



# PacificChannel

Life Sciences Venture Development and Investment

Issue 7 - May 2009



## Pacific Biotech Bulletin - The Business of Biotechnology

Pacific Channel Ltd has expertise in the business of biotechnology and provides seed capital to build commercially viable biotechnology companies in Australia and New Zealand. Pacific Channel's affiliate is New York-based The Channel Group, LLC, a life sciences venture development and management firm. Through access to additional capital and expertise, Pacific Channel provides a channel to the world's largest biotechnology market, the United States.

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Dear Sir/Madam,

### 1 Welcome

Welcome to the latest edition of the Pacific Biotech Bulletin. In this issue we cover capital raisings by Living Cell Technologies ("LCT"), Ecodiesel, Matariki Medical, and Sleep. We also report on recent initiatives by Pacific Channel to support the bio-science industry including a new partnership with leading angel groups to form the Halo Fund and an offer to provide New Zealand life-science start-ups with 100 hours of free investment advice.

The capital raisings underline the significant progress being made by LCT, Ecodiesel, Matariki Medical and Sleep, and Pacific Channel is proud to be associated with them. It is particularly pleasing to see the value of these companies building through their achievements.

LCT's NZD5 million capital raising represents an exciting investment opportunity because DIABECCELL®, the company's innovative treatment for type 1 diabetes, has the potential to be marketed globally. Successful trials have resulted in two patients no longer requiring insulin injections. The additional capital will be used to continue clinical tests.

Regarding Sleep and Ecodiesel, each has raised equity capital already this year and will raise more capital in the next few months. Sleep will raise an additional NZD1 million to commercialise its sleep-enhancing milk product while Ecodiesel will raise a further NZD3 million to fund the expansion of its

## 14 Disclosure of qualifications and interests

biodiesel plant in Auckland.

In other news, non-profit organization, Urban Ecoliving Trust has attracted sponsorship worth NZD250,000 to build a mobile classroom featuring exhibits to teach school children about environmental protection.

I hope you find this edition of the Bulletin informative and interesting. Our website [www.pacificchannel.com](http://www.pacificchannel.com) is regularly updated with key developments and initiatives, but please contact me directly if you have any questions.

Kind regards  
**Brent Ogilvie**  
 Director  
*Pacific Channel Ltd*

## 2 Living Cell Technologies NZD5 million capital raising

Pacific Channel has been appointed as the intermediary to raise NZD5 million for Living Cell Technologies, a New Zealand-based global leader in cell therapy.

Listed on the Australian Stock Exchange (ASX: LCT), Living Cell Technologies will use the capital raised to continue clinical tests on a new treatment for type 1 diabetes that involves using keyhole surgery to implant insulin-producing cells in patients.

Current clinical trials have provided positive results with the two most recent patients no longer requiring insulin injections.

The share offer is limited to “eligible persons” as defined by s.5(2CC) of the New Zealand Securities Act 1978 and the minimum investment is NZD100,000.

Pacific Channel Director, Brent Ogilvie, said “LCT is an exciting investment opportunity because DIABECCELL®, the company’s most advanced therapy, has the potential to be marketed globally at a high margin.

“Diabetes is a growing health issue in many parts of world with the number of sufferers projected to be around 240 million by 2010 and 380 million by 2025,” Mr. Ogilvie said.

The New Zealand Minister of Health has authorized LCT’s application to conduct clinical trials in New Zealand and a review of this application by the relevant authorities is expected to be completed by the end of May.

Mr Ogilvie said “the insulin producing cells, taken from healthy pigs sourced from the Auckland Islands, are encapsulated using alginate before implantation in people.”

“The Auckland Island pigs, which have lived in isolation free from contact with humans for 200 years, are uniquely free of many infectious agents, e.g., they have no detectable pathogenic viruses, bacteria or parasites,” he said.

Apart from funding trials, capital raised will also be allocated to expanding LCT’s pig breeding facilities and stepping up the company’s manufacturing capabilities.

The share issue price will be determined by a weighted average of the closing price over the five days prior to the closing date which is expected to be later this month on 29 May 2009. If the weighted average is more than AUD0.25 cents per share, the shares will be issued at a 15% discount otherwise they will be issued at a 10% discount.

Assuming an issue price of AUD0.15 cents per share and a conversion of funds at NZUD:AUD of 1:0.8, a successful capital raising will see new shareholders own approximately 11% of the company. The offer is conditional on LCT receiving applications for shares with a value of at least NZD2 million and LCT directors reserve the right to receive applications for up to NZD6 million in shares.

## 3 Sleep appoints chairman and raises capital

A NZD500,000 capital raising for Sleep Limited has been completed successfully.

Investors in this round of investment included Chairman Dr. Gary Pace and Director Dr Simon Barclay (both recently appointed), the New Zealand Venture Investment Fund (NZVIF), CEO Guy Wills and Pacific Channel.

Sleep Chairman, Gary Pace, who is a director of ResMed (NYSE: RMD and ASX: RMD.AX), a global leader in developing, manufacturing and marketing products for the screening, treatment and management of sleep and respiratory disorders, said "Sleep is entering an exciting new phase to commercialise its sleep-enhancing milk product."

Sleep Director, Dr Barclay, a trained medical practitioner, has had significant executive and governance experience with start-up companies and has been associated with the development of several highly successful businesses. Most recently he was Chairman of Innovair Ltd (Robocan), sold to an American multinational.

Sleep CEO, Guy Wills said "the Sleep product naturally contains sleep-enhancing peptides – protein fractions – that are slowly released into the bloodstream resulting in a strong and natural soporific effect on humans that has been confirmed in clinical trials."

The presence of peptides in milk was discovered by Professor Bob Elliot of Living Cell Technologies (ASX:LCT) who later developed the manufacturing process to extend naturally the life of these peptides. The product and process are protected by a provisional patent application.

Mr Wills said "Sleep and its business partners will market the product through retail outlets such as pharmacies, groceries and health food shops. It is anticipated that sales growth in New Zealand will encourage multinational food and beverage companies to enter into partnerships with Sleep and seek license agreements to market the product globally.

"The Sleep milk product has huge potential because insomnia is a common problem with more than half of the world's population unable to get a good night's sleep, to a certain degree," he said.

"The aging populations in developed countries, increasingly stressful lifestyles and growing acceptant of medications and stimulants, coupled with an increasing awareness of the importance of sleep for good health, have led to significant growth in the global market for products that help people sleep," he said.

"Furthermore, the Sleep product is natural and doesn't produce the side effects that many people experience when they use some existing products on the market."

Sleep anticipates securing additional funding later in the year.

#### **4 Fresh capital to support expansion of Ecodiesel's bio-fuel plant in Auckland**

Ecodiesel Ltd, co-founded by Pacific Channel, has raised NZD1.5 million (via a convertible notes issue) for the expansion of a biodiesel plant in Auckland that will produce biodiesel fuel from tallow, a sustainable resource.

The successful NZD1.5 million capital raising follows news that a major oil company is selling biofuel produced by Ecodiesel in a diesel-fuel blend at the pump. The blend of 5% biodiesel and 95% ordinary mineral diesel has gone on sale as a trial in the Bay of Plenty.

Ecodiesel Chief Executive and founder, Gary Brockett, said "the expanded biodiesel plant, which is scheduled for completion this year, will be the first commercial-scale plant in New Zealand capable of producing biodiesel that meets the technical specifications required by major oil companies.

"The plant will produce up to 20 million litres of biodiesel per year and create 23 full time jobs for engineers, chemists, lab technicians, plant operators and other skilled people," said Mr Brockett who has spent 30 years developing and commercialising chemical technologies and processes in New Zealand and Australia.

"Ecodiesel currently has a competitive advantage in the market because the cost of converting tallow, which is purified animal fat, into biodiesel will be much lower than could be achieved using

alternative international technologies that require more heat energy and capital," he said.

"The purpose-built Ecodiesel facility on Captain Springs Road in Onehunga is located close to the diesel and petrol storage and blending facilities operated by the major oil companies at Wiri.

"The plant also complements the operations of a number of Auckland and Waikato meat processing ventures which render animal products into tallow," Mr Brockett said.

"The Ecodiesel process can convert any animal, vegetable or waste fat to high-quality biodiesel and is therefore able to utilise a variety of feedstock sources available in New Zealand," he said.

"To produce 20 million litres of biofuel, Ecodiesel would consume about 18,000 tonnes of tallow which represents about 14% of the 130,000 tonnes of tallow exported from New Zealand each year," he said.

"A 5% blend of biodiesel with regular diesel is safe to use in all standard diesel engines with no modifications."

Mr Brockett said "the outlook for Ecodiesel is very positive given the global trend of growing demand for sustainable sources of energy and New Zealand's commitment to a green economy."

As part of the New Zealand Government's 2009 Budget, it announced this month that NZD36 million will be allocated over three years for domestic biodiesel producers. The grants will be available from 1 July 2009 to support production at a maximum rate of 42.5 cents per litre of biodiesel.

Ecodiesel anticipates securing additional funding later in the year.

## **5 Matariki Medical seeks NZD1.25 million for stroke diagnostic**

Pacific Channel is working with Matariki Medical Limited, a company intending to test, develop and commercialise a new technology for the early diagnosis of stroke.

The stroke detection diagnostic is based on intellectual property licensed from United States-based company, Lesanne Life Sciences, LLC, in which Matariki Medical will secure a 20 percent shareholding.

The diagnostic works like this. The biomarker found in a stroke victim's central nervous system (the brain and spinal cord) is released and passes into the person's blood stream. The diagnostic contains an antibody that recognizes and binds to the biomarker. The antibody and biomarker can be detected in blood samples and assessed accordingly.

Matariki will obtain an exclusive license to market and distribute Lesanne's stroke diagnostic in New Zealand and Australia, develop biological diagnostic reagents, and conduct clinical trials on stroke patients.

The company also has first right of negotiation for the exclusive rights to South Africa and countries in South-east Asia namely: Cambodia, Laos, Myanmar, Thailand, Vietnam, Malaysia, Singapore, Indonesia, Brunei, East Timor and the Philippines.

Dr Neil Domigan, CEO, said "the transaction offers early entry to a medical diagnostic development company with low technology-development risk that has the potential to provide investors with significant capital gain.

"There is a sizeable market for peripheral blood-based stroke diagnostics, with stroke being the third-highest cause of death in the Western world, and we envisage that the Lesanne technology will become widely accepted in hospitals as the standard means of assessing the disease," Dr Domigan said.

"The technology, which involves the detection of a biomarker called protein kinase C gamma ("PKC gamma"), requires further clinical study before it can be approved by Government authorities," he said.

"Additional products for Matariki Medical will come both from New Zealand researchers and from in-

licensing the Australasian rights to medical diagnostics developed elsewhere in the world.”

Matariki Medical anticipates securing additional funding later this year.

## 6 Pacific Channel partners with leading angel groups to launch the Halo Fund

Pacific Channel is partnering with New Zealand’s leading angel investors to form Halo Fund No 1 Limited which will invest in high-growth sectors including bio-technology, software and medical diagnostics.

The Fund, which is seeking to raise NZD5 million, commenced its capital raising this week and is a joint venture involving seven privately-owned angel groups and the New Zealand Venture Investment Fund (NZVIF).

In addition to Pacific Channel, the Fund will draw upon the expertise of New Zealand’s most experienced and successful Angel groups including:

- Upstart Angels (Dunedin)
- Powerhouse Ventures (Christchurch)
- Venture Accelerator (Nelson)
- Manawatu Investment Group (Palmerston North)
- Ice Angels (Auckland)
- Sparkbox (Auckland)
- CureKids (Auckland)
- NZ Diagnostics (Auckland)

The Fund will only invest in companies in which these co-investors and NZVIF’s Seed Co-Investment Fund (SCIF) also invest.

Pacific Channel Director, Brent Ogilvie said “the Fund presents an ideal opportunity for angel investors to build quickly a diversified portfolio and gain experience across the broad spectrum of new technology investments while assisting to develop the next generation of world-class New Zealand businesses.”

Mr Ogilvie, said “the Fund is designed to provide investors with access to more than 30 businesses across a broad portfolio of new technology companies and will be overseen by a Board of Directors with a wealth of experience in early-stage investing.

“The Fund brings together people with decades of industry specific experience in founding and developing new technology companies,” Mr Ogilvie said.

The Fund will co-invest in companies, alongside co-investors, on a 1:2 basis. For example, if a group of investors including Pacific Channel committed to invest NZD250,000 in a company, the Halo Fund would invest NZD125,000 and SCIF could invest up to NZD250,000. The total combined investment in the eligible early stage company could be NZD625,000.

Mr Ogilvie said “the Fund will be a limited liability company and be structured to qualify as a portfolio investment entity (PIE) and as such capital gains can be passed on to investors tax free.

“In this way the Fund offers a structured investment product in a market that to date has been largely unstructured,” he said.

To kick-start the fund, negotiations are underway to purchase a 25% interest in the NZVIF Seed Co-Investment Fund’s portfolio of investee companies for fair value (subject to the approval of this sale by the shareholders of the portfolio companies). The purchase will provide Pacific Channel and its angel investor partners with immediate access to an established portfolio of New Zealand early-stage companies.

The offer is limited to “eligible persons” as defined by s.5(2CC) of the New Zealand Securities Act 1978. Investors who are “eligible persons” and are interested in obtaining more information and/or a copy of the Fund’s Information Memorandum should contact Mr Ogilvie.

## 7 Industrial Research Institute offers up to NZD1 million in R&D services

Industrial Research Institute (IRL), a government-owned crown research institute, is awarding up to NZD1 million worth of R&D services to the winner of its What's Your Problem New Zealand? competition.

The competition is open to New Zealand enterprises, big or small, and the winner will receive research and development services from IRL.

IRL Chief Executive, Shaun Coffey, said "one of the aims of the competition is to increase industry involvement in R&D activities to enable them to develop world-leading, high-value products for offshore markets.

"While the economic outlook is challenging, the current environment also provides opportunities – opportunities for New Zealand businesses to change the way they operate, to ensure they can not only survive the tough times but prosper in the long term and in doing so collectively strengthen the New Zealand economy," he said.

Applications close on 24 May 2009. For more information on the competition, guidelines and rules visit [www.whatsyourproblemnz.co.nz](http://www.whatsyourproblemnz.co.nz), phone 0508 CALL IRL or email [info@whatsyourproblemnz.co.nz](mailto:info@whatsyourproblemnz.co.nz)

## 8 GTR Design Solutions gains 50 hours of free investment expertise

GTR Design Solutions, which develops retrofit systems to enable motor vehicles to significantly reduce fuel consumption, will receive 50 hours of free investment advice from Pacific Channel.

The company is the first recipient of Pacific Channel's offer to provide a total of 100 hours of investment advice to New Zealand life science and engineering technology entities and researchers whose ideas have the potential to create jobs.

Pacific Channel made the offer in response to ASB Bank's \$1 billion job creation fund and the offer by advertising agency, DrafftFCB of 1000 hours of free advertising advice to a company or companies judged to have the best potential for creating jobs.

Pacific Channel Director, Brent Ogilvie, said "the offer of 100 hours of free advice will assist aspiring life science entrepreneurs deliver on their business and job creation potential.

"GTR Design Solutions has been selected because the company has stepped forward to meet the challenge of reducing motor-vehicle carbon emissions by designing an efficient, electronically controlled, retrofit fuel conversion system" he said.

"The conversion system can be installed in any vehicle and enables vehicles to achieve maximum performance using gaseous alternative fuels," he said.

Applicants for the remaining 50 hours of free advice are under consideration.

Mr Ogilvie said "the services provided by Pacific Channel will be tailored to applicant requirements and may include corporate advisory, commercialisation, investment readiness and capital acquisition strategies."

## 9 Tread Lightly Caravan attracts NZD250,000 in sponsorship

A mobile classroom containing interactive exhibits designed to teach school children about protecting the environment has attracted NZD250,000 in sponsorship.

The funding which was provided by the Ministry for the Environment, Auckland City Council and Perry Foundation will enable the vehicle to be built and be ready to visit Auckland schools by the end of the year.

Known as the Tread Lightly Caravan, the vehicle is the Urban Ecoliving Trust's first project.

Pacific Channel, a founding sponsor, continues to support the Trust through providing strategic and governance advice and hosting its offices.

Trust spokesperson, Julian Nixon, said “the caravan will give school children aged eight to 12 years an opportunity to play interactive games demonstrating how everyday choices about what we buy, what we eat, how we heat our homes and how we travel can make huge differences to our impact on the environment.

“The caravan and exhibits, which are still in development, will create an educational experience linking actions with environmental outcomes. Opening up on both sides and featuring up to 20 high-impact exhibits, the classroom will deliver powerful messages to young children and their parents and caregivers about sustainable living,” Mr Nixon said.

“Our goal is that all visitors leave each 90 minute session with a greater understanding of the environmental consequences of their individual choices. The clean and green messages portrayed by the exhibits will be simple, easily understood and linked with the New Zealand primary and intermediate school curricula,” he said.

“A good example is the exhibit graphically showing how modern consumption patterns – such as buying goods which quickly end up on the rubbish heap – are having a severe impact on our natural environment.

“Another exhibit requires the participant to answer questions about their consumption of water, electricity and other resources. Depending on their responses a light will shine up from the floor showing the size of that child’s ‘footprint’ or impact on our planet. The child will be able to directly compare his or her own foot size with a footprint which shows how much impact they have – through the amount of resources they consume.”

Mr Nixon said “the games will have an element of fun. One will simulate a motor racing driver whose objective is to reach the end of a maze with the least carbon emissions. Each driver will have to select a motor vehicle and make choices about fuel type.”

For further information, please contact Andrea Kendall: [akendall@tread-lightly.org](mailto:akendall@tread-lightly.org)

## 10 Trustee wanted

Urban Ecoliving Trust, see previous article, is seeking a Trustee to join its Board. The suitable person will have a good working knowledge of ‘corporate New Zealand’.

## 11 Around the ‘Water Cooler’ – Pacific Channel hires MBE graduate

Pacific Channel has appointed Mitali Purohit as Research Analyst.

A graduate of the Master of Science (Biotechnology Enterprise) programme at the University of Auckland, Ms Purohit will work closely with Pacific Channel Director, Brent Ogilvie, in reviewing the prospects of biotechnology companies looking to raise capital.

Ms Purohit began her association with Pacific Channel during her final year of the MBE programme and is among a growing number of university graduates intending to make a career in the biotechnology industry.

As part of its programme to foster the career development of young, talented people, Pacific Channel offers MBE students a mentoring service.

Mr Ogilvie said Pacific Channel will employ more MBE graduates in the future.

## 12 Your feedback

We welcome your feedback. Please send your comments to [info@pacificchannel.com](mailto:info@pacificchannel.com).

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#### **14 Disclosure of qualifications and interests**

Mr Brent Ogilvie, Director, Pacific Channel Limited holds a BSc. (Bio.) from The University of Waikato and a Master of Business Administration (MBA) from the University of Auckland. Pacific Channel is adviser to Living Cell Technologies Limited, Sleep Limited and Matariki Medical Limited. Mr Ogilvie is a director of Sleep Limited.

Dr Gary Pace, Chairman, Sleep Limited, holds a B.Sc. (Hons I) from the University of New South Wales and a Ph.D. from the Massachusetts Institute of Technology where he was a Fulbright Fellow and General Foods Fellow.

Mr Guy Wills, Chief Executive Officer, Sleep Limited, holds a BBS (Marketing and Psychology) from Massey University.

Dr Neil Domigan, Chief Executive Officer, Matariki Medical Limited, holds a PhD in biochemistry awarded by Otago University and a MBA from Massey University.

Mr Gary Brockett, Chief Executive Officer, Ecodiesel Limited, holds degrees in Chemistry, Management and Theology.

Please note that no offer currently exists in relation to Sleep Limited, Ecodiesel Limited or Matariki Medical Limited. Accordingly, we are not seeking any expressions of interest at this stage.

[www.pacificchannel.com](http://www.pacificchannel.com)