

Virtus Health Limited
Intention to Issue Securities
ASX: VRT

Virtus Health Limited (Virtus) announces its intention to issue securities by way of the granting of options under the Company's Executive Option Plan and Specialist Option Plan.

In accordance with ASX Listing Rule 3.10.3, Virtus provides the following details of the proposed issue:

- **Class of securities offered:** unlisted options to acquire fully paid ordinary shares
- **Number of securities to be issued:** For the financial year ended 30 June 2013, the total offer value at the time of the grant of options will be equal to \$258,000 for an initial grant or a performance option increment of 50 cycles (Value). Options will be granted in three separate tranches reflecting vesting on the third, fourth and fifth anniversary of the grant. The number of ordinary shares to be delivered on exercise of an option is based on the following formula:

$$\text{Shares} = \frac{\text{Base Position} \times A}{B}$$

Where:

Base Position = the applicable component of the offer value attributable to the first tranche (ie. one third of the offer value) divided by the Share price at the time the option is granted.

A = the amount of the increase in the Share price between the date of grant and the vesting date.

B = the share price at the date of vesting.

The total Value and Exercise Price of each tranche of options being issued are:

Offer of Options	Total Value	Price at date of Grant
VRTOPT3	\$1,032,000	\$5.68
VRTOPT4	\$258,000	\$8.49
VRTOPT5	\$3,096,000	\$6.40

- **Issue price:** Nil
- **Terms of the offer:** The rules of the Plans were released to the market on 11 June 2013, however a summary of the terms of the Specialist Option Plan is attached to this announcement.

- **Purpose of the issue:**
 - **VRT03** – New Fertility Specialists recruited prior to 12 June 2013;
 - **VRT 04** - New Fertility Specialist recruited prior to 01 November 2013; and
 - **VRT05** – Fertility Specialists achieving performance objectives in financial year to 30 June 2013;
- **Shareholder approval required:** No
- **Date of issue:** 7 February 2014

Yours sincerely

A handwritten signature in blue ink, appearing to be "SC", written over a horizontal line.

Sue Channon
Director

A handwritten signature in blue ink, appearing to be "Glenn Powers", written over a horizontal line.

Glenn Powers
Company Secretary

VIRTUS HEALTH SHARE OPTION PLAN SUMMARY – FERTILITY SPECIALISTS

Virtus has adopted two new option plans (“Plans”) to assist in the reward, motivation and retention of personnel (including executive Directors, eligible employees and Fertility Specialists). The Plans are also designed to recognise the abilities, efforts and contributions of participants to Virtus’ performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in Virtus. This summary should be read in conjunction with the Plan Rules.

The Plans contemplate the grant of options over Virtus ordinary shares. There is no ability for Virtus to provide any “cash equivalent” on exercise.

Virtus may offer additional incentive schemes to executive Directors, employees or Fertility Specialists over time.

Eligibility

Eligibility to participate in the Plans and the number of options offered to each individual participant will be determined by the Board.

Grants of options

Fertility Specialists

Options will be available as follows:

- Initial options will be granted to new Fertility Specialists upon commencing a five year standard contractual relationship with Virtus after 31 December 2012; and
- Performance options will be granted on an annual basis to existing contracted Fertility Specialists (pre-January 2013) who achieve a benchmark level of IVF cycles above a base or adjusted base number of IVF cycles completed in one of the financial years ending after June 2008.
- Performance options will be granted to new Fertility Specialists on an annual basis and the initial benchmark level for new fertility specialists is 50 IVF Cycles and subsequent benchmark levels are at each 50 cycle increment thereafter.

The key terms and conditions to these option grants are set out below.

Vesting Conditions

Options will vest and become exercisable to the extent that the applicable performance, service, or other Vesting Conditions specified at the time of the grant are satisfied. Vesting Conditions may include conditions relating to continuous employment or service, the individual performance of the participant in the Plans or Virtus’ performance.

The Board has the discretion to set the terms and conditions on which it will offer options under the Plans, including the Vesting Conditions and different terms and conditions which apply to different participants in a Plan.

Upon the satisfaction of the Vesting Conditions and any other conditions to exercise, each option will convert to a number of Shares based on the terms of issue of the options. Options granted to Fertility Specialists will typically convert into a variable number of Shares having regard, among other things, to the difference between the market price of Shares at the time of grant and at the time of exercise.

Participants may be required to pay an exercise price to exercise the options which may be based on the market price of Shares at or around the time of the grant of the options. The Plans also include flexibility to allow Virtus to grant options with no exercise price. Participants will not need to pay any money to be granted options under the Plans.

Ranking of Shares

Shares issued upon exercise of options granted under the Plans will rank equally with the other issued Shares.

Voting and dividend rights

Options do not carry any voting or dividend rights. Shares issued or transferred to participants on exercise of an option carry the same rights and entitlements as other issued Shares, including dividend and voting rights.

Approval

Grants of options under the Plans to Fertility Specialists who become Directors of Virtus Health Limited may be subject to the approval of Shareholders, to the extent required under the ASX Listing Rules.

Issue or acquisition of Shares

Shares allocated to participants in the Plans on the exercise of options may be issued by Virtus or acquired on or off market by Virtus or its nominee. Virtus may appoint a trustee to acquire and hold Shares on behalf of participants or otherwise for the purposes of the Plans.

No transfer of options

Without the prior approval of the Board, options may not be sold, transferred, encumbered or otherwise dealt with. Further, participants cannot enter into any transaction, scheme or arrangement which hedges or otherwise affects the participant's economic exposure to the options before they vest.

Lapse of options

Options will lapse if the applicable Vesting Conditions and any other conditions to exercise are not met during the prescribed period or if they are not exercised before the applicable expiry date.

Quotation

Options will not be quoted on ASX. Virtus will apply for official quotation of any Shares issued under the Plans, in accordance with the ASX Listing Rules.

Capital limit

Subject to the rules of the Plans, the Board must not offer options if making the Offer would breach the 5% capital limit on the issue of shares as set out in ASIC Class Order 03/184 in relation to employee share schemes.

Cessation of employment or contractual relationship

The Plans contain provisions concerning the treatment of vested and unvested options in the event a participant ceases employment or their appointment as a Director or they cease being contracted with Virtus as a Fertility Specialist.

Unvested options

In relation to employees, unless the Board determines otherwise:

- if an employee is a "good leaver" (e.g. they cease employment by reason of death, serious disability or permanent incapacity or they cease employment in circumstances other than for cause), a portion of the unvested options held by that employee upon cessation will lapse according to a formula which takes into account the length of time the participant has held the option and the performance period for the option; and
- if an employee is a "bad leaver" (e.g. they cease employment for cause) the unvested options held by that employee upon cessation will automatically lapse.

In relation to Fertility Specialists, the unvested options held by a Fertility Specialist upon cessation will automatically lapse, unless that Fertility Specialist is a "good leaver", in which case the Board may, in its absolute discretion, determine that some or all of the Fertility Specialist's unvested options will not lapse and/or may vest on such date determined by the Board.

Vested options

Any vested options held either by an employee or a Fertility Specialist must be exercised within 28 days of the participant ceasing employment or ceasing to be contracted to Virtus (as applicable), after which time any unexercised options will lapse.

Change of control of Virtus

The Board has the discretion to allow for vesting of options if certain extraordinary events occur such as of a change of control or winding-up of Virtus.

Costs and administration

Virtus must bear any costs incurred in the administration of the Plans.

Other terms of the Plans

The Plans also contain customary and usual terms having regard to Australian law for dealing with administration, variation and termination of the Plans.

Grants of options to Fertility Specialists

As noted above, it is expected that options will be granted on an annual basis to Fertility Specialists who meet the performance criteria described above.

Key terms and conditions of options granted to Fertility Specialists

<p>Vesting /Exercise Conditions</p>	<p>For existing Fertility Specialists, options will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the options, conditional upon the Fertility Specialist performing a number of IVF Cycles in the immediately preceding year not less than 75% of the relevant benchmark in the year pursuant to which the options were awarded.</p> <p>For Fertility Specialists who join Virtus post-Listing, options will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the options, subject to:</p> <ul style="list-style-type: none"> the Fertility Specialist achieving the relevant benchmark (currently 50 IVF Cycles) in a 12 month period during the two years post commencement of the contractual relationship with Virtus and concurrent grant of options; and the Fertility Specialist then achieving a number of IVF Cycles in the year before the relevant vesting date that is not less than 75% of the benchmark number. <p>In addition, an option may not be exercised unless it is "in the money" (i.e. if the Share price at the relevant time is greater than the Share price at the time of the option grant).</p>
<p>Exercise price</p>	<p>Fertility Specialists will not need to pay an exercise price to exercise the options.</p>
<p>Number and offer value</p>	<p>If the applicable vesting and exercise conditions are met, the options will be exercisable into a variable number of Shares as indicated below.</p> <p>For FY2013, the offer value (at the time of grant of the options) will be equal to \$258,000 for an initial grant or a performance option increment of 50 cycles. In subsequent years, the offer value will be determined by the Board and any increase in value may reflect any increase in provider fees per IVF Cycle from the FY2013 level. The offer value for Fertility Specialists who commence a contractual relationship with Virtus in subsequent financial years will be determined by the Board having regard to a number of factors including the offer value applied to options granted to other Fertility Specialists in that year.</p> <p>The value of the options granted to the Fertility Specialist will depend on the prevailing Share price at the time of exercise and accordingly the value at that time may be less than or greater than the offer value.</p>
<p>Number of Shares to be delivered on exercise of options</p>	<p>Options will be granted in three separate tranches reflecting vesting on the third, fourth and fifth anniversary of grant.</p> <p>For example, in respect of the first tranche, the number of Shares to be delivered on exercise of an option will be determined as follows:</p> $\text{Shares} = \frac{\text{Base Position} \times A}{B}$ <p>rounded up to the nearest Share.</p> <p>Where:</p> <p>Base Position = the applicable component of the offer value attributable to the first tranche (ie. one third of the offer value) divided by the Share price at the time the option is granted.</p> <p>A = the amount of the increase in the Share price between the date of grant and the vesting date.</p>

	<p>B = the Share price at the date of vesting.</p> <p><i>Worked example for tranche 1.</i></p> <p>Assuming that:</p> <ul style="list-style-type: none"> • the applicable component of the offer value is \$86,000; • the Share price at the date of the option grant \$7.50; • the Share price at the date of vesting is \$10.00; and • the Fertility Specialist satisfies the Vesting Conditions. <p>On the basis of these figures:</p> <p>Base Position = 11,467 (ie. \$86,000 / \$7.50)</p> <p>A = 2.50 (i.e. 10.00 – 7.50)</p> <p>B = 10.00</p> <p>The number of Shares to be provided on exercise of the first tranche would be calculated as:</p> $\text{Shares} = \frac{11,467 \times 2.50}{10.00}$ <p>= 2,867 Shares.</p>
<p>Escrow arrangements</p>	<p>Where a Fertility Specialist receives Shares upon exercise of an option, 12.5% of these Shares will be escrowed until the Fertility Specialist reaches the age of 63. A further 12.5% will be escrowed until the Fertility Specialist retires and transitions their practice to the satisfaction of the Board.</p> <p>These Shares or a portion of them may be released earlier than these scheduled dates in the following circumstances:</p> <ul style="list-style-type: none"> ○ where a Fertility Specialist becomes a "relocated leaver" (as described in Section 7.6), five years after the date that they become a "relocated leaver"; or ○ where a Fertility Specialist dies or leaves Virtus as a result of becoming permanently disabled or seriously disabled on the date of the relevant occurrence (as resolved by the Board acting reasonably); or ○ to fund a liability for tax arising in respect of the escrowed Shares; or ○ if the Board determines to release the Shares from escrow earlier.

Yours sincerely



Sue Channon
Director



Glenn Powers
Company Secretary