placed MXL into voluntary administration. As a result, Virtual Communications was unable to access any further capital from its parent. The consequence of this was that Virtual Communications was forced into liquidation. Before the appointment of external administrators, the *vPublisher* program had been commercialised in several industries including the education industry and was complementary to and provided synergies for ESN's other educational software business streams.

On 20 April 2011, Entellect, through its recently renamed, wholly-owned subsidiary VCI, completed the acquisition of all of the assets of Virtual Communications from the liquidator necessary to operate the Virtual Communications business. VCI has resumed development of Virtual Communications' original products, including the *vPublisher* software, for delivery to new sales channels in what is now a mature and substantially larger market.

The VCI Business will draw upon the very extensive market and product knowledge of Mr Craig Sinclair, the founder of Virtual Communications and principal author of the *vPublisher* software, who has agreed to re-join the Company.

## **Core Propositions**

With the rapid adoption of eReaders, and new tablet computing devices, including the Apple iPad<sup>™</sup>, Blackberry Playbook<sup>™</sup> and Samsung Galaxy<sup>™</sup>, Entellect believes there is now a mature market and increasing demand for e-book content capable of being delivered by its *vPublisher* product. Previously Virtual Communications monetised its product by page conversion charge however a far broader channel to market now exists by enterprise seat licencing including to educational institutions, libraries, corporations and government. Wholesale market opportunities also exist that would enable larger application providers to incorporate the product by way of licence within their offering.

Among the various applications of *vPublisher*, VCI is able to deliver specific purpose end-user retail versions of the product on a low cost subscription basis to individuals for student project authoring and composition and small business promotion.

## Product

Virtual Communications developed *vPublisher* from its genesis as a publishing application, and as such has publishing at the core of its design.

The product can be offered as a stand-alone product, or used in collaboration with other tools, including online education, gaming products and video content.

Its robust architecture allows it to be adapted for a range of tangent applications, including hosting on enterprise servers and team collaboration for e-book product development.

*vPublisher* is also used as an online procurement tool embedded in online e-catalogues with interactive e-commerce features allowing customers to readily order from large product ranges online.

*vPublisher* is a market ready internationally deployable service, capable of working in all languages, including Asian languages and is deployable on all standard operating systems. Entellect exclusively holds intellectual property in *vPublisher*, which includes the 'PDF conversion system', and the application of its automated e-book and e-book compiler technology.

## Business Model

*vPublisher* was launched using a pay-per-page conversion model, but increased competition and decreasing margins have made this environment less than profitable. The VCI Business has now reshaped to provide a range of revenue channels.

The original per-page conversion, which offered simple low-cost conversion of documents, will be expanded to include other revenue channels, including ad-serving. More complex conversions will also feature a fee-for-service charge.

High volume clients, such as government, education sector, libraries and publishers, will be offered server-based enterprise licensing options, which will see *vPublisher* provided to clients as a server-based application charged on a per-seat license.

Other revenue opportunities include the creation of derivative applications, such as:

- Online photo albums
- Self-publishing of books
- Online video gaming
- Online e-commerce retail catalogues
- Low-cost archiving of documents

*vPublisher* has also been invited into exclusive development communities with a major telecommunications provider and global software developers. These communities provide a channel for *vPublisher* to be commercialised through license sales, technology licensing and exclusive product development agreements.

## Industry overview

When Virtual Communications launched commercial operations in 2008 it offered an innovative product. Market adoption for e-books was slower than forecast at that time, but now the evolution of new 'mobile media' devices like eReaders and new tablet computing devices are heralding a change in the delivery of media content.

While traditional print-based media still dominates total publication sales, there is a global trend towards e-based media, with e-book sales doubling over 2010 to now make up around nine per cent of total consumer books sales.<sup>2</sup>

The appeal lies in the delivery of engaging rich-media enabled content, such as interactive content, virtual reality applications and hyperlinking in an e-book format.

While cost of print and distribution are cited as deterrents for traditional print, 'time to market' and reader engagement that are also a big drawcard for new media.

The fast-moving nature of new media has created new challenges for traditional media organisations, which now need to produce large volumes of low-cost, interactive content that can be e-published and uploaded in minutes.

Instead of waiting for the newspaper to be delivered in the morning, e-book content can be published in minutes and posted online while news is still breaking. The rich-media environment allows readers to interact, comment and share opinions in real-time.

The education sector is also embracing e-book technology, as it moves towards the reality of 'online classrooms' and 'remote learning', where texts and research documents are stored on server-based libraries, making them accessible for students anywhere in the world, 24 hours a day. Using the online classroom concept, students can operate within a 'classroom environment' wherever they are in the world.

## **Target Markets**

High priority sectors include:

- Education sector
- Travel technology providers
- Telecommunications and Internet service companies
- Global software developers
- Government

Australia offers enormous potential, with Singapore, Malaysia, Indonesia and China also considered potential international markets.

## **Competitors**

There are a number of competitors in the market; however no one holds a dominant position in the e-book space.

Many of the e-book products offer similar functionality and services, and most are structured the traditional pay-per-page revenue model; few have the flexibility to adapt to server-based enterprise models.

## **Major Investment Risks**

Investment risks relating to the VCI Business and vPublisher are set out on page 14 and in section 7.

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<sup>2</sup> Association of American Publishers, 17 March 2011 (<http://www.publishers.org/press/28/>)

## **Knowledge Nation**

Furthering Entellect's objectives in the educational software industry, Knowledge Nation aims to facilitate the licensing and modification of world-class games for educational purposes, resulting in a territory-specific suite of homework adjunct products for school children. These products will be sourced locally and therefore will be regionally and culturally acceptable and implement the local curriculum.

Leveraging upon exclusive rights to the body of works and ongoing services of internationally renowned games developer, Professor Paul Fullwood, Knowledge Nation has access to an unrivalled body of knowledge and techniques and approaches to game design and marketing. Over the years, Professor Fullwood has successfully developed and marketed a significant number of entertainment and educational games. In 1996, he played a major role in Lightspan Inc, a California-based educational software development firm developing Sony Playstation, PC and Mac educational games for sale to public schools throughout the USA. In 2000, Lightspan Inc became a publicly traded company on NASDAQ.

Knowledge Nation will also draw upon the immense experience of its Studio Head, Mr Robin Matthews who has successfully managed multimillion dollar projects and diverse and globally distributed teams. Mr Matthews has over 20 years' experience in the educational computer games and related industries. He has held senior positions at several major international developers and publishers including Electronic Arts, Disney/Walker Digital, Hasbro, EAI and Sirtech Software. Most recently, Mr Matthews was Director of Development at Namco Bandai Games America based in San Jose California. In addition to being responsible for internal and external projects worldwide he also founded and managed Namco's San Diego studio.

### **Core propositions**

Knowledge Nation believes that children learn naturally by means of play. Acquisition and retention of knowledge is enhanced by play as play is engaging. Therefore, well-balanced computer games are very effective learning tools. Educational games have been proven to be educationally effective, dramatically increasing educational outcomes. Children playing these games spend, on average, an additional hour a day exposed to curriculum objectives.

In such an environment, self-motivation is the key factor. Games educate only if they are played. Compelling games promote engagement through self-motivation. Knowledge Nation ensures self-motivated play by harnessing existing high-quality commercial games. Game content will be exactly appropriate for the relevant demographic.

### **Product**

Knowledge Nation facilitates the creation of homework adjunct home study program designed for primary and secondary school students using entertainment-grade content. Depending on the target market, content will be delivered on a variety of platforms – on CD, via the internet or Wi-Fi hotspots on various connected platforms. Flexible delivery mediums and technologies enable easy updates and customisation capabilities.

Knowledge Nation ensures stability and flexibility of delivery platforms by utilising flexible technologies that thrive regardless of hardware. Development and testing of prototypes are relatively rapid, ensuring quick and positive proof of concept. This leads to a defined pathway for extension of product lines and markets.

Knowledge Nation possesses core expertise and innovative licensing and workflow approaches in all key areas associated with educational software product development. The intellectual property and body of knowledge is rooted firmly in the company and not reliant on licensing-in beyond normal proprietary tool use.

Knowledge Nation will offer true entertainment-grade educational games that will provide an equivalent experience to mainstream games with the same degree of immersion and engagement. The interactive games and activities Knowledge Nation licences will be able to compete head-to-head with popular television series and hit video games.

**Business Model**

The Knowledge Nation Business model is driven by increasing the time students spend learning, leading to enhanced academic performance. Students will be motivated to spend discretionary time on core curriculum, time that would otherwise be spent on non-educational leisure activities.

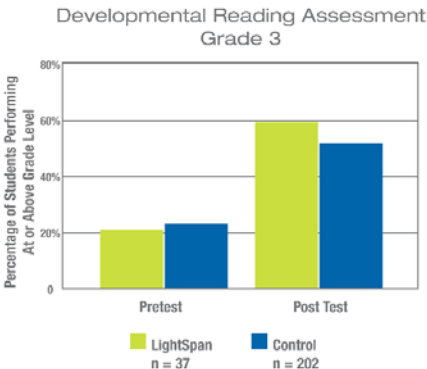
Knowledge Nation works closely with local, regional and international curriculum administrative bodies, educators, local authorities, parents and others involved in education to ensure that products are perfectly matched with the curriculum and the games are attractive to the target demographics. This also facilitates the political buy-in and approvals necessary for introduction into certain “closed” markets.

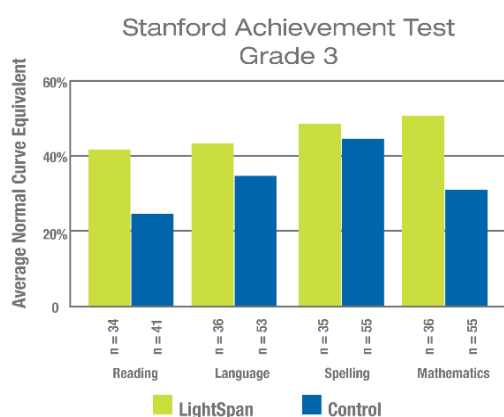
Knowledge Nation markets curriculum-approved and proven homework adjunct products directly to parents of students on a subscription basis. Parents are natural customers for a proven product that would enhance their children’s academic performance. Focus will be on the initial goal of offering a full primary and secondary school curriculum in languages and mathematics. By means of a close collaboration with curriculum designers, educators and other influential stakeholders, Knowledge Nation will obtain “buy-in” on a definitive elucidation of national curriculum goals for each territory.

**Industry Overview**

The Company believes that there will be sustained, rapid growth in most parts of the educational software and multimedia game industries as advancements in research and technology make the delivery of product more flexible and hence more affordable for consumers. The target demographics of the Knowledge Nation project, primary and secondary school students comprise approximately 8-12% of global population, thus ensuring a broad constituency.

Set out below is a detailed case study of the successful Lightspan Inc model in the United States, on which the Knowledge Nation project is partially modelled upon, as well as the latest research information detailing population statistics of primary and secondary school children in Knowledge Nation’s target markets.





## Target markets

Knowledge Nation will operate as an international consultant with in-house expertise in design and infrastructure. The Knowledge Nation ‘product’ is ‘know-how’ in the educational games and other services which are distributed and marketed by Knowledge Nation’s territory partners under the guidance of KNI.

Any nation can be a Knowledge Nation. The Knowledge Nation project can be adjusted in several market-specific modes. Each market is implemented as a different division of the Knowledge Nation project. There are over 100 different markets and Knowledge Nation will initially be implemented in markets where there is an appropriate balance between funding risk, market size and profitability. The first target markets and their respective population of primary and secondary school students are as follows<sup>3</sup>:

Country	Population of primary and secondary school students
Argentina	4,810,519
Australia	1,844,314
Jordan	953,502
India	167,673,321
Malaysia	3,724,540
Singapore	324,566
South Korea	4,177,011
Spain	2,695,092
United Arab Emirates	415,883
United Kingdom	4,886,790
United States of America	28,713,661

This territory partners’ approach, as opposed to a centralised universal approach and worldwide direct sales provides several strategic benefits:

- 1) **Enable sales to protected insular markets:** many territories reject younger demographic educational products on nationalistic grounds, matters of national pride and economic self-interest. This is especially true when products are supplied by what is perceived to be a foreign entity.
- 2) **Risk mitigation:** with separate entities in each territory, Knowledge Nation and its publicly traded owners are protected from the risk that any particular territory will run afoul of competitive or government interference causing it to underperform or fail economically.

<sup>3</sup> Source: CIA – The World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/>)

- 3) **Leveraging of funding sources:** each territory, will to a greater or lesser extent, with commensurate adjustment of revenues, self-finance its own local product licensing and development. This enables the overall project to grow inorganically.

### **Competitors**

The Company is operating in a robust industry which has a range of analogous operators, consisting of other producers, suppliers, licensors and distributors of educational game software. However, the barriers to entry in the target markets identified are not insignificant, and it is only those companies that have a significant scale, proven expertise, market presence and access to capital that can achieve success.

### **Major Investment Risks**

Investment risks relating to the Knowledge Nation Business are set out on page 14 and in section 7.

# Major Investment Risks

The Directors have considered and identified in section 7 of the Prospectus the critical areas of risk associated with investing in the Offer. The major investment risks to be considered by Eligible Shareholders and potential investors include, among others:

- The New Shares that will be issued under this Prospectus carry no guarantee in respect of profitability, dividends, return of capital, liquidity or the price on which they may trade on the ASX. It is likely that Entellect will record losses and negative cash flows, and may not pay a dividend for a number of years, if at all. The Company's securities are currently suspended and whilst the Company intends to apply for re-quotations of its securities on the ASX, there is no guarantee that this will occur or that the steps that are required to be taken will be able to be taken in order to effect the re-quotations.
- The Knowledge Nation project has to be adjusted to be implemented in market specific modes. Each market can be viewed as a different division of the Knowledge Nation project. Depending on the nature of the market envisioned there may be sovereign, or government funding involved in the development phase of the products. Funding requirements though modest are highly dependent upon market and platform choice. Some of Knowledge Nation's deployment methodologies include the use of government and/ or sovereign funding as part of product development financing. In markets where government or sovereign funding is not required, Knowledge Nation may utilise government-sponsored or controlled marketing channels.
- The *vPublisher* product, while substantially developed and previously commercially sold, requires further development expenditure and dedicated marketing and sales initiatives to achieve its commercial potential. While the product currently exhibits unique and desirable features, there is no certainty that a larger enterprise will not be quicker to market with a similar offering thereby diminishing the value of *vPublisher*.
- The underwriting of the Offer is subject to certain termination rights which are set out in section 7.7 of this Prospectus. In the event that the Underwriting Agreement is terminated, the Offer will be withdrawn and no New Shares will be issued.
- Given the Knowledge Nation Business is still in the early stages of its development and that the business relies on customer support, the Directors cannot reliably estimate the gross margins, transaction number, revenues, earnings or likely future profitability of the Company with any reasonable degree of certainty. Therefore, investment in the Company must be considered speculative.

# Message from the Chairman

17 June 2011

Dear Shareholder,

On behalf of the Directors of Entellect, I am pleased to present Eligible Shareholders with an opportunity to increase their shareholding by participating in the Rights Issue and for new investors to become Shareholders.

The Company has been through an eventful 12 months, in which its Shares have been voluntarily suspended since 9 April 2010 and it was subject to a successful off-market takeover bid by Mooter Media Limited (ASX: MMZ). Entellect has reacquired its *vPublisher* software asset from the liquidators of Virtual Communications and is now entering an exciting phase in its history with the announcement of the Knowledge Nation venture.

The Offer contained in this Prospectus will raise approximately \$3.5 million and comprises three parts:

- For Eligible Shareholders: a non-renounceable Rights Issue of eight (8) New Shares for every one (1) Share held by Eligible Shareholders at the Record Date, at 0.5 cents per New Share;
- For Eligible Shareholders who take up their Rights in full: a right to apply for Shortfall Shares (Additional New Shares); and
- For Non-Shareholder Applicants: a Public Offer to acquire Shortfall Shares, after Eligible Shareholder applications for Additional New Shares have been taken into account.

The Offer is fully underwritten by Furneaux Equity Limited (**Furneaux**) and will close on Monday, 4 July 2011. The purpose of the Offer is to facilitate the Company in undertaking its obligations in respect of the VCI Business and the Knowledge Nation venture, from which the Directors believe significant shareholder value may be delivered, and to pay for the costs of the Offer. The balance of the funds will be used to repay an existing loan to Furneaux, provide the Company with underlying working capital to further advance the Company's business operations, as well and strengthen the balance sheet. In addition, funds raised under the Offer and the proposed Placement to sophisticated investor clients of Furneaux, will assist the Company in its application to have its Shares re-quoted on the Official List.

Shareholders voted in favour of the Offer and the Placement at the EGM held on 10 June 2011. It should be noted that the Offer is conditional on Shares being re-quoted within 3 months from the date of this Prospectus.

If you are an Eligible Shareholder, you may either:

- take up all of your Rights;
- apply for Additional New Shares (above your Rights), which may assist in obtaining a marketable parcel of shares; or
- do nothing, in which case your Rights will lapse and you will not receive any benefits.

The Offer provides the potential for Eligible Shareholders with small or unmarketable parcels of Shares to increase their shareholding in the Company by applying for all or part of their Rights and (if applicable) Additional New Shares (if so desired).

All Directors who are Eligible Shareholders have indicated that they will be taking up their Rights in full (refer to section 7.12).

I encourage you to read this Prospectus in full and to participate in the Offer, which will enable you to share fully in the Company's development.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Andrew Plympton', written in a cursive style.

Andrew Plympton  
**Chairman**

# 1. Details of the Offer

## 1.1 Key Features of the Offer

This Section sets out a summary of the Offer. This information is a summary only and should be read in conjunction with other information contained in this Replacement Prospectus.

<b>ISSUER</b>	Entellect Limited (formerly known as Entellect Solutions Limited) ACN 009 221 783
<b>PROSPECTUS</b>	This Replacement Prospectus was lodged with ASIC on 17 June 2011
<b>OPENING &amp; CLOSING DATE</b>	The Offer will open 20 June 2011 and close 4 July 2011.
<b>RECORD DATE</b>	The Offer will be made to Eligible Shareholders who held shares at 7.00 pm (AEST) on 10 June 2011.
<b>RIGHTS ISSUE OFFER</b>	<p>Entellect is undertaking a non-renounceable pro rata rights issue of eight (8) New Shares for every one (1) Existing Share held by Eligible Shareholders at the Record Date. The issue price of each New Share is \$0.005.</p> <p>Eligible Shareholders who take up their Rights in full may also apply for Additional New Shares from any Shortfall Shares.</p>
<b>PUBLIC OFFER</b>	<p>Non-Shareholder Applicants may apply for any Shortfall Shares under the Rights Issue. Applications for Shortfall Shares under the Public Offer:</p> <ul style="list-style-type: none"><li>• will be at the discretion of the Company and the Underwriter;</li><li>• will rank in priority behind applications by Eligible Shareholders for Additional New Shares; and</li><li>• must be for a minimum subscription of 100,000 Shortfall Shares (\$500) and thereafter in multiples of 20,000 (\$100).</li></ul>
<b>CONDITIONS OF OFFER</b>	<p>The Offer is conditional upon:</p> <ol style="list-style-type: none"><li>1. Shareholder approval at the EGM held on 10 June 2011, which has been obtained; and</li><li>2. the re-quotations of Entellect Shares (including the New Shares) on the ASX within 3 months from the date of this Prospectus.</li></ol>
<b>CAPITAL TO BE RAISED</b>	\$3,489,570 before expenses of the Offer.
<b>UNDERWRITTEN</b>	The Offer is fully underwritten by Furneaux Equity Limited.
<b>NUMBER OF SHARES TO BE ISSUED</b>	697,913,920 New Shares (based upon the assumption that no Options are exercised before the Record Date)
<b>APPLICATION INFORMATION</b>	See the Application Form for instructions on how to apply for New Shares. Applications may only be made through the lodgement of the Application Form attached to this Prospectus.

<b>EXPECTED DATE OF SHARE ISSUE</b>	8 July 2011
<b>CONTACT INFORMATION</b>	See the Corporate Directory on page 4 for contact information.

**THIS PROSPECTUS SHOULD BE READ CAREFULLY AND IN ITS ENTIRETY. IF YOU ARE UNCLEAR IN RELATION TO ANY MATTER, YOU SHOULD CONSULT YOUR STOCKBROKER, ACCOUNTANT, LAWYER, PROFESSIONAL ADVISER OR OTHER FINANCIAL ADVISOR.**

## 1.2 Effect of the Rights Issue

This Prospectus offers Eligible Shareholders a non-renounceable rights issue on the basis of eight (8) New Shares for every one (1) Share held as at the Record Date at an issue price of 0.5 cents per New Share. Shareholders approved the Rights Issue at the EGM held on 10 June 2011.

At the AGM, Shareholders voted in favour of a consolidation of every twenty (20) ordinary shares on issue into one (1) ordinary share (**Share Consolidation**). As a result, the Company's share capital was consolidated from 1,744,778,615 to 87,239,240 Shares.

As at the date of this Prospectus, the Company currently has 87,239,240 Shares on issue (**Existing Shares**) and 16,161,570 Options which are all currently eligible for conversion (**Eligible Options**).

To be entitled to participate in the Rights Issue, Eligible Option holders must have exercised their Options in accordance with the terms of those Options prior to the Record Date. No Options were exercised between the announcement of the Offer and the Record Date. The Company did not anticipate that any Options would be exercised as the exercise price of the Options range from \$0.20 to \$2.00, which is above the Offer price.

Accordingly, the Offer will result in the issue of 697,913,920 New Shares (disregarding any rounding up of fractional entitlements) and the amount raised will be approximately \$3,489,570.

The Rights Offer is a non-renounceable rights offer. As such, the entitlement to subscribe for the New Shares is an entitlement of Eligible Shareholders under this Prospectus. Entitlements are not transferable and there will be no trading of rights during the Offer on the ASX or otherwise.

## 1.3 Effect of Underwriting

The Offer is fully underwritten by Furneaux. A summary of the Underwriting Agreement is set out in section 7.7(a) of the Prospectus.

Furneaux is an Australian public company that provides privately negotiated financial solutions for small to mid-cap companies listed on the ASX and regional markets. It also provides investor services for institutions, high net worth individuals and other professional investors. As disclosed in the 2010 Annual Report, Mr James Kellett (CEO of Entellect) is the managing director of Furneaux.

Furneaux currently has nil voting power in the Company.

Furneaux will not be issued with New Shares personally under the Offer; rather these Shares will be issued to various sophisticated investor clients of Furneaux (as sub-underwriters) proportionate to the amount of funds invested by these clients in total. These investor clients are not related to each other and should not be considered associates of each other or of Furneaux for the purposes of section 606 of the Corporations Act (**Takeover Provisions**).

Under Items 10 and 13 of section 611 of the Corporations Act, an acquisition by an underwriter or sub-underwriter of Shortfall Shares under the Rights Issue is exempt from the application of the Takeover Provisions if the disclosure document discloses the effect the acquisition will have on the underwriter or sub-underwriter's voting power.

If the Offer is not fully subscribed, either by Eligible Shareholders in respect of the Rights Issue (including Applications for Additional New Shares) or by Non-Shareholder Applicants in respect of the Public Offer, the Shortfall Shares will be placed with Furneaux's clients directly. The tables set out in section 1.6 show the effect of the voting power that will be held by Furneaux's clients in respect of any Shortfall Shares.

#### **1.4 Placement**

At the AGM, Shareholders also resolved in favour of the Company's proposed placement of up to 800,000,000 shares at 0.5 cents per share to sophisticated investor clients of Furneaux (**Placement**). The Placement was put to Shareholders again at the EGM to restart the time in which the Company may issue Shares to the intended recipients. Shareholders approved the Placement again at the EGM. As stated in the Explanatory Statement that accompanied the Notice of the EGM, Furneaux's clients have committed to subscribing for \$4 million in Shares through a combination of taking up Shortfall Shares from the Offer pursuant to the Underwriting Agreement and under the Placement. If the amount of Shortfall Shares taken up is less than \$4 million, the balance of the investment is to be made under the Placement.

The tables set out in section 1.6 show the effect of the voting power that will be held by Furneaux's clients in respect of any Placement Shares issued.

#### **1.5 Additional Share issues**

On or around 7 April 2010, the Company entered into an interest-free loan agreement with Chess Capital Partners for \$150,000 (**CCP Loan**). The CCP Loan is repayable on call. The Company has been in discussion with Chess Capital Partners to convert the outstanding loan amount into Shares at an issue price of \$0.005 per share. It is anticipated that the CCP Loan amount will be converted into 30,000,000 Shares shortly after the issue of the New Shares and Placement Shares.

At the AGM, Shareholders approved the issue of 1,000,000 Shares to Berkeley Consultants Pty Ltd at an issue price of \$0.005 per share as part consideration for services provided to the Company. The Company did not issue these Shares within three (3) months of the date of the AGM and accordingly, these Shares will now be issued to Berkeley Consultants Pty Ltd through the Company's placement capacity under Listing Rule 7.1. It is anticipated that these Shares will be issued around the same time as the New Shares under the Offer and Placement Shares.

#### **1.6 Effect of the Offer and Placement on the Company**

For the purposes of section 611 of the Corporations Act and other purposes, the following tables demonstrate the impact of the Offer, the Placement and the additional Share issues on the share capital of the Company:

1. Where Rights Issue and Public Offer are fully subscribed by Applicants

	<b>Number of shares</b>	<b>Interest in Company (%)</b>
Existing Shares at Record Date	87,239,240	5.40
New Shares issued by the Company under the Offer to Applicants	697,913,920	43.18
Shortfall Shares issued to Furneaux clients pursuant to Underwriting Agreement	0	0.00
Placement Shares issued to Furneaux clients	800,000,000	49.50
Shares to be issued in conversion of Chess Capital Partners loan	30,000,000	1.86
Shares to be issued to Berkeley Consultants	1,000,000	0.06
	<b>1,616,153,160</b>	<b>100</b>

Market capitalisation based on \$0.005 per share = \$8,080,766

2. Where Rights Issue and Public Offer are 50% subscribed by Applicants

	<b>Number of shares</b>	<b>Interest in Company (%)</b>
Existing Shares at Record Date	87,239,240	6.88
New Shares issued by the Company under the Offer to Applicants	348,956,960	27.54
Shortfall Shares issued to Furneaux clients pursuant to Underwriting Agreement	348,956,960	27.54
Placement Shares issued to Furneaux clients	451,043,040	35.59
Shares to be issued in conversion of Chess Capital Partners loan	30,000,000	2.37
Shares to be issued to Berkeley Consultants	1,000,000	0.08
	<b>1,267,196,200</b>	<b>100</b>

Market capitalisation based on \$0.005 per share = \$6,335,981

### 3. Where Rights Issue and Public Offer are 0% subscribed by Applicants

	<b>Number of shares</b>	<b>Interest in Company (%)</b>
Existing Shares at Record Date	87,239,240	9.50
New Shares issued by the Company under the Offer to Applicants	0	0
Shortfall Shares issued to Furneaux clients pursuant to Underwriting Agreement	697,913,920	76.01
Placement Shares issued to Furneaux clients	102,086,080	11.12
Shares to be issued in conversion of Chess Capital Partners loan	30,000,000	3.27
Shares to be issued to Berkeley Consultants	1,000,000	0.11
	<b>918,239,240</b>	<b>100</b>

Market capitalisation based on \$0.005 per share = \$4,591,196

Given the spread of Furneaux's investor clients, where the maximum investment by any one client is around the \$100,000 range, Entellect is confident that the Takeover Provisions will not come into play in the issue of Shares under the Placement. A Furneaux investor who has committed \$100,000 represents approximately 2.5% of the total commitment by Furneaux clients and would result in an even smaller shareholding interest in Entellect once the Existing Shares and New Shares issued to Applicants under the Offer are taken into consideration.

#### 1.7 Entitlement to Rights Issue

Shareholders who were on Entellect's share register at 7.00 pm AEST on the Record Date, being 10 June 2011, will receive Rights to acquire eight (8) New Shares for every one (1) Share held as at the Record Date at an issue price of 0.5 cents per New Share.

Fractional entitlements will be rounded up to the nearest whole number of New Shares. For this purpose, holdings in the same name are aggregated for calculation of Rights. If Entellect considers that holdings have been split to take advantage of rounding, Entellect reserves the right to aggregate holdings held by associated Shareholders for the purpose of calculating Rights.

A Shareholder Application Form setting out your entitlement to New Shares accompanies this Prospectus. Please refer to Section 4 for more information on the actions required by Eligible Shareholders in respect of the Rights Issue.

#### 1.8 Applying for Additional New Shares

Rights not taken up by Eligible Shareholders (Shortfall Shares) may become available as Additional New Shares. The Directors have decided that all Eligible Shareholders who take up their Rights in full will be entitled to apply for Additional New Shares arising out of the Shortfall Shares. Eligible Shareholders wishing to apply for Additional New Shares must complete the relevant section of the Shareholder Application Form.

If more Additional New Shares are applied for than are available from the number of New Shares not taken up under the Rights Issue, those applications will be scaled back in a manner determined by the Company and the Underwriter in their absolute discretion. In

exercising this discretion, factors such as the number of Applications made, the number of available New Shares and the potential application of the Takeover Provisions will be taken into consideration.

It is possible that there will be few or no Additional New Shares available for issue. It is an express term of the Offer that applicants for Additional New Shares will be bound to accept a lesser number of Additional New Shares allocated to them than applied for if the Company and the Underwriter determine that a scale back is appropriate. If a lesser number is allocated to them, excess Application Money will be refunded without interest.

Eligible Shareholders applying for Additional New Shares should be aware of the following:

- (a) Eligible Shareholders may be allotted a lesser number of Additional New Shares than applied for;
- (b) Eligible Shareholders shall be bound to accept a lesser number of Additional New Shares if required by the Company or the Underwriter;
- (c) Eligible Shareholders must accept a refund of money in respect of any Additional New Shares applied for but not allotted; and
- (d) no interest will be paid on any money refunded to the Eligible Shareholders should the circumstances above occur.

## **1.9 Public Offer**

Non-Shareholder Applicants can apply for Shortfall Shares by completing the Non-Shareholder Application Form attached to this Prospectus and returning it, together with a cheque for the value of those Shortfall Shares (at 0.5 cents per New Share) to the Company (**Public Offer**).

The minimum subscription under the Public Offer is for 100,000 Shortfall Shares (\$500) and thereafter in multiples of 20,000 (\$100).

The Directors reserve the right to issue Shortfall Shares under the Public Offer at their absolute discretion in consultation with the Underwriter pursuant to the terms of the Underwriting Agreement.

The Public Offer is a separate offer pursuant to this Prospectus and will also close at and Non-Shareholder Application Forms must be received by 5.00pm AEST on the Closing Date.

The issue price of any New Shares offered pursuant to the Public Offer shall be 0.5 cents, being the price at which the Rights have been offered to Eligible Shareholders under the Rights Issue.

Eligible Shareholders who apply for Additional New Shares will be given priority to Non-Shareholder Applicants applying for Shortfall Shares under the Public Offer.

If more Shortfall Shares are applied for than are available from the number of Shortfall Shares not taken up under the Rights Issue, those applications will be scaled back in a manner determined by the Company and the Underwriter in their absolute discretion. In exercising this discretion, factors such as the number of applications made, the number of available New Shares and the potential application of the Takeover Provisions will be taken into consideration.

It is possible that there will be few or no Shortfall Shares available for issue. It is an express term of the Offer that applicants for Shortfall Shares will be bound to accept a lesser number of Shortfall Shares allocated to them than applied for if the Company and the Underwriter determine that a scale back is appropriate. If a lesser number is allocated to them, excess Application Money will be refunded without interest.

Non-Shareholder Applicants applying for Shortfall Shares should be aware of the following:

- (a) Non-Shareholder Applicants may be allotted a lesser number of Shortfall Shares than applied for;
- (b) Non-Shareholder Applicants shall be bound to accept a lesser number of Shortfall Shares if required by the Company or the Underwriter;
- (c) Non-Shareholder Applicants must accept a refund of money in respect of any Shortfall Shares applied for but not allotted; and
- (d) no interest will be paid on any money refunded to the Non-Shareholder Applicants should the circumstances above occur.

### **1.10 Use of proceeds**

Given the Offer is fully underwritten, Entellect will raise approximately \$3.5 million under the Rights Issue and Public Offer. Entellect may raise up to a further \$4 million under the Placement (subject to the take-up of the Offer by Eligible Shareholders and investors). The proceeds from the Offer and the Placement will be used as set out in section 2.1.

### **1.11 Allotment and Application Money**

All Eligible Shareholders who accept the Offer under the Rights Issue will receive their Rights in full.

New Shares will be issued only after all Application Money has been received and ASX has granted permission for the New Shares to be quoted. It is expected that New Shares will be issued on 8 July 2011. Trading of New Shares is subject to the re-quotations of Shares on the Official List. This is discussed further in section 2.2.

All Application Money received before New Shares are issued will be held in a special purpose account. After Application Money is refunded (if required) and New Shares are issued to Applicants, the balance of funds in the account plus accrued interest will be received by the Company. If the New Shares are not quoted by the ASX within three months after the date of this Prospectus, Entellect will refund all Application Money in full.

### **1.12 Closing Date**

The Closing Date for acceptance of your Rights is 5.00 pm on 4 July 2011. The Company reserves the right to cancel and not proceed with the Rights Issue at any time prior to allotment.

### **1.13 Issue of New Shares**

No New Shares or other securities will be issued on the basis of this Prospectus later than the expiry date of this Prospectus being the date 13 months after the date of this Prospectus.

It is expected the issue of the holding statements will occur the day after the issue of the New Shares. It is currently anticipated that this issue will occur on or before 8 July 2011.

#### **1.14 Treatment of Non-qualifying Foreign Shareholders**

This Offer is made only to Shareholders with a registered address in Australia or New Zealand or such other place in which, or to any person to whom, it would be lawful to make such an offer.

The Company is of the view that it is unreasonable to make the Offer to other overseas Shareholders (**Non-Qualifying Foreign Shareholders**) having regard to:

- (a) the number of Non-Qualifying Foreign Shareholders;
- (b) the number and value of New Shares that would be offered to Non-Qualifying Foreign Shareholders; and
- (c) the cost of complying with overseas legal requirements.

Accordingly, this Offer will not be extended to Non-Qualifying Foreign Shareholders and as such they will not be entitled to participate.

This Prospectus and accompanying documents do not constitute an offer in any place which, or to any person to whom, it would be unlawful to make such an offer. No action has been taken to register this Offer or otherwise permit an offering of the New Shares in any jurisdiction outside of Australia and New Zealand. In particular, the New Shares have not been (and will not be) registered under the US Securities Act or the securities laws of any state of the United States. Hence, the New Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the US Securities Act and applicable US state securities laws.

Shareholders or non-shareholder applicants under the Public Offer resident in Australia or New Zealand holding Shares or making an application on behalf of persons who are resident overseas are responsible for ensuring that taking up Rights under the Rights Issue or apply for New Shares under the Public Offer does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Shareholder Application Form or Non-Shareholder Application Form will be taken by the Company to constitute a representation that there has been no breach of such regulations.

#### **1.15 Rights attaching to New Shares**

From issue, the New Shares issued under this Prospectus will rank equally in all respects with existing Shares. A summary of the important rights attaching to Shares as set out in the Company's Constitution are contained in section 7.4 of this Prospectus.

#### **1.16 No prospective financial information or forecasts**

As Knowledge Nation is still at the development stage, the Directors believe that reliable forecasts cannot be prepared and accordingly have not included forecasts in this Prospectus. However, the Company is a listed entity on the ASX and as such is required to comply with various reporting requirements and continuous disclosure obligations under the Corporations Act and the Listing Rules. Important information is available from the Company's website ([www.entellect.com.au](http://www.entellect.com.au)) and from the ASX website ([www.asx.com.au](http://www.asx.com.au)).

### **1.17 Short form Prospectus**

This Prospectus is issued in accordance with Section 712 of the Corporations Act.

This Prospectus incorporates the Company's Annual Report for the financial year ended 30 June 2010. See Section 2.6 for details.

### **1.18 Summary only**

The information set out in this section provides a summary of the information contained in this Prospectus. Applicants should read this Prospectus in its entirety prior to making a decision to accept the Offer. If you have any questions about investing in the Company, please contact your stockbroker, accountant or independent financial adviser.

## 2. Purpose and effect of the Offer

### 2.1 Purpose of the Offer and use of Funds

The funds raised from the issue of New Shares through the Offer before payment of all associated costs, are expected to provide the Company with approximately \$3.5 million in additional capital. Entellect may raise up to a further \$4 million under the Placement (subject to the take-up of New Shares by Eligible Shareholders and investors under the Offer). The minimum amount to be raised under the Rights Issue and Placement will be \$4 million. The maximum amount to be raised under the Rights Issue and Placement will be \$7.5 million.

The majority of the funds raised will be used to facilitate the Company in developing and commercialising the *vPublisher* software through VCI as well as its undertaking its obligations in Knowledge Nation and to pay for the costs of the Offer. The balance of the funds will be used by the Company to repay outstanding loan amounts owed to Furneaux under a Loan Facility Agreement announced to the market on 18 October 2010 and to provide the Company with underlying working capital to further advance the Company's business operations, as well and strengthen the balance sheet.

The intended use of the funds to be raised under this Offer and the Placement as at 30 June 2011 is detailed as follows:

Activity	Notes	Minimum Raising of \$4 million (\$)	Maximum Raising of \$7.5 million (\$)
Repayment of loan to Furneaux	1	1,950,000	1,950,000
<i>vPublisher</i>			
Product Development	2	700,000	1,200,000
Market Expansion		400,000	950,000
Knowledge Nation			
Product Development	3	175,000	350,000
Market Expansion		180,000	350,000
Costs associated with the Offer and re-quotation of the Company's securities on the ASX		300,000	300,000
Working capital		295,000	2,400,000
<b>Total</b>		<b>4,000,000</b>	<b>7,500,000</b>

Notes:

- 1 The Furneaux Loan Facility has been used to predominantly fund the Company's operations since October 2010. The breakdown of these funds can be summarised as follows:

Legacy costs relating to the previous financial year (i.e. creditors, directors fees, accounting/audit fees, legal fees, tax)	\$410,000
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Costs associated with administration of MXL and Virtual Communications	\$22,000
Costs associated with funding arrangements (including Furneaux Loan)	\$140,000
Corporate costs (i.e. current directors fees, registry/ASX costs, legal fees including Mooter takeover bid, secretarial and accounting fees, tax)	\$335,000
Entellect expenditure	\$135,000
Costs in relation to Knowledge Nation	\$750,000
Funding of VCI	\$150,000

- 2 In addition to this amount, VCI will have spent approximately \$150,000 on product development before 30 June 2011 being funds previously provided by Entellect through the Furneaux Loan Facility and reflected in the current amount owing to Furneaux in Item 1.
- 3 In addition to this amount, Knowledge Nation will have spent approximately \$400,000 on product development before 30 June 2011 and will have \$350,000 in additional funds available for product development (refer \$750,000 loan figure in Note 1), being funds previously provided by Entellect through the Furneaux Loan Facility and reflected in the current amount owing to Furneaux in Item 1.

The Board intends to apply more funds to the VCI Business than the Knowledge Nation Business, the amounts of which are dependent on the total amount raised under the Rights Issue and Placement.

The proceeds of the Offer are expected to be sufficient to fund the activities of Entellect for a period of 12 months. However, additional costs may arise within this period, and additional funding will be required to complete the anticipated expenses of VCI and Knowledge Nation. In addition, the Board reserves the right to vary the proposed use of funds as set out in the above table for the benefit of Shareholders in the event that particular expenditure is no longer considered appropriate, circumstances change or better opportunities arise.

Any additional funds raised under the Placement will increase the Company's working capital reserves and will reduce the likelihood of any further capital raising in the near future.

The Company's intention in the next 12 months is to continue the existing business of Entellect in the area of educational software in particular, the VCI Business and the Knowledge Nation Business.

The Directors are of the opinion that the Company, following its recapitalisation and re-quotations on ASX, will be able to trade successfully as it has significantly restructured its businesses, including reduced its operating overheads as a result of the liquidation of its subsidiary MXL in 2010, as well as the reduction of its overheads including office space and communication expenses.

## 2.2 Re-quotations of Company's shares on the ASX

Entellect's securities have been suspended from quotation on the Official List since 9 April 2010.

The Company intends to apply for re-quotations of its securities on ASX at the successful completion of the Issue. ASX has confirmed that all Shares (including New Shares to be issued under this Prospectus) will resume trading on ASX following completion of the issue of New Shares under this Offer subject only to the Company:

- demonstrating that it has a spread of at least 300 Shareholders with a parcel of Shares with a value of at least \$500 each (using \$0.005 to determine the value of a parcel);

- demonstrating that it has working capital of at least \$1,000,000 net of all debt on completion of the Issue by way of an updated pro-forma balance sheet;
- providing any outstanding periodic reports, an updated pro-forma balance sheet, a list of the top 20 holders and a distribution schedule of holders of the Company for release to the market; and
- providing an updated table of commitments based on the funds actually raised under the Offer showing at least half of the cash of the Company allocated to commitments.

These conditions have been satisfied or will likely be satisfied on completion of issue of New Shares. Notwithstanding, the ASX has an overriding discretion in relation to whether the Company's securities are re-quoted to the Official List.

Application will be made to the ASX for the New Shares to be quoted on the ASX within 7 days after the date of this Prospectus.

The proposed timetable of this capital raising and completion of all of the requirements necessary for the recapitalisation and re-quotations of the Company's securities on ASX contemplates that the requirements for re-quotations can be completed within 3 months from the date of this Prospectus.

If the ASX does not give permission for quotation of the New Shares within 3 months after the date of this Prospectus (or a later date permitted by ASIC) or the ASX pre-conditions to quotation are not satisfied in this period, none of the New Shares will be issued and if any have been issued, the issue will be void, unless ASIC grants an exemption permitting the issue. If no issue is made or if an issue is void, all monies paid on application for the New Shares will be refunded without interest within the time period prescribed under the Corporations Act.

It is expected that quotation of the New Shares will initially be on a deferred delivery basis.

### **2.3 Effect of the Offer**

The principal effects of the Offer will be to:

- increase the Company's cash reserves by approximately \$3.5 million before the costs of the Offer;
- provide the Company with additional capital for the purposes referred to in sections 2.1; and
- increase the total number of issued Shares (refer section 2.4).

Pro-forma historical financial information is provided in section 2.5 summarising the effect of the Offer.

## 2.4 Effect of the Offer on capital structure

The effect of the Offer on the Company's issued Share capital will be as follows:

<b>Ordinary Shares</b>	<b>Number</b>
Existing Shares	87,239,240
New Shares issued under the Offer	697,913,920
Shares issued to Berkeley Consultants	1,000,000
Shares issued to Chess Capital Partners	30,000,000
<b>Totals</b>	<b>816,153,160</b>

The effect of both the Offer and the Placement on the Company's issued share capital is set out in section 1.6.

## 2.5 Effect of the Offer on Entellect's financial position

The unaudited pro forma statements of financial position (**Pro Forma Balance Sheet**) set out below have been prepared to illustrate the financial position of the Company following completion of the Rights Issue. The Pro Forma Balance Sheet has been derived from the reviewed interim financial report of the Company for the half-year to 31 December 2010.

The Pro Forma Balance Sheet is intended to be illustrative only and will not reflect the actual position and balances as at the date of this Prospectus or at the completion of the Rights Issue.

Given the take-up by Eligible Shareholders and Non-Shareholder Applicants is unknown, the Placement has not been taken into consideration in preparing the Pro Forma Balance Sheet below.

The Company's financial report to 31 December 2010 has been reviewed in accordance with the Auditing Standard on Review Engagements ASRE 2410, and the review report issued by the Company's auditors, Grant Thornton, was unqualified.

## Consolidated Pro forma Statement of Financial Position as at 31 December 2010

The pro forma Statement of Financial Position set out below has been prepared to illustrate the effects of the Offer, as if they occurred on or before 31 December 2010.

		Reviewed <sup>(1)</sup>	Pro forma Minimum <sup>(2)</sup>	Pro forma Maximum <sup>(2)</sup>
	Note	\$'000	\$'000	\$'000
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	3	234	1,755	5,245
Trade and other receivables		66	66	66
<b>TOTAL CURRENT ASSETS</b>		<b>300</b>	<b>1,821</b>	<b>5,311</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		15	15	15
Investments		0	28	28
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15</b>	<b>43</b>	<b>43</b>
<b>TOTAL ASSETS</b>		<b>315</b>	<b>1,864</b>	<b>5,354</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables		254	53	53
Borrowings		857	50	50
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,111</b>	<b>103</b>	<b>103</b>
<b>TOTAL LIABILITIES</b>		<b>1,111</b>	<b>103</b>	<b>103</b>
<b>NET ASSETS</b>		<b>(796)</b>	<b>1,761</b>	<b>5,251</b>
<b>EQUITY</b>				
Issued capital	4	61,872	65,860	69,342
Reserves		975	975	975
Accumulated losses	5	(63,643)	(65,074)	(65,066)
<b>TOTAL EQUITY</b>		<b>(796)</b>	<b>1,761</b>	<b>5,251</b>

<sup>(1)</sup> The historical Statement of Financial Position has been extracted from the reviewed financial statements of ESN (ABN 41 009 221 783) as at 31 December 2010.

<sup>(2)</sup> The pro forma Statement of Financial Position reflects ESN and its controlled entities, the pro forma transactions, the application of the funds from the Offer less the costs associated with the Offer as set out in Note 2 as if they occurred on or before 31 December 2010.

### **Note 1 – Basis of Preparation and Accounting Policies**

The historical and pro forma Statement of Financial Position have been prepared consistent with the basis of preparation and in accordance with the accounting policies as set out in the audited financial statements as at 30 June 2010 and the financial report for the half year ended 31 December 2010 (refer to section 7.8).

### **Note 2 – Pro Forma Adjustments**

The following transactions and events contemplated in this Prospectus, referred to as the pro forma adjustments, which are to take place on or before the completion of the Offer had occurred on or before 31 December 2010 are set out below:

*Pro forma transactions:*

#### **The Rights Issue**

- the issue of eight new shares for every one existing share held by eligible shareholders at the issue price of \$0.005 per new share. If the Rights Issue is fully subscribed it will result in the issue of 697,913,920 new shares and the amount raised will be approximately \$3,490,000.
- in addition to the 87,239,240 shares on issue prior to the offer, the Company has 16,161,570 Options which are all eligible for conversion. To be eligible to participate in the Rights Issue, holders must first exercise their Options which have an exercise price ranging from \$0.20 to \$2.00. None of the options are assumed to be exercised.

#### **The Public Offer**

- non shareholder applicants may apply for any shortfall shares under the Rights Issue (“the Public Offer”).
- the Offer is fully underwritten by Furneaux. If the Offer is not fully subscribed either via the Rights Issue or the Public Offer, the shortfall shares will be placed with Furneaux’s clients directly.
- expenses associated with the offer (including advisory, legal, accounting and administrative fees as well as printing, advertising and other expenses), estimated to be \$300,000 (inclusive of GST). An amount of \$167,000 has been charged against share capital and \$133,000 against retained earnings under the minimum capital raising.

#### **The Placement**

- the proposed placement is in respect of up to 800,000,000 shares @ \$0.005 per share to clients of Furneaux. Furneaux’s clients have committed to subscribing for \$4 million in shares, through taking up the shortfall shares and the Placement. If the balance of shortfall shares taken up is less than \$4 million, the balance of the investment will be made under the Placement.

The **Minimum Capital Raising** (\$4 million) assumes that none of the existing shareholders subscribe for shares under the Rights Issue. Furneaux therefore take up the shortfall shares from the Rights Issue and additional shares under the Placement.

The **Maximum Capital Raising** (\$7.5 million) assumes that the Rights Issue is fully subscribed. In addition Furneaux take up the total shares under the Placement.

### Repayment of the Furneaux loan

- the proceeds of the capital raising are assumed to be used in part to repay the Furneaux loan facility which is estimated to be \$1.95 million by the date of the capital raising (refer to section 2.1 for further details).

A deferred tax asset has not been recognised in relation to the capitalised Offer costs due to the uncertainty surrounding the flow of economic benefits that will flow to the Company in future periods.

### Note 3 – Cash and Cash Equivalents

The pro forma cash and cash equivalents is set out below:

	Pro forma Minimum raising \$'000	Pro forma Maximum raising \$'000
<b>Cash and cash equivalents at 31 December 2010</b>	<b>234</b>	<b>234</b>
<i>Pro forma transactions:</i>		
Purchase consideration for VCI business	(28)	(28)
Increase in the Furneaux facility	1,293	1,293
Estimated expenditure incurred from January to June 2011	(1,293)	(1,293)
Repayment of Furneaux loan	(1,950)	(1,950)
Repayment of past creditors	(201)	(201)
Proceeds from shares issued pursuant to the Offer	4,000	7,490
Payment of the Offer costs	(300)	(300)
<b>Pro forma cash and cash equivalents</b>	<b>1,755</b>	<b>5,245</b>

### Note 4 – Issued Capital

The pro forma issued capital is set out below:

	Pro forma Minimum raising \$'000	Pro forma Maximum raising \$'000
<b>Issued capital at 31 December 2010</b>	<b>61,872</b>	<b>61,872</b>
<i>Pro forma transactions:</i>		
Conversion of convertible loan notes	150	150
Issue of share to consultant in lieu of services	5	5
Proceeds from shares issued pursuant to the Offer	4,000	7,490
Capital raising costs pursuant to the Offer	(167)	(175)
<b>Pro forma issued capital</b>	<b>65,860</b>	<b>69,342</b>

**Note 5 – Borrowings**

The pro forma borrowings has been calculated as follows:

	<b>Pro forma Minimum raising \$'000</b>	<b>Pro forma Maximum raising \$'000</b>
<b>Borrowings at 31 December 2010</b>	<b>857</b>	<b>857</b>
<i>Pro forma transaction:</i>		
Conversion of convertible loan notes	(150)	(150)
Increase in Furneaux loan facility	1,293	1,293
Repayment of Furneaux loan	(1,950)	(1,950)
<b>Pro forma borrowings</b>	<b>50</b>	<b>50</b>

**Note 6 – Trade and Other Payables**

The pro forma trade and other payables has been calculated as follows:

	<b>Pro forma Minimum raising \$'000</b>	<b>Pro forma Maximum raising \$'000</b>
<b>Trade and other payables at 31 December 2010</b>	<b>254</b>	<b>254</b>
<i>Pro forma transactions:</i>		
Repayment of past creditors	(201)	(201)
<b>Pro forma trade and other payables</b>	<b>53</b>	<b>53</b>

**Note 7 – Accumulated losses**

The pro forma accumulated losses has been calculated as follows:

	<b>Pro forma Minimum raising \$'000</b>	<b>Pro forma Maximum raising \$'000</b>
<b>Accumulated losses at 31 December 2010</b>	<b>(63,643)</b>	<b>(63,643)</b>
<i>Pro forma transactions:</i>		
Issue of share to consultant in lieu of services	(5)	(5)
Estimated expenditure incurred from January to June 2011	(1,293)	(1,293)
Offer costs	(133)	(125)
<b>Pro forma accumulated losses</b>	<b>(65,074)</b>	<b>(65,066)</b>

## **2.6 2010 Annual Report**

The Company's Annual Report for the financial period ending 30 June 2010 was lodged with ASIC and the ASX on 23 December 2010. The contents of the 2010 Annual Report are taken to be incorporated by reference into this Prospectus in accordance with Section 712 of the Corporations Act. The 2010 Annual Report contains detailed information about the financial performance and financial position of the Company for the financial year ending 30 June 2010. Particular information included in the 2010 Annual Report that may be relevant for consideration by potential investors under this Prospectus includes the following:

- (a) The audited consolidated financial statements for the financial year ended 30 June 2010;
- (b) The Directors' Report regarding the financial year ended 30 June 2010;
- (c) The Statement of Corporate Governance Policies; and
- (d) Remuneration of Directors.

Copies of the 2010 Annual Report lodged at the ASIC may be obtained from or inspected at an office of the ASIC. Copies of documents lodged with the ASX in relation to the Company may be obtained from, or inspected at, an office of the ASX.

The 2010 Annual Report can also be downloaded from the Company's website, or provided electronically on request to the Company Secretary.

The Company will provide a paper copy of the 2010 Annual Report free of charge to any person who requests a paper copy during the application period of the Prospectus.

## **2.7 Market price of Shares**

The Company's securities are currently suspended, and it is therefore not possible to give an accurate market price of the Existing Shares, however the Company will seek re-quotations of the Existing Shares at 0.5 cents per share and will issue the New Shares at 0.5 cents per share.

### 3. Investigating Accountant's Report



Board of Directors  
Entellect Limited  
Level 3, 1 Collins Street  
Melbourne VIC 3000

**Grant Thornton Corporate Finance Pty Ltd**  
ABN 59 003 265 987  
AFSL 247140

Level 17, 383 Kent Street  
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Sydney NSW 1230

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W www.grantthornton.com.au

2 June 2011

Dear Sirs,

#### **INVESTIGATING ACCOUNTANT'S REPORT ON THE PRO FORMA STATEMENT OF FINANCIAL POSITION AND FINANCIAL SERVICES GUIDE**

##### **Introduction**

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") has been engaged by Entellect Limited ("ESN" or the "Company") to prepare an Investigating Accountant's Report (the "Report") for inclusion in a Prospectus dated on or around 2 June 2011 ("the Prospectus"). The Prospectus relates to the issue of 697,913,920 fully paid ordinary shares at \$0.005 each amounting to \$3.49 million, referred to as the "Rights Issue".

The Offer consists of two components, being

- A non-renounceable pro rata rights issue of eight new shares for every one existing share held by eligible shareholders at the issue price of \$0.005 per new share ("the Rights Issue Offer"). If the Rights Issue is fully subscribed it will result in the issue of 697,913,920 new shares and the amount raised will be approximately \$3,490,000.
- Non shareholder applicants may apply for any shortfall shares under the Rights Issue ("the Public Offer").

In addition to the 87,239,240 shares on issue prior to the offer, the Company has 16,161,570 Options which are all eligible for conversion. To be eligible to participate in the Rights Issue, holders must first exercise their Options which have an exercise price ranging from \$0.20 to \$2.00.

The Offer is fully underwritten by Furneaux. If the Offer is not fully subscribed either via the Rights Issue or the Public Offer, the shortfall shares will be placed with Furneaux's clients directly.

Holder of Australian Financial Services Licence No. 247140

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The proposed placement is in respect of up to 800,000,000 shares @ \$0.005 per share to clients of Furneaux. Furneaux's clients have committed to subscribing for \$4 million in shares, through taking up the shortfall shares and the Placement. If the balance of shortfall shares taken up is less than \$4 million, the balance of the investment will be made under the Placement.

Expressions defined in the Prospectus have the same meaning in this report.

### **Financial Information**

Grant Thornton Corporate Finance have been requested to prepare a report covering the historical and pro forma Statement of Financial Position as described below and set out in **Section 2.5** of the Prospectus:

- The historical reviewed Statement of Financial Position of ESN as at 31 December 2010; and
- The pro forma Statement of Financial Position of ESN which has been prepared to illustrate the effects of the Offer as if it had occurred on or before 31 December 2010.

The Directors' of ESN are responsible for the preparation and presentation of the historical and pro forma Statement of Financial Position including the determination of the pro forma adjustments which have been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards and other mandatory professional reporting requirements in Australia ("AGAAP"), which ensure compliance with International Financial Reporting Standards ("IFRS").

The historical and pro forma Statement of Financial Position included in the Prospectus is presented in an abbreviated form in so far as it does not include all the disclosures required by AGAAP applicable to annual financial reports prepared in accordance with the Corporations Act.

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the historical and pro forma financial information to which it relates for any purposes other than the purpose for which it was prepared.

### **Scope**

#### **Review of the Historical Statement of Financial Position**

We have reviewed the historical Statement of Financial Position in order to report on whether anything has come to our attention which causes us to believe that the historical Statement of Financial Position of ESN as at 31 December 2010, as set out in **Section 2.5** of the Prospectus, is not presented fairly, in accordance with the recognition and measurement principles prescribed by AGAAP and in accordance with the accounting policies adopted by ESN and disclosed in **Section 2.5 – Note 1** of the Prospectus.

We have conducted our review of the historical Statement of Financial Position in accordance with *ASRE 2405: "Review of Historical Information Other than a Financial Report"*. We

made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- a review of work papers, accounting records of ESN and other documents and reports;
- a comparison of the consistency in application of the recognition and measurement principles in AGAAP, and the accounting policies adopted by ESN and disclosed in **Section 2.5 – Note 1** of the Prospectus; and
- enquiry of Directors', management and others of ESN.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### Review of the Pro forma Statement of Financial Position

We have reviewed the pro forma Statement of Financial Position in order to report whether anything has come to our attention which causes us to believe that the pro forma Statement of Financial Position of ESN as at 31 December 2010, as set out in **Section 2.5** of the Prospectus, is not presented fairly, on the basis of the pro forma transactions and adjustments described in **Section 2.5 – Note 2** of the Prospectus, in accordance with the recognition and measurement principles prescribed in AGAAP and in accordance with the accounting policies adopted by ESN and disclosed in **Section 2.5 – Note 1** of the Prospectus.

We have conducted our review of the reviewed historical Statement of Financial Position in accordance with *ASRE 2405: "Review of Historical Financial Information Other Than a Financial Report"*. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- a review of work papers, accounting records and other documents and reports provided by ESN;
- a review of the pro forma transactions used as the basis for the pro forma Statement of Financial Position;
- a comparison of the consistency in application of the recognition and measurement principles in AGAAP, and the accounting policies adopted by ESN and disclosed in **Section 2.5 – Note 1** of the Prospectus; and
- enquiries of Directors, management and other affiliates of ESN.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Conclusion****Review Statement on the Historical Reviewed Statement of Financial Position**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the historical Statement of Financial Position of ESN as at 31 December 2010, as set out in **Section 2.5** of the Prospectus, is not presented fairly, in accordance with the recognition and measurement principles prescribed in AGAAP and in accordance with the accounting policies adopted by ESN and disclosed in **Section 2.5 – Note 1** of the Prospectus.

**Review Statement on the Pro forma Statement of Financial Position**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the pro forma Statement of Financial Position of ESN as at 31 December 2010, as set out in **Section 2.5** of the Prospectus, is not presented fairly, on the basis of the pro forma transactions and adjustments described in **Section 2.5 – Note 2** of the Prospectus, in accordance with the recognition and measurement principles prescribed in AGAAP, and accounting policies adopted by ESN and disclosed in **Section 2.5 – Note 1** of the Prospectus.

**Subsequent events**

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief, no material transactions or events outside of the ordinary business of ESN have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

**Independence**

Grant Thornton Corporate Finance does not have any interest in the outcome of the Offer other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. Grant Thornton Audit Pty Ltd are the auditors of ESN.

**Liability**

Grant Thornton Corporate Finance has consented to the inclusion of this Report in the Prospectus and to the references to this Report in the Prospectus, in the form and context in which they are included.

Any liability of Grant Thornton Corporate Finance in relation to the likely audience of the Prospectus is limited to the inclusion of this Report in the Prospectus (and any references in the Prospectus to the Report to which Grant Thornton Corporate Finance has consented). Grant Thornton Corporate Finance makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus.



**Financial Services Guide**

We have included our Financial Services Guide as **Appendix A** to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

A handwritten signature in blue ink, appearing to read "Neil Cooke".

NEIL COOKE  
Director

A handwritten signature in blue ink, appearing to read "Conor Farley".

CONOR FARLEY  
Director – Audit and Assurance

Holder of Australian Financial Services Licence No. 247140

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## Appendix A – Financial Services Guide

Grant Thornton Corporate Finance Pty Ltd  
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This Financial Services Guide is dated 2 June 2011

### 1. About us

Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, Australian Financial Services Licence no 247140) (“Grant Thornton Corporate Finance”) has been engaged by Entellect Limited (“ESN” or the “Company”) to provide a report in the form of an Investigating Accountant’s Report for inclusion in a prospectus dated on or about 2 June 2011 (“the Prospectus”) relating to the offer of ordinary shares in the Company (“the Issue”). You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

### 2. This Financial Services Guide

This Financial Services Guide (“FSG”) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about Grant Thornton Corporate Finance generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

### 3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities and superannuation products and deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of the following classes of products such as securities and superannuation products.

### 4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Holder of Australian Financial Services Licence No. 247140

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia. Liability limited by a scheme approved under Professional Standards legislation.



## **5. Fees, commissions and other benefits we may receive**

Grant Thornton Corporate Finance charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages Grant Thornton Corporate Finance 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. In the preparation of this Report our fees are charged on a fixed basis and are \$12,500 (excluding GST and out of pocket expenses). Directors or employees of Grant Thornton Corporate Finance, Grant Thornton Australia Ltd, or other associated entities, may receive dividends, salary or wages from Grant Thornton Australia Ltd.

## **6. Associations with issuers of financial products**

Grant Thornton Corporate Finance and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, Grant Thornton Australia Ltd may be the auditor of, or provide financial services to the issuer of a financial product and Grant Thornton Corporate Finance may provide financial services to the issuer of a financial product in the ordinary course of its business. Grant Thornton Audit Pty Ltd, an associated entity is the Company's auditor.

## **Complaints**

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the National Head of Corporate Finance at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West  
Melbourne, VIC 8007  
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

## **7. Contact Details**

Grant Thornton Corporate Finance can be contacted by sending a letter to the following address:

National Head of Corporate Finance  
Grant Thornton Corporate Finance Pty Ltd  
Level 17, 383 Kent Street  
Sydney, NSW, 2000

## 4. Company information

### 4.1 Background

- In March 2010, the Company announced to the market its intention to enter into a transaction involving the acquisition of an international licence, a substantial capital raising and the purchase of a Canadian company engaged in a synergistic business to that of Entellect (**Proposed Transaction**). Negotiations leading to this announcement had been underway since November 2009 and had dominated the strategic focus of the Company.
- Subsequently, on 9 April 2010, the Board of the Company announced that, as a result of being unable to complete the proposed capital raising, the Proposed Transaction could not proceed.
- On the same date, the Company's wholly owned subsidiary MXL, which conducted the majority of the trading operations of the Group, was placed into voluntary administration and, at the request of the Company, the Company's securities were suspended from trading on the ASX. The Company's securities remain suspended at the date of this Prospectus.
- On 18 June 2010, MXL entered into a deed of company arrangement with its creditors. The Administrator of MXL successfully disposed of all of MXL's trading assets.
- On 30 June 2010, a liquidator was also appointed to MXL subsidiary, Virtual Communications.
- Since shortly after the events of 9 April 2010, the directors of the Company set about establishing a strategy for recovering as much value as possible for Shareholders. Steps in this process included managing creditors and exploring possible sources of capital and debt funding.
- On 12 August 2010, the Company entered into a pre bid agreement relating to a proposed off-market takeover offer for 100% of the fully paid ordinary shares in the capital of Yilgarn Infrastructure Limited (**Yilgarn**).
- On 12 August 2010, after the execution of the Yilgarn pre bid agreement but prior to the announcement of the proposed Yilgarn takeover offer, Mooter Media Limited (**Mooter**) announced an unsolicited proposed takeover offer for all of the Shares in Entellect.
- On 19 August 2010, Messrs Paul Lowry and Paul Devine resigned as non-executive directors of the Company and, on 26 August 2010, Messrs Plympton and Kellett were appointed as non-executive directors.
- As a result of the Mooter takeover offer Entellect resolved not to proceed with the takeover of Yilgarn and the pre bid agreement was mutually terminated by a Deed of Release on or around 22 September 2010.

### 4.2 Recent Developments

- On 18 October 2010, the Company entered into a loan agreement with Furneaux Equity under which the Company was provided with a 180 day loan facility of \$4,150,000 (**Loan Agreement**). As at 31 May 2011, the Company has drawn down approximately \$1,690,900 under the facility. It is intended that all outstanding loan amount owing under the Loan Agreement will be repaid from the funds raised under the Offer.
- On 3 December 2010, Mooter closed its takeover offer for Entellect Shares with a shareholding of 70.08% in the Company. On 28 January 2011, at a general meeting of

Mooter, the Mooter shareholders approved the proposed in specie distribution by Mooter of 50.08% of the Shares to Mooter shareholders pro rata to their current shareholdings in Mooter. On 10 February 2011, Mooter announced that it had completed the in specie distribution to its shareholders. Mooter has retained a 20% interest in the Company.

- On 28 February 2011, amongst other resolutions, Shareholders at the AGM voted in favour of:
  - the change of the Company's name from "Entellect Solutions Limited" to "Entellect Limited";
  - the Share Consolidation (referred to above in section 1.2); and
  - the Placement of up to 800,000,000 Shares to sophisticated investor clients of Furneaux (referred to above in section 1.4).

#### **4.3 vPublisher**

- On 20 April 2011, Entellect announced that it had acquired all of the assets from the liquidator of Virtual Communications necessary to revive the Virtual Communications business, primarily being the development and commercialisation of the *vPublisher* software.
- Entellect acquired the assets through its newly-renamed and wholly-owned subsidiary, VCI.

#### **4.4 Knowledge Nation**

- In January 2011, the Company announced a joint venture collaboration with Mooter and Hot Shot under which Entellect will acquire a 60% equity interest in Knowledge Nation. Knowledge Nation will be registered in Singapore and will hold all of the shares in Knowledge Nation, Inc (**KNI**) – a US incorporated and San Francisco-based educational games and learning initiator.
- KNI will be a major development arm of the joint educational collaboration between Entellect, Mooter, and Hot Shot.
- The participant interests in Knowledge Nation will be Entellect: 60%, Mooter: 20% and Hot Shot: 20%.
- Knowledge Nation will be the parent entity for the licensing, marketing and implementation of the co-venturers' unique techniques and methods resulting in a suite of interactive educational games, learning initiatives and educational derivatives.

#### **Commercial Strategy**

Knowledge Nation aims to facilitate the licensing, modification and marketing of a suite of educational multimedia games and homework adjuncts for school children. Leveraging upon exclusive rights to the body of works and ongoing services of internationally renowned games developer, Professor Paul Fullwood and immensely experienced Studio Head, Mr Robin Matthews, Knowledge Nation has access to an unrivalled body of knowledge and techniques and approaches to game design and marketing.

#### **Key Product**

Knowledge Nation offers a homework adjunct home study program designed for primary and secondary school students using entertainment-grade content. Depending on the

target market, content will be delivered on a variety of platforms – on CD, via the internet or Wi-Fi hotspots on various connected platforms. Flexible delivery mediums and technologies enable easy updates and customisation capabilities for local, regional and international markets.

Knowledge Nation ensures stability and flexibility of delivery platforms by utilising flexible technologies that thrive regardless of hardware. Development and testing of prototypes are relatively rapid, ensuring quick and positive proof of concept. This leads to a defined pathway for extension of product lines and markets.

Knowledge Nation possesses core techniques and innovative licensing and workflow approaches in all key areas associated with educational software product development. The intellectual property and body of knowledge is rooted firmly in the company and not reliant on licensing-in beyond normal proprietary tool use.

Knowledge Nation will offer true entertainment-grade educational games that will provide an equivalent experience to mainstream games with the same degree of immersion and engagement. The interactive games and activities Knowledge Nation creates will be able to compete head-to-head with popular television series and hit video games.

### **Business Model and Monetisation**

The Knowledge Nation Business model is driven by increasing the time children spend learning, leading to enhanced academic performance. Students will be motivated to spend discretionary time on core curriculum, time that would otherwise be spent on non-educational leisure activities.

Knowledge Nation works closely with local, regional and international curriculum administrative bodies, educators, local authorities, parents and others involved in education to ensure that products are perfectly matched with the curriculum and the games are attractive to the target demographics. This also facilitates the political buy-in and approvals necessary for introduction into certain “closed” markets.

Knowledge Nation markets curriculum-approved and proven homework adjunct products directly to parents of students on a subscription basis. Parents are natural customers for a proven product that would enhance their children’s academic performance. Focus will be on the initial goal of offering a full primary and secondary school curriculum in languages and mathematics. By means of a close collaboration with curriculum designers, educators and other influential stakeholders, Knowledge Nation will obtain “buy-in” on a definitive elucidation of national curriculum goals for each territory.

## **4.5 Information on Directors**

Outlined below are details on the current Board of Entellect. The Board periodically revisits its size and structure which may result in future changes to its membership.

### **Andrew Plympton**

Non-Executive Chairman, Chairman of the Nominations Committee, Member of the Audit and Remuneration Committees

Appointed 26 August 2010

Mr Plympton joined the Company in August 2010 and brings to the role a wealth of experience in a diverse range of commercial and sporting activities.

In the financial services sector, Mr Plympton has been either the managing director and/or executive chairman of a number of International insurance brokers, underwriting agencies and captive insurance managers. In addition, Mr Plympton has served as chairman of a

specialist aviation underwriting company and chairman of a high profile captive insurance operation. In the public company sector, Andrew is the chairman of Entellect (from 26 August 2010), AdEffective Limited (from 9 February 2010), and is a director of Newsat Limited (from 18 February 2010). In the private company arena, he is also chairman of MDHDG Pty Ltd a private company involved with 5 Star hotel/marina developments, and the New Zealand company Energy Mad Limited. During the last three years, Mr Plympton has served as a director of Intermoco Limited.

### **James Kellett**

Executive Director, Chief Executive Officer

Appointed Executive Director on 26 August 2010 and appointed Chief Executive Officer on 3 December 2010

Mr Kellett has over 30 years' experience in corporate finance and business management and has held senior executive positions in the finance and communications industries, including ASX listed companies. Mr Kellett is founder and Managing Director of Furneaux Equity Limited. Furneaux is the holder of an Australian Financial Services Licence (ASFL No. 329518) and Mr Kellett is a responsible manager in respect of the AFSL. He is an Associate of the Financial Services Institute of Australasia and brings very substantial business management, direction and governance skills to the Board. In the interest of full disclosure, Mr Kellett was a director of Color Solutions Australia Pty Ltd and its associated entities. In 2002, Mr Kellett requested these entities be placed in receivership and subsequently liquidation when it became apparent they may not be able to meet debts due to changing market conditions and technology.

During the last three years, Mr Kellett has had no directorships in any other listed companies.

### **Jeffrey Bennett**

Non-Executive Director, Member of the Audit, Remuneration and Nominations Committees

Appointed 19 March 2008

Mr Bennett (B Comm CPA) brings significant experience in corporate finance, capital markets, acquisitions and divestments and risk management to the Company. He has more than 25 years' experience in the resources, transport, IT and service industries having held senior finance positions at Ingena, Simcoco Pacific, BHP and Shell.

Mr Bennett is the chairman of Jameson Resources Limited (ASX: JAL). During the last three years, Mr Bennett has had no directorships in any other listed companies.

## **4.6 Information on Key Personnel**

### **Craig Sinclair**

Head of Product

Mr Sinclair was the founding director of Virtual Communications and co-developer of the *vPublisher* application and has a background in trade and industry development and a strong international business network in communications and technology development.

His *vPublisher* product knowledge and experience in a diverse range of communications environments over the past 25 years including strategic and operational marketing, public relations, corporate communications, brand management, journalism and e-based marketing, is pivotal to the further commercialisation of *vPublisher* and the attainment and maximising of revenue.

**Professor Paul Fullwood**

Senior Adviser

Professor Paul Fullwood, who is internationally recognised as a pioneer in the educational games arena and a highly experienced educational strategist, will be appointed as the Senior Advisor to Knowledge Nation. Professor Fullwood was the product development initiator and Vice President of Nasdaq listed, education success story, Lightspan Inc.

Professor Fullwood was the Professor and First Chair of Computer Games Technology at the University of Abertay in Scotland and a Director of IC-CAVE (the International Centre for Computer Arts and Virtual Entertainment), a European Union funded video games research centre. Professor Fullwood was also Vice President and Head of World-Wide Studios for Hasbro Interactive and a founder and President of Accent Media Productions.

**Robin Matthews**

Studio Head

Mr Robin Matthews has been appointed Studio Head of Knowledge Nation. Mr. Mathews has over 20 years of games development experience. A lawyer and former Studio Head at Microprose in the US, Mr. Mathews has held senior positions at Electronic Arts, Disney/Walker Digital, Hasbro Interactive, EAI, Sirtech and most recently, Namco Bandai Games as Director of Development and Head of their San Diego studio. He also founded a hi-tech company, pioneering innovative concepts within the teaching and training arenas in the NFL/NCAA and in other sporting and social game fields.

**Sophie Karzis**

Company Secretary

Ms Karzis is a member of the Law Institute of Victoria and of the Institute of Chartered Secretaries. She is a practising lawyer with over 10 years' experience as a commercial lawyer, and company secretary and in-house counsel for a number of private and public companies.

## 5. Action required by Eligible Shareholders and Non-Shareholder Applicants

### 5.1 What Eligible Shareholders may do

The number of New Shares to which Eligible Shareholders are entitled (your **Rights**) is shown on the accompanying Shareholder Application Form.

If you do not take up your Rights, then your percentage holding in the Company will be diluted.

As an Eligible Shareholder, you may:

- take up all of your Rights;
- apply for Additional New Shares (refer sections 5.1(b) and 1.8);
- take up part of your Rights and allow the balance to lapse (refer section 5.1(c)); or
- allow all or part of your Rights to lapse (refer section 5.1(d)).

Non-qualifying Foreign Shareholders may not take any of the steps set out in sections 5.1 and should refer to sections 1.14 and 5.2.

#### (a) Taking up all of your Rights

If you wish to take up all of your Rights, complete the accompanying Shareholder Application Form for New Shares and in accordance with the instructions set out in that form and arrange for payment of the Application Money in accordance with section 5.3. If you elect to pay by BPay®, you do not need to return the Shareholder Application Form but you are taken to make the statements on that form.

#### (b) Applications for Additional New Shares

Eligible Shareholders may, in addition to their Rights, apply for Additional New Shares as described in section 1.8.

Payment of your Application Money in accordance with section 5.3 should include your payment in respect of the number of Additional New Shares you wish to apply for, as stated on the Shareholder Application Form.

#### (c) Taking up part of your Rights and allowing the balance to lapse

If you wish to take up part of your Rights and allow the balance to lapse, complete the accompanying Shareholder Application Form for the number of New Shares you wish to take up and arrange for payment in accordance with section 5.3. If you take no further action, the balance of your Rights will lapse and you will have forfeited any potential benefit to be gained from selling/trading your Rights.

#### (d) Allow all of your Rights to lapse

If you are a Shareholder and do not wish to accept any part of your Rights, you are not obliged to do anything. Rights not accepted will form part of the Shortfall Shares which will be issued to Applicants for Additional New Shares, Non-Shareholder Applicants under the Public Offer and/or dealt with by the Underwriter in accordance with the Underwriting Agreement, and you will receive no benefit.

It is therefore important that, if you wish to receive a benefit, you take action to accept your Rights (in full or in part) in accordance with the instructions above and on the back of the accompanying Shareholder Application Form.

The number of Existing Shares you hold as at the Record Date and the rights attached to those Existing Shares will not be affected if you choose not to accept any of your Rights, however, your shareholding interest in the Company will be diluted as a result.

## **5.2 What Non-Shareholder Applicants must do**

Non-Shareholder Applicants may apply for Shortfall Shares under the Public Offer by completing the accompanying Non-Shareholder Application Form and in accordance with the instructions set out in that form and arrange for payment of the Application Money in accordance with section 5.3.

As stated above, the minimum subscription under the Public Offer is 100,000 Shortfall Shares (\$500) and thereafter in multiples of 20,000 (\$100).

The Directors reserve the right to issue Shortfall Shares under the Public Offer at their absolute discretion in consultation with the Underwriter pursuant to the terms of the Underwriting Agreement.

## **5.3 Payment**

The Application Price for New Shares is payable in full on application by a payment of 0.5 cents per New Share.

Eligible Shareholders may pay the Application Money by BPay®, cheque, money order or bank draft in accordance with section 5.3(a) or 5.3(b).

BPay® is not available to Non-Shareholder Applicants. Non-Shareholder Applicants may only pay the Application Money by cheque, money order or bank draft, in accordance with section 5.3(b).

### **(a) Payment by BPay®**

Those who elect to pay by BPay® must follow the instructions for BPay® described in the Shareholder Application Form (which includes the biller code and your unique customer reference number). Please note that should you choose to pay by BPay® payment:

- (i) you do not need to submit the personalised Shareholder Application Form but you are taken to make the statements on that form; and
- (ii) if you do not pay for your full Rights, you are deemed to have taken up your Rights in respect of such whole number of New Shares which is covered in full by your Application Money.

Applicants should be aware that their own financial institution may implement earlier cut off times with respect to electronic payment, and should therefore take this into consideration when making payment. It is the responsibility of the Applicant to ensure that funds submitted through BPay® must be received by no later than 5.00pm AEST on 4 July 2011.

(b) **Payment by cheque, money order or bank draft**

Those who elect to pay by cheque, money order or bank draft must follow the instructions described in the Shareholder Application Form or, if relevant, Non-Shareholder Application Form. You must ensure that:

- (i) your Shareholder Application Form or, if relevant, Non-Shareholder Application Form is complete;
- (ii) your cheque, money order or bank draft for the applicable amount of Application Money must be made in Australian currency, drawn on an Australian branch of a financial institution, be made payable to '**Entellect Ltd A/C**' and crossed '**Not Negotiable**';
- (iii) your completed Shareholder Application Form, or if relevant, Non-Shareholder Application Form and cheque, money order or bank draft are received by the Company's Share Registry by no later than 5.00pm AEST on 4 July 2011 at:

Entellect Limited  
c/o Registries Limited  
GPO Box 505  
Melbourne VIC 3001

Applicants must not forward cash. Receipts for payment will not be issued.

You should ensure that sufficient funds are held in relevant account(s) to cover the cheque(s). If the amount of your cheque(s) for Application Money is not sufficient to pay for the number of New Shares you have applied for, you may be taken to have applied for such lower number of New Shares as your cleared Application Money will pay for or your Application may be rejected.

#### **5.4 Enquiries**

If you have any questions about your Rights or Application please contact the Company's Share Registry on 1300 737 760.

Alternatively, contact your stockbroker or other professional adviser.

#### **5.5 Brokerage**

No brokerage or stamp duty is payable by Eligible Shareholders who accept their Rights to New Shares or Additional New Shares or by Non-Shareholder Applicants in respect of any Shortfall Shares issued under the Public Offer.

## 6. Risk factors

The New Shares offered under this Prospectus are considered speculative because of the inherent risks associated with a software development company. In addition, there are risks inherent in investing in the share market in general.

The Directors have considered and identified in this section of the Prospectus the critical areas of risk associated with investing in the New Shares. The risks identified by the Directors are not exhaustive and potential investors should read this Prospectus in full and seek professional advice if they require further information on material risks in deciding whether to subscribe for New Shares.

This investment is regarded as highly speculative and neither Entellect, nor any of its Directors or any other party associated with the preparation of this Prospectus, guarantees that any specific objectives of Entellect will be achieved or that any particular performance of Entellect or of its Shares, including those offered by this Prospectus, will be achieved.

### 6.1 Specific risks

#### (a) Share Price

The price of the New Shares may be highly volatile and could be subject to wide fluctuations in response to factors such as:

- actual or anticipated variations in the Company's operating results;
- announcements of technological innovations or new services by the Company or its competitors;
- changes to the regulatory environment in which the Company operates;
- changes in financial outcomes estimated by securities analysts;
- announcements by the Company or its competitors of significant acquisitions;
- strategic alliances, joint ventures or capital commitments;
- additions or departures of key personnel; and
- sales of New Shares or, if applicable, other securities of the Company and other events or factors, many of which are beyond the Company's control.

Movements in stock markets in general have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These broad market and industry factors may materially and adversely affect the price of the shares, regardless of the Company's operating performance and regardless of whether Shares are listed.

#### (b) Attraction and retention of key employees

Any growth of the Entellect Business will need to be carefully managed. The Company will need to retain and, when appropriate, attract additional highly qualified management, technical, sales and marketing personnel and continue to implement and improve operational, financial and management information systems in order to effectively manage its expected growth.

A loss of a significant number of employees or certain key employees or difficulty recruiting qualified additional employees will negatively impact the Entellect Business operations.

The Company has in place service contracts with key employees. However, there can be no guarantee that the Company will be able to retain the services of its key employees

or, if it is able to negotiate the retention of those key employees, that the terms of retention of those employees will be commercially acceptable to the Company.

**(c) Competition**

There are currently a number of companies offering services similar to the services that the Company offers.

Other organisations are likely to commence or continue selling products in competition with the products and services provided by the Entellect Business.

**(d) Market penetration**

The use of the products and services provided by the Company by consumers is critical to the success of the Company. The Company cannot predict with any accuracy the number of consumers or the frequency with which those consumers will use the *vPublisher* software or educational game products and services provided by the Company.

**(e) Development of use of electronic service delivery**

The Company's future revenues depend to a large extent on the widespread acceptance and use of the *vPublisher* software and Knowledge Nation's educational games. There can be no guarantee that the uptake or rate of deployment of these products and services will meet the Company's expectations.

**(f) Strategic relationships and contracts**

The growth of the Entellect Business will depend on the Company's ability to develop and maintain relationships with other strategic partners, particularly the key suppliers of products and services, and educational institutions overseas.

**(g) Capacity constraints and system interruption**

The Company is entirely dependent on the integrity, satisfactory performance, reliability and availability of the *vPublisher* software and the suite of educational games to be developed by Knowledge Nation.

**(h) Underwriting**

The underwriting of the Offer is subject to certain termination rights which are set out in section 7.7 - Material Contracts. In the event that the underwriting is terminated, the Offer will be withdrawn and no New Shares will be issued.

**(i) Uncertain revenue and short financial history**

Given the Knowledge Nation Business is still in the early stages of its development, the VCI Business is in the early stages of redevelopment and that both these business rely on customer support, the Directors cannot reliably estimate the gross margins, transaction number, the revenues, earnings or likely future profitability of the Company with any reasonable degree of certainty. Therefore, investment in the Company must be considered speculative.

**(j) Technological change**

Information Technology is continuing to develop and is subject to rapid change. The Company's success will in part depend on its ability to offer goods and services and have systems that keep pace with the continuing changes in technology, evolving

industry standards and changing client preferences. There can be no assurance that VCI or Knowledge Nation will be successful in addressing these developments in a timely manner.

**(k) Government regulation and legal**

Neither the Company, VCI nor Knowledge Nation is currently subject to specific laws or regulations applicable to access to, or commerce on, the Entellect Business, other than the laws and regulations applicable to business generally. However, it is possible that a number of laws and regulations may be adopted with respect to the educational games to be developed by Knowledge Nation or the *vPublisher* software – covering issues such as user privacy, pricing, content and quality of products and services, intellectual property rights and information security – which could limit the proposed scope of activities of the Company. With respect to the *vPublisher* software and educational games, risks and claims may eventuate relating to failure to deliver or errors which may expose the Company to legal actions.

**(l) Protection of intellectual property**

The Company's success is partly dependent upon the proprietary rights and know-how which are owned by VCI and Knowledge Nation. Each Entellect Business relies on a combination of trade secrets, trade marks, copyright and other intellectual-property rights together with licences, non-disclosure and confidentiality agreements and other contractual relationships with its employees, affiliates (if any), suppliers and distributors to establish and protect its proprietary rights in the suite of educational games it is developing.

The Company intends to continually evaluate its intellectual property and undertake steps to continually protect its proprietary intellectual property rights and undertake formal registration of them as and when appropriate. However, there can be no assurance at any time that:

- any such rights can be formally established;
- the measures taken will be adequate to protect its proprietary technology;
- any intellectual property rights will provide it with any competitive advantages and will not be challenged by third parties; and
- the rights of others will not materially adversely affect the Company's ability to do business, its financial condition and the results of its operations (and therefore impact on the future viability and profitability of the Entellect Business).

Neither VCI nor Knowledge Nation's proprietary rights may prevent the independent development of competing products/services (respectively). While each will take steps to protect its proprietary technology, the law may not adequately protect the technology in all the places where the Company does and intends to do (or may in the future do) business or may not be able to be adequately enforced. In addition, competitors may be able to work around any of the intellectual-property rights used by the Company, VCI or Knowledge Nation, or independently develop technologies or competing products/services which are not covered by its intellectual property rights. The Company's competitors may then be able to offer services and sell products which are identical, or very similar to, or otherwise competitive with the Company's, VCI's and Knowledge Nation's products and services.

**(m) Requirement for further funding**

The Company has been trading at a loss and will incur an operating loss in the present financial year. Owing to the uncertain nature of the development of the VCI Business or the Knowledge Nation Business in the future, operating losses may also be incurred in

later financial years. In those circumstances, there is a risk that the Company may at some time in the future require further funding. This requirement may arise as a result of failure to meet its financial projections, budgets or sales targets or because a change in strategy requires a larger allocation of capital. While your Directors believe the Company will have sufficient cash following the Offer to continue its business, there can be no assurance that the Company will be able to raise further capital if required. Any future capital raising may also have a diluting effect on the shareholdings of existing shareholders in the Company.

(n) **Conditionality of Offer**

The issue of the New Shares under the Offer will proceed subject to:

- Shareholder approval at a general meeting;
- there being no termination (for any reason) of the Underwriting Agreement prior to completion of the Offer; and
- the Company's securities being re-quoted on the Official List within 3 months from the date of this Prospectus.

In the event that the Underwriting Agreement is terminated prior to the completion of the Offer or the Company's securities (including New Shares) are not quoted on the Official List within 3 months from the date of this Prospectus, all Application Moneys will be refunded in full without interest as soon as practicable and no New Shares will be issued pursuant to the Prospectus.

## 6.2 General Risks

(a) **General Economic Climate**

Factors such as inflation, currency fluctuations, interest rates, legislative changes, political decisions and industrial disruption have an impact on operating costs.

The Company's future income, asset values and share price can be affected by these factors and, in particular, by the market price for any services that the Company may sell.

(b) **Foreign Currency and Exchange Rate Fluctuations**

Revenue and expenditure of the Company may be domiciled in currencies other than Australian dollars and as such expose the Company to foreign exchange movements, which may have a positive or negative influence on the Australian dollar equivalent of such revenue and expenditure.

The Company will appropriately monitor and assess such risks and may from time to time implement measures, such as foreign exchange currency hedging, to assist managing these risks. However, the implementation of such measures may not eliminate all such risks and the measures themselves may expose the Company to related risks.

(c) **Speculative Nature of Investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Shares offered under this Prospectus.

Therefore, the New Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those New Shares.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for New Shares in the Company.

(d) **Financial constraints**

The Knowledge Nation project has to be adjusted to be implemented in market specific modes. Each market can be viewed as a different division or joint venture project. Depending on the nature of the market envisioned there may be sovereign, or government funding involved in the development phase of the products. Funding requirements though modest are highly dependent upon market and platform choice. Some of Knowledge Nation's deployment methodologies include the use of government and/ or sovereign funding as part of product development financing. In markets where government or sovereign funding is not required, Knowledge Nation may utilise government-sponsored or controlled marketing channels.

(e) **Political interference**

In the case where a government or sovereign fund is partially or wholly financing product development costs, additional constraints can be imposed. Taxpayer money is subject to various export restrictions; quota laws, requirements for competitive bids, profit repatriation limitations, preferential tax structures, etc.

(f) **Cultural barriers – perception of 'foreign influence' by influential stakeholders**

The perception of "foreign influence" held by the constituent stakeholders in a territory is, in many cases a market barrier.

## 7. Additional information

### 7.1 Nature of the Prospectus

The Offer contained in this Prospectus is an invitation by the Company to all Eligible Shareholders to apply for New Shares in the Company under the Rights Issue and for Eligible Shareholders and Non-Shareholder Applicants to apply for Shortfall Shares from the Rights Issue.

### 7.2 Further documents

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office. In addition, any person considering this offer is entitled to receive a copy of the most recently lodged annual financial report and any continuous disclosure notices given by the Company after the lodgement of that financial report. The Company will give copies of those documents to any person who requests them free of charge.

### 7.3 ASX listing

The proposed timetable of this capital raising and completion of all of the requirements necessary for the recapitalisation and re-quotation of the Company's securities (including the New Shares) on ASX contemplates that the requirements for re-quotation can be completed by no later than 3 months from the date of this Prospectus.

In the event that all of the necessary steps required to have the Company's Shares re-quoted on ASX are not completed in that time, then all funds raised under this Prospectus will immediately be returned to Applicants in full and without deduction.

### 7.4 Rights attaching to New Shares

The rights attaching to ownership of Shares (including New Shares) are:

- described in the Constitution; and
- regulated by the Corporations Act, the Listing Rules and the general law.

The following is a summary of the key provisions in the Constitution and the principal rights of Shareholders as set out in the Constitution. This summary is not exhaustive, nor does it constitute a definitive statement of the rights and liabilities of Shareholders.

#### (a) Meetings and notices

Each Shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, financial reports and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the Listing Rules.

#### (b) Voting

At meetings of Shareholders, every Shareholder present in person or by proxy, attorney or representative has one vote on a vote taken by a show of hands, and, on a poll has one vote for every fully paid Share held by him or her, and a proportionate vote for every partly paid Share. A poll may be demanded by the chairperson of the meeting, by any five Shareholders present having the right to vote in person or by proxy, attorney or representative, or by any one or more

shareholders present who are together entitled to not less than 5% of the total voting rights of all Shareholders having the right to vote.

In the case of an equality of votes, the chairman of the meeting has a casting vote.

(c) **Dividends**

Dividends are payable out of the Company's profits and are declared or determined to be payable by the Directors.

(d) **Transfer**

A shareholder may transfer all or any of its Shares by:

- a transfer of shares pursuant to or connected with a transaction entered into or on the ASX (including a proper ASTC transfer as defined in the Corporations Act) in accordance with any computerised or electronic system established or recognised by the Listing Rules or the Corporations Act for the purpose of facilitating dealings in shares, including a transfer that may be effected pursuant to the ASX Settlement Operating Rules or some other computerised or electronic transfer process;
- using any written transfer instrument in any usual or common form or form approved or adopted by the ASX or the Directors; and
- the Directors may decline to register any transfer where permitted to do so by the Listing Rules or ASX Settlement Operating Rules and must decline to register a transfer of Shares where required by the Listing Rules or ASX Settlement Operating Rules.

(e) **Winding up**

Subject to the rights of Shareholders (if any) entitled to shares with special rights in a winding up, all monies and property that are to be distributed on a winding up will be distributed in proportion to the shares held by them respectively, irrespective of the amount paid up or credited as paid up on the shares.

(f) **Variation of Rights**

Subject to the Listing Rules, the rights attached to the Shares may be varied by special resolution of the Company and either with the consent in writing of Shareholders holding three-quarters of the Shares or by a special resolution passed at a separate meeting of the holders of the Shares in accordance with the Corporations Act.

The Directors may, subject to the restrictions on allotment of shares imposed by the Constitution, the Corporations Act and the Listing Rules, from time to time issue and allot further shares on such terms and conditions as they see fit.

(g) **Alteration of Constitution**

The Constitution can only be amended by a special resolution (that is, a resolution that has been passed by at least three-quarters of the votes cast by Shareholders entitled to vote on the resolution). While the Company is listed, at least 28 days written notice of the special resolution must be given.

## 7.5 Indemnification of Directors

To the extent permitted by law, the Company indemnifies every person who is or has been an officer of the Company and indemnifies every person who is or has been an officer of the Company against any liability incurred by the person in his capacity as an officer of the Company in respect of any act or omission or in defending any proceedings, whether civil or criminal.

## 7.6 Taxation

The Directors consider that it is not appropriate to give advice regarding the taxation consequences associated with the acquisition, sale, exercise or non-exercise of Rights, acquisition of New Shares or the subsequent disposal of any New Shares subscribed for under this Prospectus. The Directors recommend that all Applicants consult their own independent professional tax advisors.

## 7.7 Material Contracts

### (a) Underwriting Agreement

The Company has executed an underwriting agreement dated 22 February 2011 between the Underwriter and the Company and subsequently varied by mutual agreement on 27 February 2011 (**Underwriting Agreement**), pursuant to which the Underwriter has agreed to underwrite the Offer. Upon completion, the Underwriter will receive an underwriting fee of 1% of the amount underwritten. The Underwriter will pay all sub-underwriting fees and selling fees to third parties out of its fees. The Underwriter will also receive payment of reasonable costs and expenses incurred by it in connection with the Offer. The Company will pay any GST applicable to any fee payable to the Underwriter under the Underwriting Agreement.

The obligation of the Underwriter to underwrite the Offer is subject to certain events of termination. The Underwriter may terminate its obligations under the Underwriting Agreement on the occurrence of specified events set out below:

- (i) (**Indices fall**): at any time after the date of the Underwriting Agreement:
  - A. the S&P/ASX 200 Index at the close of trade on an ASX trading day is 25% or more below its closing level on the day before the date of the Underwriting Agreement; or
  - B. the S&P/ASX Small Ordinaries Index, as published by Standard & Poor's in respect of the financial market of ASX, at the close of trade on an ASX trading day is 25% or more below its closing level on the day before the date of the Underwriting Agreement;
- (ii) (**Prospectus**): the Company does not lodge the Prospectus on the agreed Prospectus lodgement date or the Prospectus or Offer is withdrawn by the Company;
- (iii) (**Copies of the Prospectus**): the Company fails to provide such copies as requested of the Prospectus to the Underwriter within 7 days of the agreed Prospectus lodgement date, nor promptly provide as many additional copies as the Underwriter may reasonably require for the purpose of the Rights Issue, and such failure is not remedied within 2 days after receiving notice from the Underwriter requiring the failure to be remedied;

- (iv) **(No Official Quotation):** Official quotation has not been granted for all the New Shares by the deadline date for the Company providing notice of a Shortfall or, having been granted, is subsequently withdrawn, withheld or qualified;
- (v) **(Supplementary Prospectus):**
  - A. the Underwriter, having elected not to exercise its right to terminate its obligations under the Underwriting Agreement as a result of a materially adverse "new circumstance" (as referred to in section 719(1) of the Corporations Act), forms the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and the Company fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Underwriter may reasonably require; or
  - B. the Company lodges a supplementary or replacement prospectus without the prior written agreement of the Underwriter; or
- (vi) **(Non-compliance with disclosure requirements):** it transpires that the Prospectus does not contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of:
  - A. the effect of the Offer on the Company; and
  - B. the rights and liabilities attaching to the New Shares and Options; or
- (vii) **(Misleading Prospectus):** it transpires that there is a statement in the Prospectus that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from the Prospectus (having regard to the provisions of section 713 of the Corporations Act) or if any statement in the Prospectus becomes misleading or deceptive or likely to mislead or deceive or if the issue of the Prospectus is or becomes misleading or deceptive or likely to mislead or deceive; or
- (viii) **(Restriction on allotment):** the Company is prevented from allotting the Rights Shares and Options within the time required by this Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi-governmental agency or authority; or
- (ix) **(Withdrawal of consent to Prospectus):** any person (other than the Underwriter) who has previously consented to the inclusion of its, his or her name in the Prospectus or to be named in the Prospectus, withdraws that consent; or
- (x) **(ASIC application):** an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Prospectus, the deadline date for the Company providing notice of a Shortfall has arrived, and that application has not been dismissed or withdrawn; or
- (xi) **(ASIC hearing):** ASIC gives notice of its intention to hold a hearing under section 739 or any other provision of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus (and that notice has not been withdrawn or the hearing is not otherwise subsequently held) or ASIC makes an interim or final stop order in relation to the Prospectus under section 739 or any other provision of the Corporations Act; or

- (xii) **(Takeovers Panel):** the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel, and that application has not been dismissed or withdrawn; or
- (xiii) **(Hostilities):** there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of this agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, or the Peoples Republic of China, Israel or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world; or
- (xiv) **(Authorisation)** any authorisation which is material to anything referred to in the Prospectus is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter; or
- (xv) **(Indictable offence):** a director or senior manager of the Company is charged with an indictable offence; or
- (xvi) **(Insolvency Event):** an Insolvency Event occurs in relation to the Company, where Insolvency Event means:
  - A. the person is dissolved, wound up or placed into bankruptcy or an order is made by a court or an application is made to a court for an order or a resolution is passed or the person gives notice of its intention that the person be dissolved, wound up or placed into bankruptcy;
  - B. a liquidator, provisional liquidator or trustee in bankruptcy is appointed in respect of the person or any property of the person or an application is made to a court for an order that a liquidator, provisional liquidator or trustee in bankruptcy be appointed in respect of the person or any property of the person;
  - C. a controller or administrator is appointed in respect of the person or any property of the person or takes possession or gains control of any property of the person;
  - D. except to reconstruct or amalgamate while solvent, the person enters into, or resolves to enter into, a scheme of arrangement, administration, deed of company arrangement or composition with, or assignment for the benefit of, all or any class of its creditors, or it proposes a reorganisation, moratorium or other administration involving any of them;
  - E. the person is (or states that it is) insolvent or an insolvent under administration (each as defined in the Corporations Act);
  - F. as a result of the operation of section 459F(1) of the Corporations Act, the person is taken to have failed to comply with a statutory demand;
  - G. execution or other process issued on a judgment, decree or order of a court (whether an Australian court or not) in favour of a creditor against the person, or another person authorised to be sued as nominal defendant on behalf of the person, is returned wholly or partly unsatisfied, or the person makes a statement from which it may be reasonably deduced that such an event has occurred;

- H. the person takes any step to obtain protection or is granted protection from its creditors under any applicable legislation; or
  - I. anything analogous or having a substantially similar effect to any of the events specified above happens under the law of any applicable jurisdiction.
- (xvii) **(Termination Events):** subject to the occurrence of the event described below having a material adverse effect on the Rights Issue, any of the following events occurs:
- A. **(Default):** default or breach by the Company under the Underwriting Agreement of any terms, condition, covenant or undertaking; or
  - B. **(Incorrect or untrue representation):** any representation, warranty or undertaking given by the Company in the Underwriting Agreement is or becomes untrue or incorrect; or
  - C. **(Contravention of constitution or Act):** a contravention by the Company of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX; or
  - D. **(Adverse change):** an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change after the date of this Agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of the Company including, without limitation, if any forecast in the Prospectus becomes incapable of being met or in the Underwriter's reasonable opinion, unlikely to be met in the projected time; or
  - E. **(Error in Due Diligence Results):** it transpires that any of the Due Diligence Results or any part of the Prospectus verification material was false, misleading or deceptive or that there was an omission from them; or
  - F. **(Significant change):** a "new circumstance" as referred to in section 719(1) of the Corporations Act arises that is materially adverse from the point of view of an investor; or
  - G. **(Public statements):** without the prior approval of the Underwriter a public statement is made by the Company in relation to the Offer, the Issue or the Prospectus; or
  - H. **(Misleading information):** any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Issue or the affairs of the Company is or becomes misleading or deceptive or likely to mislead or deceive; or
  - I. **(Official Quotation qualified):** the Official Quotation is qualified or conditional other than as set out in the definition of "Official Quotation" in the Underwriting Agreement; or
  - J. **(Change in Act or policy):** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts

or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy; or

- K. **(Suspension of debt payments)**: the Company suspends payment of its debts generally; or
- L. **(Event of Insolvency)**: an Insolvency Event occurs in respect of the Company; or
- M. **(Judgment against the Company)**: a judgment in an amount exceeding \$25,000 is obtained against the Company and is not set aside or satisfied within 7 days; or
- N. **(Litigation)**: litigation, arbitration, administrative or industrial proceedings are after the date of this Agreement commenced or threatened against the Company, other than any claims foreshadowed in the Prospectus; or
- O. **(Board and senior management composition)**: there is a change in the composition of the Board or a change in the senior management of the Company before Completion without the prior written consent of the Underwriter; or
- P. **(Change in shareholdings)**: there is a material change in the majority or controlling shareholdings of the Company or a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to the Company; or
- Q. **(Timetable)**: there is a delay (other than as a result of an action or omission of the Underwriter) in any specified date in the timetable for the Offer (as specified in the Underwriting Agreement, unless amended by agreement of the Company and Underwriter) which is greater than 3 Business Days; or
- R. **(Force Majeure)**: a force majeure event affecting the Company's business or any obligation under the Agreement lasting in excess of 7 days occurs; or
- S. **(Certain resolutions passed)**: the Company passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter; or
- T. **(Capital Structure)**: the Company alters its capital structure in any manner not contemplated by the Prospectus; or
- U. **(Investigation)**: any person is appointed under any legislation in respect of companies to investigate the affairs of the Company; or
- V. **(Market Conditions)**: a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets.

The Underwriter has consented to the lodgement of this Replacement Prospectus by the Company and has waived any right to terminate the Underwriting Agreement as a result of its lodgement.

The Underwriting Agreement also contains a number of indemnities, representations and warranties from the Company to the Underwriter that are considered standard for an agreement of this type.

As at the date of this Prospectus, the Underwriter does not beneficially hold any Shares in the Company. The Underwriter is a related party as defined in section 228 of the Corporations Act. The Underwriter has entered into sub-underwriting agreements with sub-underwriters who are clients of the Underwriter and parties as set out in section 7.12 (**Sub-underwriters**) and the Offer is fully sub-underwritten. In the event that Eligible Shareholders do not take up some or all of their Rights under the Offer and not all of the Shortfall Shares are issued to Eligible Shareholder who apply for Additional New Shares or to Non-Shareholder Applicants under the Public Offer, the Sub-underwriters will be entitled to subscribe for the Shortfall Shares.

As the Offer is fully sub-underwritten, the Underwriter will not acquire voting power in the Company as the result of a shortfall. In the unlikely event that there is a 100% shortfall and each Sub-underwriter subscribes for its full entitlement to the Shortfall Shares, no Sub-underwriter will acquire voting power in the Company of more than 20% as a result of their Sub-underwriting position. No Sub-underwriter is a related party as defined in section 228 of the Corporations Act, other than those Sub-underwriters set out in section 7.12 of this Prospectus.

(b) **Knowledge Nation Joint Venture Agreement**

Entellect has executed a joint venture agreement dated 21 February 2011 between Mooter, Hot Shot and Entellect (**JVA**) pursuant to which the parties have agreed to develop, market and implement the Knowledge Nation concept throughout the world. The Joint Venturers have agreed to incorporate a nominee company in Singapore to operate Knowledge Nation (**Nominee**).

Entellect holds a 60% ownership interest in Knowledge Nation, with Mooter and Hot Shot each holding a 20% interest, and the parties shall hold shares in the Nominee in accordance with their ownership interests in Knowledge Nation. As such, all property of Knowledge Nation is owned by the parties as tenants in common in the proportions of their respective ownership interests from time to time.

On the basis that Entellect loans the first A\$2.5 million to fund Knowledge Nation during the term of the venture, the parties have agreed that Entellect shall be entitled to both repayment of the loan as well as an initial priority distribution of profit from Knowledge Nation of A\$500,000 before any profits are distributed to the parties in proportion to their respective ownership interests in Knowledge Nation.

Mooter and Hot Shot have disclosed and assigned all ownership and rights to Knowledge Nation in any intellectual property developed by them relating to the Knowledge Nation concept and such other information and materials as may be necessary to allow the Nominee to fulfil the objects of Knowledge Nation.

The board of directors of the Nominee shall consist of four directors, with two directors being appointed by the Company and one director being appointed by each of Mooter and Hot Shot. The board of directors of the Nominee may decide all matters relating to the conduct of Knowledge Nation. A quorum for any meeting of the board requires one representative of each party (but excluding any defaulting party) to be in attendance.

All decisions of the board of directors of the Nominee must be determined by majority vote except for the following matters which require unanimous approval:

- (i) suspension or termination of activities of Knowledge Nation for any reason, including extended force majeure;

- (ii) the purchase, sale or disposition of any item of property for Knowledge Nation which exceeds \$50,000 and which is material to the operation of Knowledge Nation;
- (iii) the entry into a contract or lease which will continue for more than 6 months or involve total expenditure in excess of \$50,000;
- (iv) licensing of intellectual property of Knowledge Nation other than in the normal course of activities of Knowledge Nation;
- (v) the creation of an encumbrance over property of Knowledge Nation other than by way of a lien in the ordinary course of business; and
- (vi) the borrowing of funds other than the initial loan amount from Entellect.

Each year the board of directors of the Nominee shall determine the programme and budget relating to activities of Knowledge Nation, which may include a call for more capital to be contributed by the parties. Should a party decide not to contribute to the activities of Knowledge Nation, then the non-contributing party may be subject to a dilution of its ownership interest in Knowledge Nation.

A party shall be in default under the JVA on the occurrence of specified events set out below.

- (i) **(material breach)**: a material breach by a party of any of its material obligations under the JVA; or
- (ii) **(insolvency)**: an Insolvency Event occurring in relation to a party; or
- (iii) **(contribution of monies)**: monies which are due under the JVA are not paid by the relevant due date.

Where a material breach or insolvency event is not remedied within the relevant time period specified under JVA, or where the contribution of monies is not paid by a party within 30 days of the due date for the contribution, then the non-defaulting party or parties may elect to (but are not obliged to) acquire, pro-rata in proportion to their respective interest in Knowledge Nation, the whole (but not part) of the defaulting party's interest in Knowledge Nation. If the default event is remedied or compensated in accordance with the JVA before the election is made, the right to the election lapses.

Where a party wishes to assign its interest in Knowledge Nation, the relevant party is obliged to offer its ownership interest in Knowledge Nation to the other parties, who are entitled to acquire the interest in proportion to their existing interests in Knowledge Nation. The provisions relating to the sale of its ownership interest in Knowledge Nation are considered standard for an agreement of this type.

Other than for a default event, the JVA can only be terminated with agreement of the parties.

(c) **Furieux Loan Agreement**

Entellect and Furieux entered into the Loan Agreement on 18 October 2010, pursuant to which Furieux, as lender, made available a loan facility of \$3.15 million to the Company, as borrower, for a period of 180 days from the date of the agreement (**Loan Facility**). The Loan Facility limit was increased to \$4.15 million on 11 January 2011.

A fee of 1% of the Loan Facility limit is payable to Furneaux for both the provision of the loan and the underwriting facilities and may be deducted from the first or subsequent amounts drawn down.

Interest accrues on the amount outstanding under the Loan Facility from day to day and calculated on a daily basis. Interest accrues at an initial rate of 10% per annum if it is paid on the termination date, being 180 days after the date of the Loan Agreement. Otherwise, if the Company default in repayment, interest will be calculated to have accrued at a higher rate of 12% per annum. Furneaux is entitled to vary the interest rates on the first day of each month during the term of the Loan Agreement at its discretion, but any increase must be limited to the percentage by which the official Australian Reserve Bank cash rate is increased during the preceding month.

During the term of the Loan Agreement, Furneaux may request the Company to provide it with appropriate securities to secure the outstanding amounts drawn down under the Loan Facility. On 11 January 2011, Furneaux agreed to remove its right to register a fixed and floating charge over the Company in its favour on the condition that the Company entered into a deed of negative pledge, pursuant to which the Company undertook to not create, permit or allow to subsist any security interest over any of its assets and undertakings (other than certain permitted encumbrances); incur any new financial indebtedness; or grant a guarantee except by way of replacement of an existing guarantee which is for no greater amount than the guarantee replaced.

Each of the events specified below is an **Event of Default** whether or not caused by any reason in the control of the Company:

- (i) **(Failure to Pay)**: the Company does not pay, at or before the due time on the due date and in the specified way, any amount payable by it under the Loan Agreement or any collateral agreement.
- (ii) **(Failure to Comply)**: the Company defaults in fully performing, observing or fulfilling any of its other obligations under the Loan Agreement or any collateral agreement and, if the default is capable of remedy, it is not remedied to Furneaux's satisfaction within 7 days (or any longer period agreed in writing by Furneaux) after the Company becomes aware of the default (whether by notice from Furneaux or otherwise).
- (iii) **(Untrue Warranty)**: any representation, warranty or statement made, repeated or deemed to be made or repeated in the Loan Agreement or any collateral agreement or in connection with the Loan Facility, or any accounts or opinion furnished in connection with the application for the Loan Facility or under this Agreement, is proved to be untrue in any material respect when made, repeated or deemed to be made repeated or furnished (as the case may be).
- (iv) **(Event of Default under collateral agreement)**: there is any material breach of any provision contained in any collateral agreement or any event of default however described (or event which with the giving of notice, lapse of time, determination of materiality or other condition could constitute such an event of default) occurs under any collateral agreement.
- (v) **(Breach of Undertaking)**: the Company or any of its related bodies corporate breach (where each is a **Relevant Person**) any material undertaking given at any time to Furneaux or fails to comply with any condition imposed by Furneaux in agreeing to any matter (including any waiver).

- (vi) **(Other Default):**
  - A. any borrowing of any Relevant Person becomes, or becomes capable of being declared, prematurely due and payable as a result of a default or an event of default however described under the relevant agreement or facility;
  - B. any borrowing of any Relevant Person or any sum payable in respect of any borrowing is not paid when due;
  - C. any encumbrance over any asset of any Relevant Person becomes enforceable;
  - D. any Relevant Person defaults in fully performing, observing and fulfilling any of the terms, covenants and conditions of any encumbrance over any of its assets or any encumbrance over any assets of any Relevant Person otherwise becomes enforceable;
  - E. any encumbrance which is a floating security over any asset of any Relevant Person crystallises into or otherwise becomes a fixed or specific security.
- (vii) **(Insolvency Event):** any Insolvency Event (as defined in the Loan Agreement) occurs in relation to any Relevant Person other than for the reconstruction of the Relevant Person with Furneaux's prior written approval.
- (viii) **(Investigation):** a person is appointed to investigate the affairs, or particular affairs, of a Relevant Person or any of its officers.
- (ix) **(Cessation of Business):** a Relevant Person ceases, or threatens to cease, to carry on all or a substantial part of its business.
- (x) **(Void or Voidable):** the Loan Agreement or any collateral agreement is, becomes or is claimed by any Relevant Person to be void, voidable or unenforceable in whole or in part.
- (xi) **(Illegality):** at any time it is unlawful for a Relevant Person to perform any of its obligations under the Loan Agreement or any collateral agreement to which it is a party.
- (xii) **(Failure to Comply with Laws):** any Relevant Person fails to duly and punctually comply with any statute or other laws binding on it (including, without limitation, the Corporations Act).
- (xiii) **(Change in Control):** without Furneaux's prior written consent effective control of any Relevant Person is altered from that subsisting at the date of the Loan Agreement. For the purpose of this clause "**effective control**" means:
  - A. the composition of the board of directors of the Relevant Person;
  - B. control of more than 20% of the voting power of the Relevant Person; or
  - C. control of more than 20% of the issued share capital of the Relevant Person excluding any part of the issued share capital which carries no right to participate beyond a specified amount in the distribution of either profit or capital.

- (xiv) **(Cessation or Suspension of Official Quotation)**: where any Relevant Person is listed on the ASX or any of its subsidiaries or on any other stock exchange, it ceases to be so listed or trading in its shares is suspended for a period of not less than 14 days.
- (xv) **(Reduction in Capital)**: without Furneaux's prior written consent, a Relevant Person takes action to reduce its share capital (other than by the redemption of redeemable preference shares).
- (xvi) **(Memorandum and Articles)**: without Furneaux's prior written consent a Relevant Person takes action to amend its constituent documents.
- (xvii) **(Reserve Liability)**: without Furneaux's prior written consent any meeting of a Relevant Person is convened for the purpose of considering or passing a special resolution pursuant to Section 188(2) of the Corporations Act or any such resolution is proposed at any meeting of a Relevant Person.
- (xviii) **(Material Change)**: any other event or series of events whether related or not (including, without limitation, any material adverse change in the business, assets or financial condition of any Relevant Person) occurs which in the opinion of Furneaux could affect the ability or willingness of any Relevant Person to perform, observe and fulfil all or any of its respective obligations under the Loan Agreement or any collateral agreement.

The Loan Agreement also contains a number of indemnities, representations and warranties from the Company to Furneaux that are considered standard for an agreement of this type. The Company is responsible for all costs and duties associated with the Loan Agreement and the Loan Facility, including any enforcement actions by Furneaux against the Company.

The Company may, at any time, pay to Furneaux the whole or such lesser part of the money advanced without notice to Furneaux. It is intended that the Loan Facility will be repaid in full (including any accrued interest) from the funds raised by the Offer.

As at 31 May 2011, the Company has drawn down approximately \$1,690,900 under the Loan Facility, which remains outstanding. At the Closing Date, the Company estimates the drawn down amount under the Loan Facility will be approximately \$1,950,000.

(d) **Services Agreement with Furneaux Management Pty Ltd**

Entellect entered into a Services Agreement with Furneaux Management Pty Ltd (**Consultant**), a related party of James Kellett, on 23 December 2010 (**Services Agreement**) for the provision of consultancy services to assist the Company with its reinstatement to the official list of the ASX.

The term of the Services Agreement commenced on 1 December 2010 and initially ran for a term of 4 months with an option to extend for one further month. Entellect exercised the one month option. On 20 April 2011, the parties subsequently agreed to extend the term until 30 June 2011. The Consultant is entitled to receive a fee of \$14,000 plus GST per month during the term. The Company must also reimburse the Consultant for all out-of-pocket expenses reasonably and properly incurred by the Consultant in the provision of its services to the Company on the provision of satisfactory written evidence.

Under the Services Agreement, the Consultant must provide the services through its key person, being James Kellett.

Other than expiry of the term, the Services Agreement may be terminated as follows:

- (a) by the Company on 5 Business Days written notice if the Consultant no longer retains the Key Person to provide the services to the Company on behalf of the Consultant;
- (b) immediately by the Company without prior notice if the Consultant or the Key Person (as applicable) shall at any time:
  - (i) commits a material breach of any of the provisions of the Services Agreement and such material breach is not remedied within 7 days of written notice by the Company;
  - (ii) be guilty of gross misconduct or wilful neglect in the discharge of its duties under the Services Agreement;
  - (iii) becomes under the control of any committee or officer under any law relating to mental health;
  - (iv) be convicted of any criminal offence other than an offence which in the opinion of the Company does not affect the Consultant or the Key Person's ability to discharge their obligations under the Services Agreement;
  - (v) suffers any event of permanent incapacity which prevents the Key Person from performing his duties under the Services Agreement, and for the purposes of this clause incapacity in excess of 120 consecutive days or for an aggregate period of 6 months in any period of 12 months will be deemed to be permanent incapacity;
- (c) immediately by the Company without prior notice if the Key Person ceases to be a director of the Company for any reason.

(e) **Employee Share Option Plan**

**Key Terms**

The following is a summary of the terms of the ESOP (where defined terms have the meaning given to them in the ESOP Rules):

Objective

The objective of the ESOP is to assist in the recruitment, rewarding, retention and motivation of employees.

Offers

Under the ESOP, the Company (acting through the Directors) may offer Options at such times and on such terms as the Directors consider appropriate,

Price

The Board has the discretion to set the Exercise Price for Options.

Vesting and Exercise Period

The terms on which the Options vest and the Exercise Period, are determined in the discretion of the Directors.

An Optionholder may only exercise Options after any Vesting Condition and Exercise Condition are satisfied.

If there is a Takeover Bid, change of control, proposed compromise or arrangement, or a scheme for reconstruction, amalgamation or winding up, the Directors may determine that Optionholders have the opportunity to exercise vested and unvested Options.

Unless the Exercise Period expires at an earlier date, or the Directors determine otherwise, Options lapse on the latest of:

- (a) the expiry of 6 months after the Optionholder ceases to be employed by reason of retirement, permanent disablement or any other reason;
- (b) the expiry of 12 months after the Optionholder's death; and
- (c) any later time determined by the Directors.

If the Optionholder's employer ceases to be a member of the Company's group, then the Options lapse upon that occurring except where the Directors determine otherwise in which case the Options lapse on the latest of:

- (a) the expiration of 3 months after the cessation;
- (b) if the Board extends the period during which the Options may be exercised, the expiration of that time;
- (c) if the Optionholder dies before the Options lapse under (a) or (b), the expiration of 12 months after the individual's death.

It is a condition precedent to the exercise of an Option that if the Optionholder is an individual, he or she is not bankrupt and has not committed an act of bankruptcy or, If the Optionholder is deceased, the Optionholder's estate is not bankrupt or if the Optionholder is not an individual, the Optionholder is not insolvent or subject to a resolution or order for winding up.

### Restrictions

Options may not be transferred unless the Board approves the transfer or the transfer is effected by force of law.

The grant of the Option may specify conditions regarding restrictions as to dealing with and/or disposal of the Shares.

### Maximum Number

The ESOP is restricted in the number of Options that can be issued so that the Company will not offer or issue Options under the ESOP if, at the time of issue, the total number of Shares the subject of those Options would exceed 10% of the issued capital in that class of shares.

However, to obtain the benefit of a Class Order issued by the Australian Securities and Investments Commission exempting the Company from the requirement to issue a disclosure document to proposed recipients regarding the issue of Options, the Company will not exceed 5% of the issued share capital.

### Shares

All Shares issued under the ESOP will rank *pari passu* with the Shares of the same class for the time being on issue.

After Shares have been issued under the ESOP, the Company will promptly make application for their quotation on the ASX.

### Rights of Options

If the Company makes a bonus issue, then at the time the Options of an Optionholder are exercised in accordance with the ESOP, the Optionholder will be entitled to receive (in addition to the shares to which the Option holder is entitled on exercise of the Options) the number of Shares that he or she would have been entitled to secure under the bonus issue as if that Optionholder's Options had been exercised and the Shares allotted, each before the date on which eligibility to participate in that bonus issue was determined.

If there is a pro rata issue, the exercise price of an Option and the number of Shares over which an Option exists will be adjusted in accordance with a formula prescribed by the Listing Rules.

### Amendment, termination or suspension

The Board may resolve at any time to amend, terminate or suspend the operation of the ESOP.

### ***Proposed Amendments***

At the EGM, Shareholders approved the following variations to the ESOP for the purpose of ensuring consistency with the Corporations Act and permitted exemptions allowed under the relevant ASIC Class Order (which the Directors consider to be the correct and appropriate manner of interpreting and calculating the 5% limit) and to ensure consistency with the Australian Taxation Office's recommendations with respect to deferred taxation of employee share scheme interests, published on 22 June 2010 and titled 'ESS – guide for employers':

- To amend Rule 1.1 of the ESOP by amending the definition of "Eligible Employee" to read: "an employee (including a Director of the Company employed in an executive capacity) of the Participating Company who is declared by the Board to be an Eligible Employee for the purposes of the Plan".
- To amend Rule 2.2(f) so that the word "any" is replaced with the word "the" before the words "Vesting Condition" so that the clause reads as follows:

*"2.2 The Invitation will communicate the following matters to each Eligible Employee to whom an Invitation is issued, the details of which shall be determined by the Board:*

...

(f) the Vesting Condition

..."
- To amend Rule 5.2 to read as follows: "*Subject to Rule 7, an Option may not be exercised unless all Vesting Conditions and Exercise Conditions are satisfied (and in any situation referred to in Rule 5.3(b)(i), is satisfied at the time of death or other cessation of employment), and then only to the extent permitted by the Exercise Condition.*"
- To amend Rule 5.8 to read as follows: "*The Board may, in writing, subject to Listing Rules, extend the period during which a Participant may exercise an Option*

*under these Rules, except to the extent that it renders any Vesting Condition or Exercise Condition including any set out in these rules ineffective or inapplicable.”*

## 7.8 Information available to Shareholders

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office. In addition, any person considering this offer is entitled to receive a copy of the following documents, free of charge, to any investor who so requests during the application period under this Prospectus:

- (a) the 2010 Annual Report of Entellec Limited and the financial statements and consolidated financial statements for the year ending 30 June 2010; and
- (b) the following documents notifying ASX of information relating to Entellec during the 12 months before the issue of this Prospectus:

<b>Date</b>	<b>Announcement Header</b>
10/06/2011	Results of Meeting
03/06/2011	Letter to Option holders
02/06/2011	Rights Issue Prospectus
02/06/2011	Appendix 3B Rights Issue
02/06/2011	Rights Issue Letter to Shareholders
11/5/2011	Notice of Extraordinary General Meeting/Proxy Form
29/4/2011	Appendix 4C - quarterly
21/4/2011	Re acquisition of <i>vPublisher</i> business
16/03/2011	Share Consolidation Complete
15/03/2011	Name Change and Share Consolidation
28/02/2011	Results of Meeting
28/02/2011	Chairman's Address to Shareholders
25/02/2011	Half Yearly Report and Accounts
17/02/2011	Change of Director's Interest Notice
10/02/2011	MMZ Distribution in specie of ESN shares
03/02/2011	Proposed Consolidation Timetable
28/01/2011	Appendix 4C - quarterly
28/01/2011	Notice of Annual General Meeting/Proxy Form
24/01/2011	Final Director's Interest Notice
19/01/2011	Director Resignation
14/01/2011	Knowledge Nation - new educational games venture
11/01/2011	New Operating Joint Venture further update

<b>Date</b>	<b>Announcement Header</b>
07/01/2011	New Education Joint Venture
07/01/2011	MMZ: New Operating JV with ESN
29/12/2010	Share Trading Policy
23/12/2010	MMZ: Prospectus for In Specie Distribution of ESN Shares
23/12/2010	Annual Report to shareholders
06/12/2010	MMZ Letter to ESN Acceptors
03/12/2010	Interim CEO appointed
03/12/2010	MMZ Close ESN Offer with 70.08% Shareholding
01/12/2010	MMZ Change in substantial holding in ESN to 70.08%
30/11/2010	MMZ Change in substantial holding from MMZ
29/11/2010	Change in substantial holding to 68.67% from MMZ
26/11/2010	Change in substantial holding from MMZ to 68.30%
25/11/2010	Change in substantial holding from MMZ
24/11/2010	MMZ Change in substantial holding in ESN to 62.02%
23/11/2010	Supplementary Target Statement
23/11/2010	AGM and Share Consolidation
23/11/2010	MMZ Change in substantial holding in ESN to 61.37%
22/11/2010	MMZ Change in substantial holding in ESN to 60.52%
19/11/2010	MMZ Change in substantial holding in ESN to 58.82%
18/11/2010	Change in substantial holding from MMZ
17/11/2010	MMZ Extension of Offer Period for ESN
17/11/2010	MMZ Change in substantial holding from MMZ
16/11/2010	MMZ Change in substantial holding from MMZ
15/11/2010	Change in substantial holding from MMZ
12/11/2010	S650F Notice MMZ Bid for ESN Free from Defeating Conditions
12/11/2010	MMZ: S630 Notice MMZ Offer for ESN now Unconditional
12/11/2010	MMZ Change in substantial holding from MMZ
11/11/2010	MMZ Change in substantial holding from MMZ
10/11/2010	MMZ Change in substantial holding from MMZ
09/11/2010	Change in substantial holding from MMZ
08/11/2010	MMZ Change in ESN substantial holding
05/11/2010	Change in substantial holding from MMZ

<b>Date</b>	<b>Announcement Header</b>
04/11/2010	Change in ESN substantial holding from MMZ
03/11/2010	Change in substantial holding from MMZ
02/11/2010	Change in substantial holding from MMZ
01/11/2010	Target's Statement
01/11/2010	MMZ Change in ESN substantial holding from MMZ
01/11/2010	Loan Facility Agreement
29/10/2010	Appendix 4C - quarterly
29/10/2010	MMZ: MMZ 2nd Supplementary ESN Bidder's Statement
28/10/2010	Change in substantial holding from MMZ
27/10/2010	MMZ Becoming ESN substantial holder
20/10/2010	MMZ Takeover Bid - take no action
18/10/2010	Replacement Bidder's Statement for ESN Despatched
11/10/2010	MMZ: Replacement Bidder's Statement for ESN
11/10/2010	MMZ: Supplementary Bidder's Statement for ESN
11/10/2010	MMZ: ASIC Determination
04/10/2010	MMZ Bidder's Statement for ESN
22/09/2010	Mutual Termination of Yilgarn takeover bid
31/08/2010	Preliminary Final Report
31/08/2010	Initial Director's Interest Notice
31/08/2010	Initial Director's Interest Notice
26/08/2010	Directors and Secretary Appointment
20/08/2010	Final Director's Interest Notice
20/08/2010	Final Director's Interest Notice
19/08/2010	Resignation of Directors
18/08/2010	Takeover Offer - Correction
18/08/2010	Clarification of MMZ Offer for ESN
17/08/2010	Entellect Solutions Ltd Takeover Offer for Yilgarn Ltd
13/08/2010	Unsolicited takeover offer - take no action
12/08/2010	MMZ: Scrip Takeover Offer for ESN
30/07/2010	Appendix 4C
18/06/2010	Progress of Administration

## 7.9 ASX Waivers

The Company has obtained a waiver of Listing Rule 7.11.3 to the extent necessary to enable the Company to undertake a non-renounceable Rights Issue at a ratio greater than 1 for 1 on condition that Shareholders approve the Rights Issue and that the notice of meeting include a voting exclusion statement prohibiting the Underwriter, any sub-underwriter, any substantial shareholder and their Associates voting on the resolution. Approval of the Rights Issue was approved by Shareholders at the EGM held on 10 June 2011.

Listing Rule 7.15 provides that where an entity must get the approval of shareholders to make an offer, or issue securities, the record date to decide entitlements must be at least 7 business days after the date of the meeting. The underlying policy of Listing Rule 7.15 is directed at providing security holders an opportunity to adjust their holdings to participate in an offer or issue of securities.

Given that ESN securities have been suspended from the official list since 9 April 2010 and will not be re-quoted until completion of the Rights Issue, current security holders will not have the ability to adjust their holdings in the Company prior to the Rights Issue. Accordingly, the Company obtained a waiver from complying with Listing Rule 7.15 in order for the Company to set the record date for the Rights Issue to the date of the EGM. The primary reason for this request was to expedite the recapitalisation and eventual re-quotations of ESN securities on the ASX. As a condition of the waiver, the Company has not sought re-quotations of its securities on the ASX at any time prior to the EGM.

## 7.10 Legal Proceedings

The Company is not and has not been, during the 12 months preceding the date of this Prospectus, involved in any legal or arbitration proceedings which have had a significant effect on the financial position of the Company not covered by adequate insurance. As far as the Directors are aware, no such proceedings are threatened against the Company.

## 7.11 Matters relevant to Directors

### Interests of Directors:

Other than as set out below or elsewhere in this Prospectus, no Director has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the issue of Securities pursuant to this Prospectus;  
or
- (c) the issue of Securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the formation or promotion of the Company or issue of Securities pursuant to this Prospectus.

Interests held by Directors in the Securities of Entellect and any Related Body Corporate of it, as at 31 May 2011, are:

<b>Name</b>	<b>Shares</b>	<b>Options</b>
Andrew Plympton	Nil	Nil
James Kellett	Nil	Nil
Jeffrey Bennett	1,306,337	Nil

Remuneration of Directors:

The current Directors remuneration is set out below:

<b>Name</b>	<b>Function</b>	<b>Date of Appointment</b>	<b>Base Remuneration per annum</b>	<b>Other</b>
Andrew Plympton	Chairman and Non-Executive Director	26 August 2010	\$60,000	Nil
James Kellett	Chief Executive Officer and Executive Director	3 December 2010	\$168,000	Nil
Jeffrey Bennett	Non-Executive Director	19 March 2008	\$42,000	Nil

For details regarding the remuneration received by the Directors in the financial year ending 30 June 2010 please refer to Remuneration Report in the 2010 Annual Report commencing at page 13.

Employment and Consultancy Arrangements:

Refer to section 7.7(d) for the terms of the Services Agreement between Entellect and Furneaux Management Pty Ltd.

## **7.12 Participation of Directors and senior management of the Company**

- (a) Those Directors who are Eligible Shareholders have advised the Company that they will take up their full Rights under the Rights Issue.
- (b) In addition, certain Directors, senior management of the Company and/or their related entities have agreed to act as sub-underwriters of the Rights Issue as set out in the table below.

<b>Name</b>	<b>Sub-underwritten amount (\$)</b>
Andrew Plympton	\$10,000
James Kellett (Furneaux Management Pty Ltd)	\$100,000

### 7.13 Expenses of the Offer

The following expenses (inclusive of GST) will be payable by the Company:

<b>Fees</b>	<b>\$ (inc GST)</b>
ASX Fees	\$33,000
Legal Fees	\$120,000
Accounting Fees	\$14,000
Underwriting Fees	\$44,000
Other Costs (including ASIC fees, share registry and corporate advisory fees)	\$89,000
<b>Total</b>	<b>\$300,000</b>

### 7.14 Interests and Consents of Experts and Advisers

The following parties have given (and not before the date of this document withdrawn) their consent to be named in this document in the form and context in which they are named:

- Sophie Karzis
- Craig Sinclair
- Professor Paul Fullwood
- Robin Matthews
- Furneaux Equity Limited
- HWL Ebsworth
- Grant Thornton Corporate Finance Pty Ltd
- Grant Thornton Audit Pty Ltd
- Registries Limited
- Chess Capital Partners

Other than as set out below, each of the parties referred to in this section:

- has given and, as at the date hereof, has not withdrawn, its written consent to be named the form and context in which it is named in this Prospectus;
- has not authorised or caused the issue of this Prospectus;
- makes no express or implied representation or warranty in relation to the Company, this Prospectus or the Offer;
- has not made any statement in this Prospectus, or any statement on which a statement in this Prospectus is based, except where expressly stated above;

- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and except where expressly stated above; and
- was not involved in the preparation of the Prospectus or any part of it except where expressly attributed to that person.

Furneaux has acted as Underwriter and for this is being paid an underwriting fee of 1% of the funds underwritten under the Offer. The Underwriter will pay all sub-underwriting fees and selling fees to third parties out of its fees. Furneaux is also entitled to reimbursement of out of pocket expenses.

HWL Ebsworth has acted as legal advisers to the Company in connection with the Offer and the Company's application for re-quotations of its securities on the ASX and has received or is entitled to receive approximately \$105,000 (plus GST and disbursements) in respect of that work. HWL Ebsworth has also been paid, or is entitled to be paid, fees of \$69,000 (plus GST and disbursements) for other legal services in relation to the Company in accordance with its time-based charge-out rates in the two years before the date of this Prospectus.

Grant Thornton Corporate Finance Pty Ltd has acted as Investigating Accountant in connection with the Offer and the Company's application for re-quotations of its securities on the ASX and has received or is entitled to receive approximately \$12,500 (plus GST and disbursements) in respect of the preparation of the Investigating Accountants report.

Grant Thornton Audit Pty Ltd has been given and has not, before lodgement of this Prospectus with ASIC, withdrawn its consent to the inclusion in this Prospectus (by way of incorporation by reference) of the Auditors' Report (being part of the Entellect Annual Report) in the form and context in which it is included, and to all references to that Auditor's Report in this Prospectus in the form and context in which they appear. Grant Thornton Audit Pty Ltd has acted as auditor of Entellect and has been paid, or is entitled to be paid, a fee of \$32,000 (plus GST) for its services in auditing the Company's financial report for the year ended 30 June 2010 and \$18,000 (plus GST) in respect of the half year review for the period ended 31 December 2010. Grant Thornton Audit Pty Ltd has been paid, or is entitled to be paid, fees of \$99,000 (plus GST) for auditing and other services provided to Entellect in the two years before the date of this Prospectus.

#### **7.15 Directors' authorisation**

This Prospectus is authorised by Entellect and is lodged with the ASIC pursuant to section 718 of the Corporations Act. Each Director of Entellect has given, and has not withdrawn, their consent to the lodgement of this Prospectus with ASIC under the terms of the section 720 of the Corporations Act.

In accordance with section 351 of the Corporations Act, this Prospectus has been signed for and on behalf of the Company by a Director of the Company.



Andrew Plympton  
Chairman

## 8. Glossary

**A\$** and **\$** means Australian dollars.

**Additional New Shares** means New Shares in addition to an Eligible Shareholder's Rights for which an Applicant makes an Application.

**AEST** means Australian Eastern standard time.

**AFSL** means an Australian Financial Services Licence.

**AGM** means Entellect's 2010 annual general meeting, which was held on 28 February 2011.

**Applicant** means a person who submits an Application.

**Application** means a valid application made to subscribe for New Shares accordance with the Offer.

**Application Money** means monies received from persons applying for New Shares pursuant to the terms of the Offer.

**Application Price** means 0.5 cents per New Share.

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

**Associate** has the meaning given by Division 2 of the Corporations Act.

**ASX** means ASX Limited ACN 008 624 691 or as applicable, the Australian Securities Exchange.

**ASX Settlement Operating Rules** means the business rules of the securities clearing house which operates CHESS.

**Board** means the board of Directors.

**Business Day** means a day on which trading takes place on the stock market of ASX.

**Closing Date** means 5.00pm AEST on Monday, 4 July 2011 or such other date as may be determined by the Directors and the Underwriters under this Prospectus.

**Company, Entellect** and **ESN** means Entellect Limited (formerly known as Entellect Solutions Limited) ACN 009 221 783.

**Constitution** means the Company's Constitution as at the date of this Prospectus.

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

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

**EGM** means the extraordinary general meeting, which was held on Friday, 10 June 2011.

**Eligible Shareholder** means a Shareholder at 7.00pm AEST on the Record Date who is not a Non-qualifying Foreign Shareholder.

**Entellect Business** means the business to be conducted by Entellect, including the VCI Business and the Knowledge Nation Business and such other business that the Board

may determine from time to time, subject to Shareholder approval (as and where necessary).

**ESOP** means the Company's Employee Share Option Plan.

**ESOP Rules** means the rules for the Company's Employee Share Option Plan originally adopted and approved by shareholders on 25 November 2000.

**Existing Shares** is defined in section 1.2.

**Furneaux** means Furneaux Equity Limited ACN 124 464 366.

**Group** means Entellect and its subsidiaries collectively.

**Hot Shot** means Hot Shot Media Limited (being incorporated in Singapore).

**Issue** means the issue of New Shares under this Prospectus.

**Joint Venture Agreement** and **JVA** means the agreement entered into by the Company, Mooter and Hot Shot on 21 February 2011.

**KNI** means Knowledge Nation, Inc., being the US incorporated trading entity through which Knowledge Nation will operate.

**Knowledge Nation** means the joint venture formed by the Joint Venture Agreement.

**Knowledge Nation Business** means the business to be conducted by Knowledge Nation, as further described in section 4.4 of this Prospectus.

**Loan Agreement** means the loan facility agreement entered into on or around 18 October 2010 between Furneaux as lender and the Company as borrower, as varied from time to time.

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

**Mooter** means Mooter Media Limited ACN 059 081 293.

**MXL** means MXL Consolidated Pty Ltd ACN 003 872 704 (under External Administration).

**New Share** means a fully paid ordinary share in the capital of the Company to be issued under this Prospectus.

**Non-qualifying Foreign Shareholder** means a Shareholder, whose registered address is in a jurisdiction where it would not be lawful to make the Offer.

**Non-Shareholder Applicant** means a person who submits an Application that is not a Shareholder and whose registered address is in a jurisdiction where it is lawful to make the Public Offer.

**Non-Shareholder Application Form** means the Non-Shareholder Application Form attached to or accompanying this Prospectus that enables Non-Shareholder Applicants to subscribe for New Shares pursuant to the Shortfall Offer.

**Offer** means the offer of New Shares under the Rights Issue and the Public Offer described in this Prospectus.

**Offer Period** means the period during which the Offer is open.

**Official List** means the official list of the ASX.

**Option** means an option to acquire a Share, granted by the Company.

**Original Prospectus** means the original prospectus for the Offer lodged by the Company with ASIC on 2 June 2011.

**Placement** has the meaning given in section 1.4.

**Public Offer** means the offer for Shortfall Shares to Non-Shareholder Applicants under the shortfall mechanism as described in section 1.8.

**Record Date** means 7.00pm (AEST) on 10 June 2011.

**Related Body Corporate** means a related body corporate as defined in section 50 of the Corporations Act.

**Replacement Prospectus** or **Prospectus** means the prospectus constituted by this document, which replaces the Original Prospectus.

**Rights** means the right of Eligible Shareholders to subscribe for New Shares under the Rights Issue.

**Rights Issue** means the renounceable rights issue to subscribe for eight (8) New Shares for every one (1) Share held at the Record Date, at 0.5 cents per New Share.

**Securities** has the same meaning given to that term in the Listing Rules.

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

**Share Consolidation** means the consolidation of every 20 Shares into 1 Share, which was approved by Shareholders and took effect on 28 February 2011.

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

**Shareholder Application Form** means the Entitlement and Acceptance Application Form attached to or accompanying this Prospectus that sets out the Rights of Shareholders to subscribe for New Shares pursuant to the Rights Issue.

**Share Registry** means Registries Limited ACN 003 209 836.

**Shortfall Shares** means New Shares for which successful valid Applications have not been received by the Closing Date.

**Sub-underwriter** means any person the Underwriter enters into an agreement with to sub-underwrite the Offer as defined in section 7.7(a) and 7.12 and, for the avoidance of doubt, includes each sophisticated investor client of Furneaux who receives Shortfall Shares.

**Takeover Provisions** means section 606 of the Corporations Act.

**Underwriter** means Furneaux.

**Underwriting Agreement** means the underwriting agreement dated 22 February 2011 between the Underwriter and the Company.

**US\$** means American dollars.

**VCI** means Virtual Communications International Pty Ltd ACN 056 024 634 (formerly known as Fundamental Golf Co. (Sales) Pty Ltd).

**VCI Business** means the business to be operated through VCI, primarily being the *vPublisher* software development and commercialisation.

**Virtual Communications** means ACN 110 675 691 Pty Ltd (in liquidation) (formerly known as Virtual Communications International Pty Ltd).