

19 June 2020

From the Chairman

Dear Adherium shareholder

I am pleased to invite you to attend Adherium's Extraordinary General Meeting (**EGM**), for which the following documents are enclosed:

- Notice of the meeting, including an explanatory memorandum
- A personalised proxy form

You will have seen our recent announcement of the \$5 million investment commitment agreed with BioScience Managers Translation Fund 1, with the first tranche of \$3.1 million secured earlier this month. The request for shareholder approval for the investment of the \$1.9 million balance is included in the business of the EGM and described in the explanatory memorandum.

This investment is an important follow on to the Rights Issue funding earlier this year and directly supports Adherium's revised commercial strategy to enable respiratory physicians and providers access to Remote Patient Monitoring (RPM) Current Procedural Terminology (CPT) reimbursement codes in the US. This investment, working with our partners Planet Innovation in Melbourne, Australia, will fund the necessary software and hardware developments to enhance device coverage in both asthma and COPD and enable efficient and effective data reporting for remote monitoring reimbursement.

With the current uncertainty around holding meetings under COVID-19 restrictions, the Company has decided to hold the EGM as an electronic meeting using the online Zoom facility. Instructions for joining the meeting are contained in the enclosed notice of meeting. If you are unable to attend the EGM but wish to appoint a proxy, please either lodge your vote online, following the instructions on the proxy form, or complete the proxy form and return it to the registry.

On behalf of the Board I would encourage you to support the proposed resolutions and thank you for your ongoing support for the business.

Yours sincerely

A handwritten signature in black ink, appearing to read "James Ward-Lilley". The signature is fluid and stylized, with a large loop at the end.

James Ward-Lilley
Chairman

ABN 24 605 352 510

Notice of Extraordinary General Meeting

Notice is given that the Extraordinary General Meeting (**EGM or the Meeting**) of Shareholders of Adherium Limited (**Adherium or the Company**) will be held as follows:

Date: **24 July 2020**

Time: **9.00am (AEST)**

Venue: **In the light of current COVID-19 restrictions this Meeting is to be held by way of electronic means allowing Shareholder participation remotely (without physical attendance). Details of the Meeting process and voting is set out below.**

Electronic meeting (via Zoom Facility) - In the light of the Government's warnings and advice concerning COVID-19 and the requirement for social distancing requirements - this EGM is to be held via a Zoom online webcast facility with "Registered Shareholders" (as outlined below):

- being entitled to view the Meeting via the Zoom Facility (as outlined below);
- being entitled to lodge questions prior to the Meeting;
- being entitled to lodge a Voting Card in relation to voting at the Meeting.

Registered Shareholders - if a Shareholder wishes to attend and have the ability to lodge a Voting Card in relation to voting at the electronic meeting, they must first register with Adherium no later than 5.00pm (AEST) 23 July 2020 by providing their SRN and email address by email to CompanySec@adherium.com ("**Registered Shareholder**"). A Registered Shareholder will then subsequently receive the Zoom Facility attendance details and an electronic Voting Card, which enables that shareholder to attend the webcast and vote on resolutions put to the Meeting.

While all Shareholders can lodge a proxy in the normal course up to 48 hours before the Meeting, only Registered Shareholders will be entitled to attend and lodge a Voting Card during the Meeting (which revokes any prior proxy).

The Board recommends that those Shareholders who do not intend to register for a Voting Card lodge a proxy or direct vote in advance of the Meeting by following the instructions below.

Voting by Proxy - to vote by proxy, please complete and sign the Proxy Form enclosed and either:

- send the Proxy Form by post to Computershare, GPO Box 242, Melbourne, Victoria 3001; or
- send the Proxy Form by facsimile to Computershare on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

OR

- for online voting, visit www.investorvote.com.au and enter the 6 digit control number (183896) and your Adherium SRN;
- for Intermediary Online voting by Custodians, please submit your votes electronically via www.intermediaryonline.com;

so that it is received not later than 9:00am on Wednesday, 22 July 2020.

Questions – Shareholders are encouraged to submit questions ahead of the Meeting so that they are received by email to CompanySec@adherium.com no later than 5:00pm AEST Friday, 17 July 2020.

This Notice of Extraordinary General Meeting and Explanatory Memorandum should be read in its entirety. If you are in doubt as to how to vote on any of the Resolutions, you should seek advice from your accountant, solicitor or other professional adviser without delay.

The formal resolutions proposed to be considered at the Meeting follow.

Resolutions

1. Resolution 1 - Ratification of prior issue of approximately 104 million Shares to BioScience Managers Translation Fund 1 (BMTF)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, in accordance with ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify and approve for the purposes of ASX Listing Rule 7.1 and Listing Rule 7.1A the previous issue to BioScience Managers Translation Fund 1 (BMTF) of an aggregate of 104,261,036 Shares in the Company at \$0.03 per Share as further detailed in the attached Explanatory Memorandum."

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 1 by or on behalf of:

- (a) a person who participated in the issue or is a counterparty to the agreement being approved; or
- (b) any associates of those persons.

However, the Company need not disregard a vote cast on Resolution 1 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

The Chairman will vote all undirected proxies in favour of this Resolution 1.

2. Resolution 2 - Approval to issue approximately 62 million additional Shares to BioScience Managers Translation Fund 1 (BMTF)

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

"That subject to the approval of Resolution 3, for the purposes of Section 611(7) of the Corporations Act 2001, exception 8 of ASX Listing Rule 7.2 and for all other purposes, shareholders approve the issue of 62,405,631 Shares in the Company to BioScience Managers Translation Fund 1 (BMTF) at \$0.03 per Share and on the further terms and conditions set out in the Explanatory Memorandum accompanying this Notice."

Voting Prohibition Statement

Corporations Act - a vote must not be cast (in any capacity) in favour of this Resolution 2 by

- the person proposing to make the acquisition, and their associates, or
- the persons (if any) from whom the acquisition is to be made and their associates

The Chairman will vote all undirected proxies in favour of this Resolution 2.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report attached in Appendix F for the purposes of the Shareholder approval required under 611 (item 7) of the Corporations Act.

3. Resolution 3 - Approval to issue approximately 83 million options to BioScience Managers Translation Fund 1 (BMTF)

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

"That subject to the approval of Resolution 2, shareholders approve the issue of 83,333,333 options to subscribe for Shares in the Company (Options) to BioScience Managers Translation Fund 1 (BMTF) and also in respect of any Shares issued on exercise of those Options, in each case for the purposes of ASX Listing Rule 7.1, exception 8 of ASX Listing Rule 7.2 and Section 611(7) of the Corporations Act 2001 and for all other purposes on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice."

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 3 by or on behalf of:

- (a) a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity).
- (b) any associates of those persons.

However, the Company need not disregard a vote cast on Resolution 3 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

Voting Prohibition Statement

Corporations Act - a vote must not be cast (in any capacity) in favour of this Resolution 3 by

- the person proposing to make the acquisition, and their associates, or
- the persons (if any) from whom the acquisition is to be made and their associates

The Chairman will vote all undirected proxies in favour of this Resolution 3.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report attached in Appendix F for the purposes of the Shareholder approval required under 611 (item 7) of the Corporations Act.

4. Resolution 4 - Ratification of Options Issued to Mike Motion

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, in accordance with ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify and approve for the purposes of ASX Listing Rule 7.1 the previous issue to Mike Motion of unlisted options to purchase 10,000,000 Shares in the Company at the exercise price and otherwise on the terms as further detailed in the attached Explanatory Memorandum".

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 4 by or on behalf of:

- (a) a person who participated in the issue or is a counterparty to the agreement being approved; or
- (b) any associates of those persons.

However, the Company need not disregard a vote cast on Resolution 4 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

Voting Prohibition Statement

Corporations Act - A person appointed as proxy must not vote, as a proxy for this Resolution 4 (being a resolution connected directly or indirectly with the remuneration of a member of the key management personnel for the Company) if that person is a member of the Key Management Personnel for the Company (**KMP**) or a Closely Related Party of a KMP, and the appointment does not specify the way the proxy is to vote on Resolution 4. However, the Company will not disregard any votes cast on Resolution 4 by such person if the person is:

- acting as proxy and the Proxy Form specifies how the proxy is to vote on Resolution 4, and the vote is not cast on behalf of a person who is otherwise excluded from voting on Resolution 4 as described above; or
- the Chairman of the meeting voting an undirected proxy and their appointment expressly authorises the Chairman to exercise the proxy even though Resolution 4 is connected directly or indirectly with the remuneration of the KMP of the Company.

The Chairman will vote all undirected proxies in favour of this Resolution 4.

5. Resolution 5 - Ratification of Options Issued to James Ward-Lilley

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, in accordance with ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify and approve for the purposes of ASX Listing Rule 7.1 the previous issue to James Ward-Lilley of unlisted options to purchase 10,000,000 Shares in the Company at the exercise price and otherwise on the terms as further detailed in the attached Explanatory Memorandum."

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 5 by or on behalf of:

- (a) a person who participated in the issue or is a counterparty to the agreement being approved; or
- (b) any associates of those persons.

However, the Company need not disregard a vote cast on Resolution 5 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

Voting Prohibition Statement

Corporations Act - A person appointed as proxy must not vote, as a proxy for this Resolution 5 (being a resolution connected directly or indirectly with the remuneration of a member of the key management personnel for the Company) if that person is a member of the Key Management Personnel for the Company (**KMP**) or a Closely Related Party of a KMP, and the appointment does not specify the way the proxy is to vote on Resolution 5. However, the Company will not disregard any votes cast on Resolution 5 by such person if the person is:

- acting as proxy and the Proxy Form specifies how the proxy is to vote on Resolution 5, and the vote is not cast on behalf of a person who is otherwise excluded from voting on Resolution 5 as described above; or
- the Chairman of the meeting voting an undirected proxy and their appointment expressly authorises the Chairman to exercise the proxy even though Resolution 5 is connected directly or indirectly with the remuneration of the KMP of the Company.

The Chairman will vote all undirected proxies in favour of this Resolution 5.

6. Resolution 6 - Approval of existing Executive Share Option Plan

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*That the shareholders approve the Company's existing Executive Share Option Plan (**ESOP**) for the purposes of ASX Listing Rules 7.1 and 7.2 Exception 13(b), sections 200B and 200E of the Corporations Act 2001, and for all other purposes, as laid before the meeting, a copy of which is available on request by shareholders."*

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 6 by or on behalf of:

- (a) a person who is eligible to participate in the ESOP; or
- (b) any associates of those persons.

However, the Company need not disregard a vote cast on Resolution 6 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

The Chairman will vote all undirected proxies in favour of this Resolution 6.

7. Resolution 7 - Approval of proposed issue of Options to Bryan Mogridge

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rules 10.14 and for all other purposes, approval is given for the Company to issue 1,500,000 Options with an exercise price of 4 cents per Share to Mr Bryan Mogridge, a director of the Company, (or his Nominee) under the Company's Executive Share Option Plan as detailed in the Explanatory Memorandum."

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 7 by or on behalf of

- (a) any person referred to in ASX Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the ESOP; or
- (b) any associates of those persons.

However, the Company need not disregard a vote cast in favour of Resolution 7 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

Voting Prohibition Statement

Corporations Act - A person appointed as proxy must not vote, as a proxy for this Resolution 7 (being a resolution connected directly or indirectly with the remuneration of a member of the key management personnel for the Company) if that person is a member of the Key Management Personnel for the Company (**KMP**) or a Closely Related Party of a KMP, and the appointment does not specify the way the proxy is to vote on Resolution 7. However, the Company will not disregard any votes cast on Resolution 7 by such person if the person is:

- acting as proxy and the Proxy Form specifies how the proxy is to vote on Resolution 7, and the vote is not cast on behalf of a person who is otherwise excluded from voting on Resolution 7 as described above; or
- the Chairman of the meeting voting an undirected proxy and their appointment expressly authorises the Chairman to exercise the proxy even though Resolution 7 is connected directly or indirectly with the remuneration of the KMP of the Company.

The Chairman will vote all undirected proxies in favour of this Resolution 7.

8. Resolution 8 - Approval of proposed issue of Options to William Hunter

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rules 10.14 and for all other purposes, approval is given for the Company to issue 1,500,000 Options with an exercise price of 4 cents per Share to Mr William Hunter, a director of the Company, (or his Nominee) under the Company's Executive Share Option Plan as detailed in the Explanatory Memorandum."

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 8 by or on behalf of:

- (a) any person referred to in ASX Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the ESOP; or
- (b) any associates of those persons.

However, the Company need not disregard a vote cast in favour of Resolution 8 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

Voting Prohibition Statement

Corporations Act - a person appointed as proxy must not vote, as a proxy for this Resolution 8 (being a resolution connected directly or indirectly with the remuneration of a member of the key management personnel for the Company) if that person is a member of the Key Management Personnel for the Company (**KMP**) or a Closely Related Party of a KMP, and the appointment does not specify the way the proxy is to vote on Resolution 8. However, the Company will not disregard any votes cast on Resolution 8 by such person if the person is:

- acting as proxy and the Proxy Form specifies how the proxy is to vote on Resolution 8, and the vote is not cast on behalf of a person who is otherwise excluded from voting on Resolution 8 as described above; or
 - the Chairman of the meeting voting an undirected proxy and their appointment expressly authorises the Chairman to exercise the proxy even though Resolution 8 is connected directly or indirectly with the remuneration of the KMP of the Company.

The Chairman will vote all undirected proxies in favour of this Resolution 8.

9. Resolution 9 – Approval of proposed issue of Employee Share Plan Shares to Bruce McHarrie

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 10.14, sections 200B, 200E and 259B(2) of the Corporations Act 2001 (Cth) and for all other purposes, Shareholders approve the issue of a total of 500,000 Plan Shares to Bruce McHarrie pursuant to the Employee Share Plan, at a price and upon loan terms and otherwise on the terms and conditions as detailed in the Explanatory Memorandum."

Voting Exclusion Statement

ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 9 by or on behalf of:

- (a) any person referred to in ASX Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the ESP; or
- (b) any associates of those persons.

However, the Company need not disregard a vote cast in favour of Resolution 9 if it is cast by or on behalf of:

- (c) a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (d) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (e) a shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - (ii) the shareholder votes on the resolution in accordance with directions given by the beneficiary to the shareholder to vote in that way.

Voting Prohibition

Corporations Act - a person appointed as proxy must not vote, as a proxy for this Resolution 9 (being a resolution connected directly or indirectly with the remuneration of a member of the key management personnel for the Company) if that person is a member of the Key Management Personnel for the Company (**KMP**) or a Closely Related Party of a KMP, and the appointment does not specify the way the proxy is to vote on Resolution 9. However, the Company will not disregard any votes cast on Resolution 9 by such person if the person is:

- acting as proxy and the Proxy Form specifies how the proxy is to vote on Resolution 9, and the vote is not cast on behalf of a person who is otherwise excluded from voting on Resolution 9 as described above; or
 - the Chairman of the meeting voting an undirected proxy and their appointment expressly authorises the Chairman to exercise the proxy even though Resolution 9 is connected directly or indirectly with the remuneration of the KMP of the Company.

The Chairman will vote all undirected proxies in favour of this Resolution 9.

Other business:

To consider any other business that may lawfully be brought forward in accordance with the Constitution of the Company or the law.

Other information:

An Explanatory Memorandum accompanies and forms part of this Notice of Extraordinary General Meeting.

All Shareholders should read the Explanatory Memorandum carefully and in its entirety. Shareholders who are in doubt regarding any part of the business of the Meeting should consult their accountant, solicitor or other professional adviser for assistance.

Voting by proxy:

Any Shareholder entitled to vote at this Meeting is entitled to appoint a proxy to attend electronically and vote instead of that Shareholder. The proxy does not need to be a Shareholder of the Company.

A Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the Shareholder's votes.

Proxies must be:

- (a) lodged at the Company's share registry, Computershare Investor Services Pty Limited; or
- (b) faxed to the fax number specified below.

not later than 9:00am (AEST) on Wednesday, 22 July 2020.

Address (postal deliveries): C/- Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001, Australia

Fax number for lodgement: (within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

The Proxy Form has been enclosed. Please read all instructions carefully before completing the Proxy Form.

Bodies Corporate:

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of the Company's Shareholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a Resolution. The representative should lodge 48 hours prior to the Meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

Online Voting:

You can lodge your vote online at:
www.investorvote.com.au

Custodian Voting:

Custodians who are subscribers of Intermediary Online, please submit your votes electronically via www.intermediaryonline.com

Entitlement to vote:

In accordance with Section 1074E(2)(g)(i) of the Corporations Act and Regulation 7.11.37 of the Corporations Regulations, the Company has determined that for the purposes of the Meeting all shares will be taken to be held by the persons who held them as registered Shareholders at 7:00pm (AEST) on Wednesday, 22 July 2020. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

All Enquiries:

Call: (within Australia) 1300 850 505 (outside Australia) +61 3 9415 4000

Voting Intentions:

Subject to any voting restrictions and exclusions, the Chairman intends to vote in favour of all Resolutions on the agenda. In respect of undirected proxies, subject to any voting restrictions and exclusions, the Chairman intends to vote in favour of all Resolutions on the agenda.

By order of the Board



Rob Turnbull
Joint Company Secretary
19 June 2020

ABN 24 605 352 510
Explanatory Memorandum

This Explanatory Memorandum sets out further information regarding the proposed Resolutions to be considered by Shareholders of Adherium Limited (**Adherium or the Company**) at a 2020 Extraordinary General Meeting to be held commencing at 9:00am (AEST) on 24 July 2020.

The Directors recommend that Shareholders read this Explanatory Memorandum before determining whether or not to support the Resolutions.

1. Resolution 1 - Ratification of prior issue of approximately 104 million Shares to BioScience Managers Translation Fund 1 (BMTF)

1.1 Background

As announced on 26 May 2020, the Company received commitments from **BioScience Managers Translation Fund 1** for a placement of 104,261,036 Shares (**Tranche 1 Placement Shares**) at \$0.03 each to raise approximately \$3,100,000, which funding was received on 5 June 2020 (**Tranche 1 Placement**). The trustee of the BioScience Managers Translation Fund 1 is Phillip Asset Management Limited ACN 064 847 669 (**PAM**). The Company issued the Tranche 1 Placement under its available capacity under Listing Rules 7.1 and 7.1A as follows:

- (a) Listing Rule 7.1 - 54,556,622 Shares, and
- (b) Listing Rule 7.1A - 49,704,414 Shares

1.2 ASX Regulatory Requirements

Under Listing Rule 7.1, a company may issue up to 15% of its ordinary share capital in any 12-month rolling period without shareholder approval. Under Listing Rule 7.1A, a company may issue up to a further 10% of its ordinary share capital in any 12-month rolling period without shareholder approval for that particular issue, provided that the Company has secured shareholder approval for this additional 10% at its most recent annual general meeting. The Company secured shareholder approval for this additional 10% capacity at its 2019 Annual General Meeting.

Listing Rule 7.4 permits a company to obtain ratification from its shareholders in relation to a prior share issue (that was made that without being in breach of Listing Rule 7.1), and thereby refresh its ability in the future to issue further shares (equivalent in number to the share issue being ratified by this resolution) without obtaining prior shareholder approval. An approval under Listing Rule 7.4 of an issue made under Listing Rule 7.1A will be excluded from variable E in rule 7.1A.2 and therefore be regarded as not being in breach of Listing Rule 7.1.

The issue of the Tranche 1 Placement Shares was within the 15% and 10% limitations imposed by ASX Listing Rules 7.1 and 7.1A respectively, however the Company is now seeking shareholder ratification and approval for the issue of these Tranche 1 Placement Shares.

1.3 ASX Listing Rule 7.4

ASX Listing Rule 7.5 requires that the meeting documents concerning a proposed resolution to ratify an issue of securities in accordance with ASX Listing Rule 7.4 must include the following information:

- (a) The names of the allottee:
The Shares were allotted to Phillip Asset Management Limited ACN 064 847 669 as trustee of the BioScience Managers Translation Fund 1 (BMTF). BMTF is not a related party of the Company.
- (b) The number of securities the entity issued:
A total of 104,261,036 Shares in the capital of the Company, of which 54,556,622 were issued under its Listing Rule 7.1 capacity and 49,704,414 were issued under its Listing Rule 7.1A capacity.
- (c) The date the securities were issued:
5 June 2020.
- (d) The issue price of the securities:

\$0.03 per Share, resulting in the receipt by the Company of total subscription funds of \$3,127,831.

- (e) The intended use of the funds raised:

For general working capital

- (f) If the securities were issued under an agreement, a summary of the material terms of the agreement

*The Shares were issued pursuant to a subscription agreement dated 26 May 2020 (**Subscription Agreement**) containing usual commercial terms for the acquisition by BMTF of a total of approximately 166 million Shares at a price of \$0.03 per Share as follows:*

- (i) *Tranche 1, comprising 104,261,036 Shares, to be issued on or around 10 business days after the Subscription Agreement date under the Company's existing ASX Listing Rule 7.1 and 7.1A capacity (being the subject of this Resolution 1),*
- (ii) *Tranche 2, comprising approximately 62,405,631 Shares (**Tranche 2 Placement Shares**), to be issued upon BMTF receiving the requisite shareholder approval, (being the subject of Resolution 2),*
- (iii) *In recognition of BMTF's agreement to subscribe for the Tranche 1 Placement Shares and the Tranche 2 Placement Shares, subject to BMTF receiving the requisite shareholder approval, BMTF will be issued 83,333,333 options to purchase Shares (**BMTF Options**) in the Company at an exercise price per Option of \$0.06 per Share (upon terms described in, and being the subject of, Resolution 3),*
- (iv) *conventional warranties are provided by each of the Company and BMTF to the other of them, with limitation on liability for the warranties given by BMTF in accordance with its constituent documents,*
- (v) *the Tranche 1 Placement Shares and Tranche 2 Placement Shares are subject to a restriction against trading for a period of 12 months from the date of the Subscription Agreement, and the BMTF Options are not exercisable for a period of 12 months from the date of the Subscription Agreement.*

2. **Resolutions 2 and 3 – Approval to issue to BioScience Managers Translation Fund 1 (BMTF) of the following:**

(a) 62,405,631 Shares (Tranche 2 Placement); and

(b) 83,333,333 options to subscribe for Shares in the Company (BMTF Options).

2.1 **Background**

- (a) General

As described in Section 1.3(f) above, under the terms of the Subscription Agreement the Company also agreed subject to Shareholder approval to issue to BMTF -

- 62,405,631 Shares at 3 cents per Share (**Tranche 2 Placement Shares**) in return for which BMTF will subscribe approximately \$1.9 million in cash funding; plus
- 83,333,333 options to BMTF to subscribe for additional Shares at 6 cents per Share between 12 and 18 months from grant date (**BMTF Options**).

Resolutions 2 and 3 are interdependent and conditional on shareholders approving each of Resolutions 2 and 3. The issue of the Tranche 2 Placement Shares and the BMTF Options are collectively referred to as the **Proposed Transaction**. Approval under Resolution 3 is being sought for both the issue of the BMTF Options and for the issue of all Shares upon any exercise of the BMTF Options.

(b) Intentions of BMTF

BioScience Managers Translation Fund 1, with Phillip Asset Management Limited ACN 064 847 669 as Trustee (**BMTF**) has been established to invest in promising biomedical discoveries and encourage the development of companies commercialising biomedical discoveries by addressing capital and management constraints.

(c) Share ownership

BMTF's "relevant interest" in Shares in the Company is:

- (i) under the **Tranche 1 Placement Shares** - BMTF has a Relevant Interest in the issued share capital of the Company of **17.3%**,
- (ii) under the **Tranche 2 Placement Shares** (if approved by Shareholders and assuming no other Shares are issued by the Company in the interim), when combined with the Tranche 1 Placement Shares- BMTF would have a Relevant Interest in the issued share capital of the Company of **25.1%**; and
- (iii) under the **BMTF Options** (if approved by Shareholders and assuming no other Shares are issued by the Company in the interim other than the Tranche 2 Placement Shares), when combined with the Tranche 1 Placement Shares and the Tranche 2 Placement Shares - BMTF would have on exercise of all of the Options a Relevant Interest in the issued share capital of the Company of **33.5%**.

This is set out in the table below -

	Total Existing issued Shares in the Company	Total BMTF Shareholding	BMTF % interest in total issued Shares (assuming all BMTF Options are exercised)
Existing Shares on issue (prior to Tranche 1 Placement to BMTF)	497,044,147	Nil	0%
After Tranche 1 Placement Shares (issued)	601,305,183	104,261,036	17.3%
After Tranche 2 Placement Shares (resolution 2)	663,710,814	166,666,667	25.1%
Maximum number of Shares assuming all BMTF Options are exercised (resolution 3)	747,044,147	250,000,000	33.5%

Resolution 2 proposes that for the purposes of section 611 (item 7) of the Corporations Act and for all other purposes, the shareholders approve the issue of the issue of **62,405,631** on the terms and conditions of the Subscription Agreement.

Resolution 3 proposes that for the purposes of section 611 (item 7) of the Corporations Act and for all other purposes, the shareholders approve the issue of the issue of up to **83,333,333** Shares on exercise of the BMTF Options on the terms and conditions of the Subscription Agreement.

On the basis that the Tranche 1 Placement Shares have already been issued, the issue of the Tranche 2 Shares will dilute non-associated Shareholders' interests from 82.7% to 74.9% (and down to 66.5% if all BMTF Options were exercised without the Company issuing any other Shares before all BMTF Options were exercised).

2.2 Regulatory background – Corporations Act

The Corporations Act sets out a number of regulatory requirements that must be satisfied in relation to the issue of securities under Resolution 2 and Resolution 3. These are summarised below.

(a) Section 606(1) of the Corporations Act

Section 606(1) of the Corporations Act prohibits the acquisition of voting shares in a listed company (or an unlisted company with more than 50 shareholders) if that acquisition results in a person's voting power increasing:

- from 20% or below to more than 20%; or
- from a starting point above 20% and below 90%,

collectively the **(Takeover Prohibition)**.

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's Associates have a Relevant Interest.

BMTF (via the trustee Phillip Asset Management Limited ACN 064 847 669) where Tranche 2 Placement Shares are allotted, and increased further if any of the BMTF Options are exercised - would have a "relevant interest" of more than 20% in the Company.

(b) Item 7 section 611 of the Corporations Act

Section 611 (Item 7) of the Corporations Act provides an exception to the Takeover Prohibition described in Section 2.3(a) above. Specifically, section 611 (Item 7) of the Corporations Act allows a person and their Associates to acquire a relevant interest in a company's voting shares with prior shareholder approval as an exception to the Takeover Prohibition.

On this basis and in accordance with section 611 (Item 7) of the Corporations Act, the Company seeks Shareholder approval for the proposed issue of the Tranche 2 Placement Shares and the Shares which could be issued to BMTF on exercise of the BMTF Options (the subject of Resolutions 2 and 3).

In order to rely on section 611 (Item 7) of the Corporations Act, certain information is required to be provided to Shareholders. Accordingly and for the purposes of the Corporations Act, the following information is disclosed:

- (i) The identity of the person proposing to make the acquisition of Shares:
Phillip Asset Management Limited ACN 064 847 669 as trustee of the BioScience Managers Translation Fund 1 (BMTF).
- (ii) The maximum extent of the increase in BMTF's voting power in the Company that would result from the acquisition:
BMTF, pursuant to the Tranche 1 Placement, has a relevant interest of 17.3% of the existing issued share capital of the Company. As detailed in the above table (assuming the Tranche 2 Placement Shares are issued and all of the BMTF Options are exercised, BMTF voting power would increase by - 16.2%.
- (iii) The voting power that BMTF would have as a result of the acquisition:
As detailed in the above table (maximum voting power assuming the Tranche 2 Placement Shares are issued and all of the BMTF Options are exercised) is 33.5%.
- (iv) The maximum extent of the increase in the voting power of each of that person's Associates that would result from the acquisition and the voting power of each of BMTF's Associates would have as a result of the acquisition.
BMTF is an independent fund of which Phillip Asset Management Limited ACN 064 847 669 has been appointed trustee. Neither BMTF nor Phillip Asset Management Limited has any associates with a shareholding in the Company. While not an associate, Bioscience Managers Pty Ltd is an investment adviser to BMTF and while Bioscience Managers Pty Ltd itself does not hold any Shares in the Company it does also provide investment advice or recommendations to other funds which may hold Shares in the Company.

2.3 BMTF's intentions post issue of the Tranche 2 Placement Shares and BMTF Options

Other than as described elsewhere in this Notice of Meeting, BMTF has informed the Company that it does not have any current intentions of:

- (a) making any significant changes to the business of, or employment of present employees of, the Company;
- (b) injecting further capital into the Company (other than potentially on the exercise of the BMTF Options);
- (c) transferring any assets of the Company to BMTF or BMTF's Associates or otherwise redeploying any fixed assets of the Company;
- (d) making any significant change to the financial policy of the Company, including its dividend or distribution policy.

2.4 BMTF's intentions post the issue of the Tranche 2 Shares

BMTF has informed the Company that BMTF has no current intentions to be actively involved in the Board or management of the Company and it has no views on or intentions regarding the matters outlined in Section 2.3 above.

2.5 Advantages of passing Resolutions 2 and 3

In the Board's view, the advantages of the Proposed Transaction are:

- The investment enables Adherium to fund and maintain momentum in its key software and hardware platform development;
- The investment allows Adherium to utilise its existing cash resources not raised from BMTF to support the Company's activities in New Zealand and selective critical recruitment in the US aligned to partnership development;
- This funding is available at the same value as the recent Rights Issues;
- The investment by BioScience Managers Translation Fund 1 together with the BMTF Options with an exercise price of 6 cents per Share shows confidence in the Company and its future; and
- The cash funding is borne by BioScience Managers Translation Fund 1 and not existing shareholders.

2.6 Disadvantages of passing Resolutions 2 and 3

In the Board's view, the disadvantages of the Proposed Transaction are:

- The subscription would introduce a new major shareholder (BioScience Managers Translation Fund 1) which as a result of its shareholding in the Company could exercise a degree of control in a takeover or merger transaction and also in voting at shareholder meetings;
- Existing shareholders will be diluted, but the Directors consider the dilution will be offset by the benefits of the continued development of the Company's products and services;
- Limitation on the usage of BioScience Managers Translation Fund 1 funds for Australia only development activity and it does not support Company development or growth activity elsewhere;
- The likelihood of the BMTF Options being exercised is unknown, they are in the sole control of BioScience Managers Translation Fund 1 and if exercised would result in further dilution to existing or new shareholders and increase BioScience Managers Translation Fund 1's potential control position as a major shareholder in the Company; and
- The BMTF Option exercise price at the time of exercise could present a significant discount on the Company's share price achieved within the 18-month exercise period.

2.7 Additional ASX disclosure requirements re Resolution 3

ASX Listing Rule 7.1 sets out the regulatory requirements that must be satisfied in relation to the issue of equity securities (which includes and options) under Resolutions 2 and Resolution 3. ASX Listing Rule 7.1 prohibits the Company issuing equity securities in excess of 15% of the existing equity security capacity in a 12 consecutive month period without prior shareholder approval.

Approval pursuant to Listing Rule 7.1 for the issue of the Tranche 2 Placement Shares under Resolution 2 to BMTF is not required as an issue of securities (i.e. shares) with approval pursuant to

section 611 (Item 7) of the Corporations Act is exempt from the requirements of Listing Rule 7.1 (the exception being Listing Rule 7.2 exception 8).

However, under Resolution 3 the Company seeks shareholder approval to issue up to 83,333,333 options to purchase Shares (**BMTF Options**) under ASX Listing Rule 7.1. Such options are not 'securities' for the purposes of Listing Rule 7.2 exception 8, so Listing Rule 7.1 approval is required.

In accordance with Listing Rule 7.3, which contains requirements as to the contents of a notice sent to Shareholders for the purposes of Listing Rule 7.1, the following information is provided to Shareholders in respect of Resolution 3:

- (a) The names of the persons to whom the entity will issue the BMTF Options
Phillip Asset Management Limited ACN 064 847 669 as trustee of BMTF.
- (b) The number of BMTF Options to be issued under the proposed placement
Approval is being sought for the issue of 83,333,333 BMTF Options. Each BMTF Option will rank equally in all respects with existing unlisted options to purchase Shares. The terms of the BMTF Options are contained in Appendix B.
- (c) The date for issuing the BMTF Options
The BMTF Options will be issued as soon as practical after the approval of this Resolution, and in any case within three (3) months of the date of this Meeting.
- (d) The issue price of the BMTF Options under the proposed placement
The Options will be issued without payment by BMTF, but if exercised in full will result in the payment to the Company of approximately \$5 million being \$0.06 per Share for each BMTF Option exercised.
- (e) The purpose of the issue of the proposed placement, including the intended use of funds
The BMTF Options are to be issued under the Subscription Agreement for the Tranche 1 and 2 Placements noted above, however there will be no funds raised by the issue of the BMTF Options.
- (f) If the securities are being issued under an agreement, a summary of any other materials terms of the agreement.
A summary of the Subscription Agreement pursuant to which the BMTF Options were agreed to be issued is described in Section 1.3(f) of this Explanatory Memorandum.
- (g) If the securities are being issued under, or to fund, a reverse takeover, information about the reverse takeover.
The BMTF Options are not being issued to fund a reverse takeover.

2.8 Director recommendation regarding Resolutions 2 and 3

The Board believes securing a significant investment from BMTF will be of great benefit to the Company. BMTF is a highly regarded investor in established and emerging companies, with a particular focus in biotechnology companies and generally life science companies. The Board believes that approving Resolutions 2 and 3 is important for the future of the Company as:

- (a) the funding will greatly assist the Company with its current clinical and commercial objectives;
- (b) a significant investment by BMTF is a major step forward in the Company's development, especially in terms of its credibility with key opinion leaders;
- (c) BMTF already has a strong track record of success in the Life Sciences space globally.

All of the Directors (other than Mr Jeremy Curnock Cook) strongly support approval of Resolutions 2 and 3 and unanimously recommend that shareholders vote in favour of Resolutions 2 and 3, absent a superior proposal. Mr Jeremy Curnock Cook (Non-Executive Director) is a shareholder and director of Bioscience Managers Pty Ltd which does provide investment advice to BMTF and he has abstained from making a recommendation.

2.9 Undirected proxies

The Chairman intends to vote all undirected proxies in favour of Resolutions 2 and 3, absent a superior proposal.

2.10 Director's Interests in the issue of Shares / Options to BMTF

No Director (or any related party to a Director) has an interest in or are related parties of BMTF, nor do any Directors have any Shares in BMTF or its trustee Phillip Asset Management Limited.

Mr Jeremy Curnock Cook (Non-Executive Director) is a shareholder and director of Bioscience Managers Pty Ltd which provides investment advice to BMTF.

2.11 What will happen if Resolutions 2 and 3 are not passed

If Resolutions 2 and 3 are not approved, then the Company will not be able to issue the Tranche 2 Placement Shares or the BMTF Options to BMTF and the Company will not receive the approximate \$1.9 million in funding under the Tranche 2 Placement nor the potential of additional funding should any of the BMTF Options be exercised.

2.12 Independent Expert's Report

For the purposes of Resolutions 2 and 3, the Company has engaged RSM Corporate Australia Pty Ltd (**Independent Expert**) to prepare an Independent Expert's Report (or **IER**) (a copy of which is attached as Appendix F) in accordance with section 611 of the Corporations Act and ASIC Regulatory Guide 111 in relation to the proposed issue of the Tranche 2 Placement Shares and BMTF Options. Shareholders should consider this report carefully.

The Independent Expert has concluded that the Proposed Transaction is **not fair, but reasonable** to the non-associated shareholders to approve the Proposal in the absence of a superior proposal.

In assessing whether the Proposed Transaction is fair to Non-Associated Shareholders, the Independent Expert has valued a share in Adherium prior to and immediately after the Proposed Transaction to determine whether a Non-Associated Shareholder would be better or worse off should the Proposed Transaction be approved. These calculations are detailed in section 7 and also discussed in section 8, of the IER. In the Independent Expert's opinion, as the Fair Value of an Adherium share (on a non-controlling basis) immediately after the Proposed Transaction, is less than the Fair Value of an Adherium share (on a controlling basis) prior to the Proposed Transaction, the Proposed Transaction is **not fair** to the Non-Associated Shareholders of Adherium.

However, in section 9 of the IER the Independent Expert notes that an offer is reasonable not only if is fair, but it might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. Accordingly the Independent Expert has also considered the below factors in relation to the reasonableness aspects of the Proposed Transaction and has determined that the Proposed Transaction is, in the absence of any other relevant information and/or a superior offer, for the purposes of section 611, item 7 of the Corporations Act, is **reasonable** for Non-Associated Shareholders:

- the future prospects of Adherium if the Proposed Transaction does not proceed - for which the Independent Expert comments that as the Company will not receive \$1.9 million in funding (and potentially further funding upon any exercise of the BMTF Options, if the Company is unable to complete other additional capital raisings there is a risk it may not be able to continue as a going concern);
- the trading of Adherium shares following the announcement of the Proposed Transaction - for which the Independent Expert comments that notwithstanding the relatively low liquidity of the Company's shares, it considers that the market has, on the whole, reacted favourably to the announcement of the Proposed Transaction;
- other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding - described below; and
- alternative proposals to the Proposed Transaction - for which the Independent Expert comments that it is not aware of any alternative proposal at the current time which might offer Non-Associated Shareholders a greater benefit than the Proposed Transaction.

Shareholders are referred to sections 7, 8 and 9 IER for the Independent Expert's complete discussion on fairness and reasonableness of the Proposed Transaction.

In addition to those matters referred to in Sections 2.5 and 2.6 of this Notice, the following are advantages and disadvantages for the Company, as determined by the Independent Expert, in either proceeding, or not proceeding, with the issue of the Tranche 2 Placement Shares and the BMTF Options in the absence of a superior proposal,

- Advantages to the shareholders of the Company in proceeding with the Proposed Transaction include:
 - approval of the Proposed Transaction will provide an additional \$1.9 million in funding and would enable the Company to support the progression of software and hardware development in Melbourne, Australia. This includes the Company's project development activity with Planet Innovation as well as the recruitment of a limited number of skilled software technology experts based in Melbourne. The Directors consider this development will enable Adherium to secure key platform coverage across the major inhaled sensor devices used in the treatment of both asthma and chronic obstructive pulmonary disease ("COPD") and include the incorporation of physiological measures which are a requirement for US reimbursement for remote patient monitoring;
 - the investment from BMTF fits the purposes of both Adherium and the fund given its specific mandate to invest in innovative healthcare and technology development in Australia;
 - the Proposed Transaction allows Adherium to utilise the existing cash resources not raised from BMTF to support activities in New Zealand and selective critical recruitment in the US aligned to partnership development;
 - the Proposed Transaction is priced at the same value as the recent rights offer completed in January 2020; and
 - the Company may receive future additional funding from BMTF in the event that BMTF elects to exercise some or all of the BMTF Options.
- Disadvantages to the non-associated shareholders of the Company in proceeding with the Proposed Transaction include -
 - the Proposed Transaction is not fair;
 - the dilution of Non-Associated Shareholders' interests from 82.7% to 74.9%, immediately following the approval of the Proposed Transaction, and further diluted to 66.5% in the event that all options issued to BMTF ("BMTF Options") in accordance with Resolution 3 are exercised (and assuming no other share issues or options exercised);
 - BMTF will hold a 25.1% interest in the Company immediately after the completion of the Proposed Transaction and will constitute the largest shareholder in Adherium when compared to the existing top 20 shareholders as set out in Table 6. Accordingly, we consider that BMTF will have significant influence on the strategic direction of the Company as compared to existing Non-Associated Shareholders; and
 - the dilution of Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

A full copy of the Independent Expert's Report is included in Appendix F of this Notice. Shareholders are encouraged to review the report in full before making a decision as to how to vote.

2.13 Equity Table

Below is a copy of the Company's Top 20 Shareholders (as provided as Table 6 on page 16 of the IER) and the 49,752,156 unlisted options on issue (as provided as Table 7 on page 17 of the IER).

As at the date of the IER, Adherium had 601,305,183 ordinary shares on issue of which 85.2% were held by the top 20 shareholders. The top 20 Adherium shareholders are set out in the table below.

Shareholder	Number	%
PHILLIP ASSET MANAGEMENT LIMITED <BIOSCIENCE TRANS FUND 1 A/C>	104,261,036	17.3%
TRUDELL MEDICAL LTD	89,364,179	14.9%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	50,187,132	8.3%
ONE FUNDS MANAGEMENT LIMITED	48,808,957	8.1%
CITICORP NOMINEES PTY LIMITED	44,842,318	7.5%
SUMMATIX PTY LTD	35,496,341	5.9%
K ONE W ONE LTD	33,836,351	5.6%
NATIONAL NOMINEES LIMITED	25,000,000	4.2%
JMID PTY LTD <JAM SUPERFUND A/C>	16,400,000	2.7%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	11,705,739	1.9%
ADHERIUM ESP TRUSTEE LIMITED	10,303,149	1.7%
BNP PARIBAS NOMS (NZ) LTD <DRP>	8,221,667	1.4%
CALCIUM INVESTMENTS LIMITED	7,112,779	1.2%
MR GARTH CAMPBELL SUTHERLAND	5,174,885	0.9%
NATIONAL NOMINEES LIMITED <DB A/C>	4,574,936	0.8%
CHAG PTY LTD	4,550,000	0.8%
NZVIF INVESTMENTS LIMITED	4,483,383	0.7%
MRS LEORA SHAMGAR	3,000,000	0.5%
MR DANIEL BLACKWOOD RITCHIE	2,614,454	0.4%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,402,000	0.4%
	512,339,306	85.2%
OTHER SHAREHOLDERS	88,965,877	14.8%
Total	601,305,183	100.0%

As at the date of the IER, Adherium has 49,752,156 unlisted share options on issue on the terms as set out below.

No.	Exercise price	Expiry date
217,214	\$0.134039	30-Nov-20
542,952	\$0.134039	16-Dec-20
1,039,428	\$0.134039	01-Jan-21
259,857	\$0.134039	24-Mar-21
173,238	\$0.134039	31-Mar-22
27,519,467	\$0.0219	29-Jan-27
20,000,000	\$0.04	14-Apr-27
49,752,156		

3. Resolution 4 - Ratification of Options Issued to Mike Motion

3.1 Background

As announced on 14 April 2020, the Company on that date (**Issue Date**) issued options to Mr Mike Motion (**MM Options**) which upon exercise (at an exercise price of \$0.04 per Share) would result in the issue of up to 10,000,000 Shares. The MM Options were issued pursuant to the Company's Executive Share Option Plan adopted in 2015 (**ESOP**), but as the ESOP had not been ratified by shareholders within 3 years of the Issue Date, the MM Options were issued under the Company's existing capacity under Listing Rule 7.1. A summary of the terms of the ESOP appears in Appendix A.

One third of the MM Options issued vest on the anniversary of their Issue Date for each of the first three such anniversaries. The terms of the MM Options issued appears in Appendix C. Shareholder approval

of the ESOP is also being sought pursuant to Resolution 4 of this Notice, after which the Company will be able to issue options without utilising any of its Listing Rule 7.1 capacity.

3.2 ASX Regulatory Requirements

Under Listing Rule 7.1, a company may issue up to 15% of its ordinary share capital in any 12-month rolling period without shareholder approval.

Listing Rule 7.4 permits a company to obtain ratification from its shareholders in relation to a prior security issue, and thereby refresh its ability in the future to issue further securities (equivalent in number to the security issue being ratified by this resolution) without obtaining prior shareholder approval.

The issue of the MM Options was within the 15% limitation imposed by ASX Listing Rule 7.1, however the Company is now seeking shareholder ratification and approval for the issue of these MM Options.

3.3 ASX Listing Rule 7.4

ASX Listing Rule 7.5 requires that the meeting documents concerning a proposed resolution to ratify an issue of securities in accordance with ASX Listing Rule 7.4 must include the following information:

- (a) The names of the allottee or the basis on which the allottees were identified or selected:
The MM Options were allotted to Mr Mike Motion under the terms of the Company's ESOP and prior to Mr Motion joining the ADR Board (and at which time Mr Motion was not a "related party" as defined in the Corporations Act).
- (b) The number of securities the entity issued:
A total of 10,000,000 MM Options were issued which, if exercised, would result in the issue of 10,000,000 Shares.
- (c) The date the securities were issued:
14 April 2020.
- (d) The issue price of the securities:
The MM Options were issued without cost to Mr Motion.
- (e) The intended use of the funds raised:
There were no funds raised by the issue of the MM Options.
- (f) If the securities were issued under an agreement, a summary of the material terms of the agreement
The MM Options were not issued pursuant to an agreement but as an incentive for entering into his employment as Chief Executive Officer.

3.4 Director's Recommendation

The Directors of the Company (other than Mike Motion, who abstains given his involvement in the outcome of the resolution) unanimously recommend that Shareholders vote in favour of Resolution 4. **The Chairman of the Meeting intends to vote undirected proxies in favour of the approval of Resolution 4.**

4. Resolution 5 - Ratification of Options Issued to James Ward-Lilley

4.1 Background

Under the same regulatory circumstances as described in Section 4.1 above, the Company on 14 April 2020 (**Issue Date**) issued options to Mr James Ward-Lilley (**JWL Options**) pursuant to the ESOP, which upon exercise (at an exercise price of \$0.04 per Share) would result in the issue of up to 10,000,000 Shares.

The JWL Options were issued under the Company's existing capacity under Listing Rule 7.1, as the renewal of ESOP shareholder approval (the subject of Resolution 6) had not been sought at the time of the issue of the JWL Options. A summary of the terms of the ESOP appears in Appendix A.

One third of the JWL Options issued vest on the anniversary of their Issue Date for each of the first three such anniversaries. The terms of the JWL Options issued appears in Appendix C.

4.2 ASX Regulatory Requirements

Under Listing Rule 7.1, a company may issue up to 15% of its ordinary share capital in any 12-month rolling period without shareholder approval. Listing Rule 7.4 permits a company to obtain ratification from its shareholders in relation to a prior security issue, and thereby refresh its ability in the future to issue further securities (equivalent in number to the security issue being ratified by this resolution) without obtaining prior shareholder approval.

The issue of the JWL Options was within the 15% limitation imposed by ASX Listing Rule 7.1, however the Company is now seeking shareholder ratification and approval for the issue of these JWL Options.

4.3 ASX Listing Rule 7.4

ASX Listing Rule 7.5 requires that the meeting documents concerning a proposed resolution to ratify an issue of securities in accordance with ASX Listing Rule 7.4 must include the following information:

- (a) The names of the allottee or the basis on which the allottees were identified or selected:
The JWL Options were allotted to Mr James Ward-Lilley under the terms of the Company's ESOP. Mr Ward-Lilley was not a related party of the Company (for the purposes of the ASX Listing Rules) at the time of the issue of the JWL Options.
- (b) The number of securities the entity issued:
A total of 10,000,000 JWL Options were issued which, if exercised, would result in the issue of 10,000,000 Shares.
- (c) The date the securities were issued:
14 April 2020.
- (d) The issue price of the securities:
The JWL Options were issued without cost to Mr Ward-Lilley.
- (e) The intended use of the funds raised:
There were no funds raised by the issue of the JWL Options.
- (f) If the securities were issued under an agreement, a summary of the material terms of the agreement
The JWL Options were not issued pursuant to an agreement but as an incentive for accepting the proposed appointment as Chairman.

4.4 Director's Recommendation

The Directors of the Company (other than James Ward-Lilley, who abstains given his involvement in the outcome of the resolution) unanimously recommend that Shareholders vote in favour of Resolution 5.

The chairperson of the Meeting intends to vote undirected proxies in favour of the approval of Resolution 5.

5. Resolution 6 - Ratification of existing Executive Share Option Plan

5.1 Background

In 2015 the Company adopted an Executive Share Option Plan (**ESOP**) to foster an ownership culture within the Company, reward employees for their past performance, provide long term incentives for participation in the Company's future growth; and to motivate senior management and Directors to achieve performance targets of the Company. Selected senior management of the Company and the Directors are eligible to participate in the Plan at the absolute discretion of the Board.

The Board also remains committed to incentivising and retaining the Company's directors and other personnel in a manner which promotes alignment of their interests with shareholder interests, whilst at the same time offering eligible participants market-competitive remuneration arrangements.

At the same time, the Company desires to maintain maximum ability to raise capital in accordance with ASX Listing Rule 7.1 without seeking prior shareholder approval. Accordingly, the Board seeks further shareholder approval of the Company's existing ESOP for the purposes of ASX Listing Rule 7.2 Exception 13.

The aggregate number of Options over Shares which may be issued under the ESOP is such that, together with Shares issued under the Employee Share Plan, they shall not exceed 15% of the total number of issued Shares. There has not been a material change to the terms of the ESOP from those set out in the prospectus dated 3 August 2015 related to the Company's initial public offering.

A summary of the Executive Share Option Plan is set out in Appendix A.

5.2 ASX Listing Rules

Listing Rule 7.1 requires shareholder approval for an issue of equity securities if, over a rolling 12 month period, the amount of equity securities issued (without prior shareholder approval) is more than 15% of the number of ordinary shares on issue at the start of that 12 month period.

Listing Rule 7.2 exception 13 provides that an issue of securities (which includes options to purchase shares) under an employee incentive scheme does not reduce a company's available 15% capacity under Listing Rule 7.1 if the issue of securities is made under an employee incentive scheme and within the last 3 years shareholders have approved the issue of equity securities under that scheme as an exception to Listing Rule 7.1. The ESOP is regarded as an employee incentive scheme for the purposes of Listing Rule 7.2 and this Resolution 6 seeks shareholder approval for the Plan to meet the 3 year approval requirement.

5.3 Information required for Listing Rule 7.2 Exception 13(b)

Listing Rule 7.2 Exception 13(b) requires the information detailed in sections (i), (ii), (iii) and (iv) below to be provided to members for approval under this resolution:

(i) Options already issued

The Company has issued 20,000,000 Options pursuant to the ESOP since the Company was listed on the ASX in 2015.

(ii) Executive Share Option Plan Summary

The terms of the ESOP are summarised in Appendix A to this Notice.

(iii) The maximum number of equity securities proposed to be issued

At this stage the maximum number of incentive securities, being Options or Employee Share Plan shares, proposed to be issued under both the ESOP and the Employee Share Plan is 15% of Shares on issue.

(iv) Voting Exclusion Statement

The applicable voting exclusion statement for the purposes of Listing Rule 7.2 exception 13, under this Resolution 6, appears above.

5.4 Termination benefits under the ESOP

Section 200B of the Corporations Act requires shareholder approval by ordinary resolution, and in accordance with the special provisions of s 200E of the Act, in order to access the exemption from the prohibition on a company giving a person a benefit in connection with that person's retirement from an office or position of employment in that company where that person is, or was in the three years prior to his or her retirement, in a managerial or executive office in that company.

The ESOP allows the Board, in its discretion and subject to the Listing Rules, to provide financial assistance to the Option Holder with respect to paying the exercise price of the Options and to vary or amend the terms of the Plan, which may include an amendment to allow an acceleration of vesting of share entitlements on a retirement, which could constitute a benefit otherwise prohibited under Section 200B. In order to give the Board flexibility to exercise its discretions under the Plan to the extent that an acceleration of vesting could be regarded as providing a person a benefit in connection with that person's retirement from an office or position of employment (**Employment Retirement Benefit**), shareholder approval for the purposes of sections 200B and 200E of the Corporations Act 2001 is being sought.

For a section 200B benefit to be allowed, section 200E requires that this Notice of Meeting provide shareholders with either the value of the proposed benefits or, where the value of the proposed benefits cannot currently be ascertained, the manner in which the value of the proposed benefits is calculated, and the matters, events and circumstances that will, or are will likely to, affect the calculation of the value.

The Board has not determined that it will exercise discretion to grant any Employment Retirement Benefits. In the circumstances of a possible Employment Retirement Benefit, the value of the benefits that the Board may give under the Plan cannot be determined in advance, as many of the factors that will or are likely to affect that value will not be known until the time the benefit is decided to be awarded (if at all). Specifically, the value of an Employment Retirement Benefits will depend on a number of factors, including the Company's share price at the time.

Insofar as Resolution 6 could relate to the provision of an Employment Retirement Benefit, in accordance with section 200E(2A) of the Corporations Act, a vote on Resolution 6 must not be cast (in any capacity) by or on behalf of any person who may be entitled to receive a benefit in connection with that person's retirement from a managerial or executive office in the Company (or any related body corporate), or an associate of that person. However, a person is entitled to cast a vote if:

- (i) it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the resolution; and
- (ii) it is not cast on behalf of the retiree or an associate of that person.

As at the date of this Notice, the Board has not identified any particular person to receive a benefit in connection with that person's retirement from a managerial or executive office in the Company. As such, no existing Shareholders shall be excluded from voting on Resolution 6.

Section 260A of the Corporations Act allows only limited circumstances under which a company may provide financial assistance for the acquisition of shares in itself without obtaining prior shareholder approval, including

- (a) the giving of the assistance which does not materially prejudice (i) the interests of the company or its shareholders, or (ii) the company's ability to pay its creditors, or
- (b) the assistance is approved by Shareholders under section 260B; or
- (c) the assistance is exempt under section 260C (relating to employee share schemes).

The Board is of the view that exemption (a) above is applicable, and at the relevant times will be applicable, to any loans that may be granted for the payment of the Option exercise price under the ESOP. Accordingly the Company will not be seeking shareholder approval with respect to under Section 260A of the Corporations Act.

5.5 Director Recommendation

As the Directors are excluded from voting upon this resolution pursuant to the ASX Listing Rules, the Directors will not make a recommendation to shareholders with respect to voting in relation to this Resolution 6.

6. Resolution 7 – Approval of proposed issue of Options to Bryan Mogridge

6.1 Background

The Company is seeking Shareholder approval, under Resolution 7, to grant an aggregate total of 1,500,000 Options under the Company's Executive Share Option Plan (**ESOP**) to Bryan Mogridge or his Nominee (**Related Party**). The Options are being offered and will be granted under the ESOP. A summary of the terms and conditions of the ESOP is contained in Appendix A. A summary of the terms of the Options is contained in Appendix D.

The Board is of the view that the Options ought to be issued in recognition and compensation for exceptional commitment by Mr Mogridge during 2019 in restructuring and re-financing of the Company.

6.2 Chapter 2E of the Corporations Act

For the Company to give a financial benefit to a related party of the Company, that benefit must be approved by shareholders, unless the giving of that benefit falls within an exception set out in sections 210 to 216 of the Corporations Act. The grant of Options constitutes giving a financial benefit and the Related Party is a related party of the Company by virtue of being a Director of the Company. The Directors (who do not have a material personal interest in Resolution 7), after a review of non-executive director remuneration packages by similar size and development listed biotechnology companies, consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of this grant of Options because these Options are considered to fall within the "reasonable remuneration" exception set out in section 211 of the Corporations Act.

6.3 ASX Listing Rule 10.14

Listing Rule 10.14 provides that a listed entity must not permit a Director (or their Associate) to acquire equity securities under an employee incentive scheme (such as the ESOP) unless it first obtains Shareholder approval. The grant of the Options under Resolution 7 involves the grant of securities to a Director of the Company or their Nominee (which will be an associate of the Director) and so Shareholder approval is required under Listing Rule 10.14.

Pursuant to Listing Rule 7.2 exception 14, where Shareholder approval obtained under Listing Rule 10.14, approval under Listing Rule 7.1 is not required. Pursuant to Listing Rule 10.12 exception 8, where Shareholder approval is obtained under Listing Rule 10.14, approval under Listing Rule 10.11 is not required.

6.4 Technical Information required by Listing Rule 10.15

Pursuant to and in accordance with Listing Rule 10.15, the following information is provided in relation to Resolution 7:

- (i) The name of the person and why that person is Related Party
The Options are to be granted to Bryan Mogridge, a Director of the Company, or his Nominee.
- (ii) The number and class of securities proposed to be issued
1,500,000 unlisted Options to purchase Shares in the Company, with each Option having an exercise period of one year from the issue date of the Option, an exercise price of 4 cents per Share and each Share subject to a restriction agreement where Mr Mogridge will be unable to transfer or otherwise deal with the Shares issued upon the exercise of the Option for a period of 24 months from the issue date of the Options.
- (iii) Details of the Director's current total remuneration package
Annual Director Fees of \$50,000.
- (iv) The number of securities that have previously been issued to this person under the ESOP and the average acquisition price (if any) paid by this person
Nil.
- (v) As the securities are not fully paid ordinary securities, the following information is provided:
 - (i) *a summary of the material terms of the ESOP is provided in Appendix A and the terms of the Options are contained in Appendix D*
 - (ii) *an explanation of why this type of security is being used*
The Company only offers securities under either its Employee Share Plan or ESOP, and Mr Mogridge elected the ESOP
 - (iii) *the value the Company attributes to the Options and the basis of the valuation*
Based on a Black Scholes valuation, the Options are estimated by the Board to have a value of up to \$19,300
- (vi) The date on or by which the Company will issue the Options under the Scheme
As soon as practical under the Listing Rules after the approval of this Resolution, and in any case within 3 years of the date of the Meeting.
- (vii) The Price at which the Company will issue the Options under the ESOP
The Options will be issued for no consideration
- (viii) Summary of the Material terms of the scheme
A summary of the material terms of the ESOP is contained in Appendix A
- (ix) A summary of the material terms of any loan that will be made to the person in relation to the acquisition of the acquisition
There is no loan required to acquire the Options as there is no payment being made for the Options.

(x) Additional Statements

- *details of any securities issued under the ESOP will be published in the Company's annual report relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing Rule 10.14;*
- *any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of securities under the ESOP after Resolution 7 is approved and who is not named in this Notice of Meeting will not participate until approval is obtained under that rule.*

6.5 Director Recommendation

As the Directors are excluded from voting upon this resolution pursuant to the ASX Listing Rules, the Directors will not make a recommendation to shareholders with respect to voting in relation to this Resolution 7.

7. Resolution 8 – Approval of proposed issue of Options to William Hunter**7.1 Background**

The Company is seeking Shareholder approval, under Resolution 8, to grant an aggregate total of 1,500,000 Options under the Company's Executive Share Option Plan (**ESOP**) to William Hunter or his Nominee (**Related Party**). The Options are being offered and will be granted under the ESOP. A summary of the terms and conditions of the ESOP is contained in Appendix A. A summary of the terms of the Options is contained in Appendix D.

The Board is of the view that the Options ought to be issued in recognition and compensation for exceptional commitment by Dr Hunter during 2019 in restructuring and re-financing of the Company.

7.2 Chapter 2E of the Corporations Act and ASX Listing Rule 10.14

The same provisions of Chapter 2E of the Corporations Act and ASX Listing Rule 10.14 as discussed at sections 6.2 and 6.3 above apply equally to the proposed issue of Options to William Hunter under this Resolution 8.

The Directors (who do not have a material personal interest in Resolution 8), after a review of non-executive director remuneration packages by similar size and development listed biotechnology companies, consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of this grant of Options because the Options are considered to fall within the "reasonable remuneration" exception set out in section 211 of the Corporations Act.

7.3 Technical Information required by Listing Rule 10.15

Pursuant to and in accordance with Listing Rule 10.15, the following information is provided in relation to Resolution 7:

- (i) The name of the person and why that person is Related Party
The Options are to be granted to William Hunter, a Director of the Company, or his Nominee.
- (ii) The number and class of securities proposed to be issued
1,500,000 unlisted Options to purchase Shares in the Company, with each Option having an exercise period of one year from the issue date of the Option, an exercise price of 4 cents per Share and each Share subject to a restriction agreement where Dr Hunter will be unable to transfer or otherwise deal with the Shares issued upon the exercise of the Option for a period of 24 months from the issue date of the Options.
- (iii) Details of the Director's current total remuneration package
Annual Director Fees of \$50,000.
- (iv) The number of securities that have previously been issued to this person under the ESOP and the average acquisition price (if any) paid by this person
Nil
- (v) As the securities are not fully paid ordinary securities, the following information is provided:

- (i) *a summary of the material terms of the ESOP is provided in Appendix A and the terms of the Options are contained in Appendix D*
- (ii) *an explanation of why this type of security is being used*
the Company only offers securities under either its Employee Share Plan or ESOP, and Dr Hunter elected the ESOP
- (iii) *the value the Company attributes to the Options and the basis of the valuation*
Based on a Black Scholes valuation, the Options are estimated by the Board to have a value of up to \$19,300
- (vi) The date on or by which the Company will issue the Options under the Scheme
As soon as practical under the Listing Rules after the approval of this Resolution, and in any case within 3 years of the date of the Meeting.
- (vii) The Price at which the Company will issue the Options under the ESOP
The Options will be issued for no consideration.
- (viii) Summary of the Material terms of the scheme
A summary of the material terms of the ESOP is contained in Appendix A.
- (ix) A summary of the material terms of any loan that will be made to the person in relation to the acquisition of the acquisition
There is no loan required to acquire the Options as there is no payment being made for the Options.
- (x) Additional Statements
 - *details of any securities issued under the ESOP will be published in the Company's annual report relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing Rule 10.14;*
 - *any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of securities under the ESOP after Resolution 8 is approved and who is not named in this Notice of Meeting will not participate until approval is obtained under that rule.*

7.4 Director Recommendation

As the Directors are excluded from voting upon this resolution pursuant to the ASX Listing Rules, the Directors will not make a recommendation to shareholders with respect to voting in relation to this Resolution 8.

8. Resolution 9 – Approval of proposed issue of Employee Share Plan Shares to Bruce McHarrie

8.1 Background

The Company is seeking Shareholder approval, under Resolution 9, to grant an aggregate total of 500,000 Plan Shares under the Company's loan funded Employee Share Plan (**ESP** or **Plan**) to Bruce McHarrie or his Nominee (**Related Party**). A summary of the terms and conditions of the ESP is contained in Appendix E.

The Board is of the view that the Shares ought to be issued in recognition and compensation for exceptional commitment by Mr McHarrie during 2019 in restructuring and re-financing of the Company.

8.2 Chapter 2E of the Corporations Act and ASX Listing Rule 10.14

The same provisions of Chapter 2E of the Corporations Act and ASX Listing Rule 10.14 as discussed at sections 6.2 and 6.3 above apply equally to the proposed issue of Plan Shares to Bruce McHarrie under this Resolution 9. The Directors (who do not have a material personal interest in Resolution 9), after a review of non-executive director remuneration packages by similar size and development listed biotechnology companies, consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of this issue of Plan Shares because the Plan Shares are

considered to fall within the “reasonable remuneration” exception set out in section 211 of the Corporations Act.

8.3 Further Corporations Act commentary

The commentary concerning Sections 200B, 200E and 260A in section 5.4 above with respect to the provisions of the ESOP is equally applicable to the provisions of the Employee Share Plan, with respect to the Board providing financial assistance with respect to the purchase of the Loan Shares and having flexibility to exercise its discretions under the Plan to potentially provide Bruce McHarrie with Employment Retirement Benefits (as defined in Section 6.5 above), both under the ESP.

Section 259B(2) permits a Company to take security over its own shares issued pursuant to an employee share scheme under certain conditions, including where prior shareholder approval of the employee share scheme has been obtained.

Accordingly, the Company is seeking shareholder approval under Resolution 9 in respect of the operation of section 259B(2) of the Corporations Act, for circumstances if and where the Company elects to provide an employee assistance in the acquisition of shares in itself, such as providing a loan for the payment of the purchase price of a Share to be issued under the ESP.

Section 260A of the Corporations Act allows only limited circumstances under which a company may provide financial assistance for the acquisition of shares in itself. The Board is of the view that the giving of the financial assistance (by the provision of a loan under the ESP to purchase the Plan Shares) would not materially prejudice (i) the interests of the Company or (ii) the company's ability to pay its creditors, at the relevant times. Accordingly the Company will not be seeking shareholder approval with respect to under Section 260A of the Corporations Act.

8.4 Technical Information required by Listing Rule 10.15

Pursuant to and in accordance with Listing Rule 10.15, the following information is provided in relation to Resolution 7:

- (i) The name of the person and why that person is Related Party
The Plan Shares are to be issued to Bruce McHarrie, a Director of the Company, or his Nominee.
- (ii) The number and class of securities proposed to be issued
500,000 fully paid ordinary shares in the Company, with Mr McHarrie being unable to transfer or otherwise deal with the Shares until a period of 24 months from the issue date of the Shares subject to the related Loan having been repaid within 12 months of the issue date of the Shares.
- (iii) Details of the Director's current total remuneration package
Annual Director Fees of \$50,000.
- (iv) The number of securities that have previously been issued to this person under the ESP and the average acquisition price (if any) paid by this person
300,000 Plan Shares at 50 cents per Share. The Plan Shares are restricted pending payment of the related Loan.
- (v) If the securities are not fully paid ordinary securities, the following information is provided:
Not Applicable - the securities are fully paid ordinary securities
- (vi) The date on or by which the Company will issue the Plan Shares under the Scheme
As soon as practical under the Listing Rules after the approval of this Resolution, and in any case within 3 years of the date of the Meeting.
- (vii) The Price at which the Company will issue the Shares under the ESP
The Plan Shares will be issued for a price of 4 cents per Share, the payment of which will be made from a loan being provided by the Company to Mr McHarrie under the ESP.
- (viii) Summary of the Material terms of the scheme
A summary of the material terms of the ESP is contained in Appendix E.
- (ix) A summary of the material terms of any loan that will be made to the person in relation to the acquisition of the acquisition
A copy of the material terms of the loan to be provided is contained in Appendix E.

(x) Additional Statements

- *details of any securities issued under the ESP will be published in the Company's annual report relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing Rule 10.14;*
- *any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of securities under the ESP after Resolution 9 is approved and who is not named in this Notice of Meeting will not participate until approval is obtained under that rule.*

8.5 Director Recommendation

As the Directors are excluded from voting upon this resolution pursuant to the ASX Listing Rules, the Directors will not make a recommendation to shareholders with respect to voting in relation to this Resolution 9.

Glossary

In this Explanatory Memorandum, and the Notice of Meeting:

ASX means ASX Limited (ACN 008 624 691) and, where the context permits, the Australian Securities Exchange operated by the ASX.

ASX Listing Rules or **Listing Rules** means the Listing Rules of the ASX as amended from time to time.

Board means the board of directors of the Company.

Closely Related Party has the meaning provided to that term in the Corporations Act.

Company means Adherium Limited.

Computershare means the Company's share registrar Computershare Investor Services Pty Limited

Constitution means the constitution of the Company.

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

Director means a director of the Company.

Explanatory Memorandum means this explanatory memorandum which forms part of the Notice of Meeting.

Extraordinary General Meeting / EGM means the extraordinary general meeting of the Company to be held at 9:00 am on 24 July 2020 pursuant to the Notice of Meeting.

Key Management Personnel or **KMP** has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board, namely those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

Meeting means the Extraordinary General Meeting of the Company the subject of this Notice of Meeting scheduled to occur on 24 July 2020.

Notice of Meeting or **Notice** means this notice of the Extraordinary General Meeting.

Proxy Form means the proxy form accompanying this Notice of Meeting.

Relevant Interest has the meaning as provided in the Corporations Act.

Resolution means the resolutions referred to in the Notice of Meeting.

Shareholder means a holder of a Share.

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

Subscription Agreement has the meaning as provided in Section 1.3(f) of this Explanatory Memorandum.

Appendix A - Summary - Existing Executive Share Option Plan (ESOP)

- (a) Participants in the ESOP are Eligible Employees (including an employee, consultant, contractor, executive or director of any member of the Group), or their nominee, who are invited by the Board (in its sole discretion) to complete an application form and participate in the ESOP. The ESOP does not form part of the terms and conditions of the Participant's employment contract, nor do the terms of the ESOP constitute a contract or arrangement (including any related condition or collateral arrangement) in relation to the Participant's employment contract.
- (b) The Board is responsible for the management and administration of the ESOP.
- (c) The number of options to purchase Shares (**Options**) that may be issued pursuant to the ESOP cannot together with Shares issued under the Executive Share Plan exceed 15% of the issued capital of the Company from time to time.
- (d) Each Option will entitle the holder to one share, upon payment of the exercise price in full upon application, prior to the expiry date and after complying with all exercise and vesting conditions (if any).
- (e) Unless otherwise determined by the Board, Options granted under the ESOP will be granted free of charge.
- (f) The number of Options, exercise price, Option period, disposal restrictions, forfeiture conditions, exercise conditions, vesting conditions and any other terms and conditions of the Options granted under the ESOP will be specified in the offer of Options under the ESOP to an Eligible Employee, as determined by the Board.
- (g) With respect to changes in control of the Company:
 - (i) an Option may be exercised, whether or not any or all applicable Exercise Conditions have been met, where after an announcement of a takeover offer has been made, the offeror acquires the whole of the issued share capital of the Company and
 - (ii) the Board may determine that an Option may be exercised, whether or not any or all applicable Exercise Conditions have been met, on the occurrence of
 - (A) an event which causes a change in control of the Company or
 - (B) any other event which the Board reasonably considers should be control event.
- (h) if a Participant ceases to be appointed, employed or engaged by any member of the Group due to his or her resignation, termination, dismissal for cause or poor performance or in any other circumstances determined by the Board:
 - (i) all Options granted to that Participant as at the date of cessation which are Vested Options will lapse on the date of cessation, unless the Board determines otherwise; and
 - (ii) all other Options granted to that Participant will lapse as at the date of cessation, unless the Board determines otherwise.

If a Participant ceases to be appointed or employed by any member of the Group for any reason other than those contemplated above in this subclause or in any other circumstances determined by the Board

- (iii) all Options granted to that Participant as at the date of cessation which are vested Options may be exercised by that Participant in the 90 day period following the date of cessation of appointment or employment, after which those Vested Options will lapse; and
- (iv) all other Options granted to that Participant will retain their original vesting date (subject to the satisfaction of any performance conditions), although the Board may:

- (A) pro rata the Participant's Options at cessation to reflect the portion of the vesting period for which the Participant has been employed; or
 - (B) accelerate the vesting of the Participant's Options, subject to any Corporations Act and Listing Rules requirements.
- (i) An Option lapses if it is exercised, it is not exercised prior to the expiry date of the Option, or
 - (i) if in the opinion of the Board the Participant has acted fraudulently or dishonestly (in its absolute discretion) determines that the Options lapse, or
 - (ii) upon the passing of a resolution for voluntary winding up, or the making of an order for the compulsory winding up, of the Company ;
- (j) Each Option granted under the ESOP is not capable of being transferred or encumbered by a Participant, unless the Board determines otherwise.
- (k) If, prior to the expiry of an Option granted under the ESOP, there is reorganisation of capital (including consolidation, subdivision, reduction, capital return, buy back or cancellation) the exercise price and or the number of Options of the Participant will be changed to the extent necessary to comply with the Listing Rules as they apply at the relevant time.
- (l) A Participant is required to validly exercise an Option prior to being eligible to participate in an entitlement issue made by the Company in relation to the Share underlying that Option.
- (m) If, prior to the exercise of an Option, the Company makes a pro rata to the holders of its shares, and the Option is not exercised prior to the record date in respect of that bonus issue, the Exercise Price of an Option will be reduced according to the formula contained in the ESOP. Subject to the Listing Rules, if there is a Bonus Issue to the holders of Shares, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the Bonus Issue.
- (n) The ESOP will continue until the Board or Committee decides to terminate or discontinue it. The Board or Committee can also decide to suspend the ESOP for a fixed period or indefinitely.
- (o) Shares which are issued as a result of the exercise of Options granted under the ESOP will, subject to any disposal restrictions, rank equally in all respects with all shares on issue and the Company will apply for quotation of those shares on ASX.
- (p) The Company may financially assist a person to pay any Exercise Price for an Option, subject to compliance with the provisions of the Corporations Act and the Listing Rules relating to financial assistance.
- (q) If the Company or any member of the Group has an obligation in relation to a tax liability associated with the grant or vesting of any Option (**Tax Liability**), then the Company may sell a sufficient number of Shares, post vesting or exercise of the Option, to cover the Tax Liability.
- (r) Subject to the Listing Rules, the ESOP rules may be amended or supplemented by resolution of the Board.

Appendix B - Terms and conditions of Options to be issued to BioScience Managers Translation Fund 1 (BMTF Options)

Each Option is issued under, and subject to the following terms and entitles the **Option Holder** to subscribe for and be issued one fully paid ordinary share (**Share**) in **Adherium Limited** ACN 605 352 510 (**Company**) on the following terms:

1. Any Options not exercised by the date being 18 months from the Issue Date (Expiry Date) will automatically lapse on the Expiry Date.
2. Options may only be exercised in the period commencing 12 months between the date of issue and the Expiry Date, by the Option Holder giving written notice to the Company at its registered office prior to the Expiry Date.
3. The exercise price for each Option (which is payable immediately on exercise) is \$0.06 per Share (**Exercise Price**). On exercise and receipt of the Exercise Price the Company will allot one Share for each Option and comply with the provisions of clause 4 below.
4. On receipt by the Company of the Notice of Exercise and payment in full of the Exercise Price, the Company must within 2 Business Days and if the Shares are listed on the ASX within the time period prescribed by the Listing Rules of the ASX (**ASX Listing Rules**):
 - a) allot to the Option Holder one Share in the Company for each Option exercised by the Option Holder;
 - b) cause to be despatched to the Option Holder the relevant acknowledgement of issue, a holding statement or share certificate (as applicable) as soon as is reasonably practicable detailing the issue of the relevant Share/s;
 - c) cause to be lodged with the ASX a notice under section 708A(5) or a prospectus under section 713 of the Corporations Act to cleanse trading in the Shares issued on exercise of an Option; and
 - d) issue (if applicable) a new holding statement (or option certificate) for the balance of the Options that remain unexercised.
5. Shares allotted on the exercise of Options will rank equally in all respects with the then existing issued ordinary fully paid shares in the capital of the Company (except in respect to any dividends which shall have been declared but not yet distributed before the actual exercise of an Option) and will be subject to the provisions of the Constitution of the Company.
6. Subject to the consent of the Company, which shall not be unreasonably withheld, the Options are transferable by an Option Holder.
7. If any reorganisation (including consolidation, subdivision, reduction, return or cancellation) of the issued capital of the Company occurs before the expiry of any Options, the number of Options to which each Option Holder is entitled or the Exercise Price of his or her Options or both must be reorganised in accordance with the ASX Listing Rules applying to a reorganisation at the time of the reorganisation (which adjustment formula will apply even where the Company is not admitted to the ASX Official List).
8. An Option does not confer the right to participate in new issues of capital offered to holders of Shares (**Rights Entitlement**) during the currency of the Options without exercising the Options. However, the Company will ensure that for the purpose of determining Rights Entitlements to any such issue, the Option Holder is to receive at least 5 business days written notice from the Company of the pending closing or record date and sufficient time for the Option Holder to exercise the Options prior to that closing or record date in order to qualify for the participation in the Rights Entitlement.
9. In the event of the liquidation of the Company, all unexercised Options will lapse upon the occurrence of that liquidation.
10. The Options do not provide any entitlement to dividends paid to ordinary shareholders.
11. The Options do not entitle the Option Holder to vote at any meeting of shareholders
12. To the extent (if any) that any of these Option Terms And Conditions are inconsistent with or contrary to the ASX Listing Rules, the ASX Listing Rules provisions will prevail and these Option Terms And Conditions are deemed to incorporate the relevant ASX Listing Rules provisions as an amendment to these terms.
13. These Terms and Conditions are governed by the laws of the State of Victoria. The parties submit to the non-exclusive jurisdiction of the courts of Victoria.

Appendix C - Terms and conditions of Options issued under the ESOP

Each Option is issued under, and subject to the terms of, the Company's share option plan (as amended from time to time in accordance with the plan) (**Option Plan**); and entitles the **Option Holder** to subscribe for and be issued one fully paid ordinary share (**Share**) in **Adherium Limited** ACN 605 352 510 (**Company**) on the following terms:

1. Subject to the Option Holder remaining an employee of the Company as at the relevant vesting date/s below, the Options shall vest in the following numbers at the following times:
 - (a) a first tranche of 3,333,334 Options shall vest on the date being 12 calendar months from the issue date of the Options (**Issue Date**),
 - (b) a second tranche of 3,333,333 Options shall vest on the date being 24 calendar months from the Issue Date, and
 - (c) a third tranche of 3,333,333 Options shall vest on the date being 36 calendar months from the Issue Date.
2. If the Option Holder's employment with the Company ceases:
 - (a) as a result of, or in connection with, the fraud, deliberate act or other misconduct of the Option Holder (**Termination of Employment**), then all unexercised Options (whether vested or unvested) shall immediately lapse and cease to be of any effect whatsoever upon that Termination of Employment; and
 - (b) for any other reason the treatment of the Options (and any entitlements to exercise) are dealt with in accordance with the Option Plan.
3. Any Options not exercised by the date being 7 calendar years from the Issue Date (**Expiry Date**) will automatically lapse on the Expiry Date.
4. Subject to the Option Plan and clauses 1, 2 and 3 above, the Options may only be exercised after the relevant Options are vested; and only by the Option Holder giving written notice in the form set out below (**Notice of Exercise**) to the Company at its registered office prior to the Expiry Date.
5. The exercise price for each Option (which is payable immediately on exercise) is \$0.04 per Share (**Exercise Price**).
6. On receipt by the Company of the Notice of Exercise and payment in full of the Exercise Price, the Company must within 2 Business Days and if the Shares are listed on the ASX within the time period prescribed by the Listing Rules of the ASX (**ASX Listing Rules**):
 - (a) allot to the Option Holder one Share in the Company for each Option exercised by the Option Holder:
 - (b) cause to be despatched to the Option Holder the relevant acknowledgement of issue, a holding statement or share certificate (as applicable) as soon as is reasonably practicable detailing the issue of the relevant Share/s; and
 - (c) issue (if applicable) a new holding statement (or option certificate) for the balance of the Options that remain unexercised.
7. Shares allotted on the exercise of Options will rank equally in all respects with the then existing issued ordinary fully paid shares in the capital of the Company (except in respect to any dividends which shall have been declared but not yet distributed before the actual exercise of an Option) and will be subject to the provisions of the Constitution of the Company.
8. The Options are non-transferable by an Option Holder except with the prior written consent of the Company, provided that all Shares issued on the exercise of an Option, must be held and not transferred (or otherwise dealt with) by the Option Holder, for a period of at least 5 calendar years from the Issue Date.
9. If any reorganisation (including consolidation, subdivision, reduction, return or cancellation) of the issued capital of the Company occurs before the expiry of any Options, the number of Options to which each Option Holder is entitled or the Exercise Price of his or her Options or both must be reorganised in accordance with the ASX Listing Rules applying to a reorganisation at the time of the reorganisation (which adjustment formula will apply even where the Company is not admitted to the ASX Official List).
10. An Option does not confer the right to participate in new issues of capital offered to holders of Shares (**Rights Entitlement**) during the currency of the Options without exercising the Options.

However, the Company will ensure that for the purpose of determining Rights Entitlements to any such issue, the Option Holder is to receive at least 5 business days written notice from the Company of the pending closing or record date and sufficient time for the Option Holder to exercise the Options prior to that closing or record date in order to qualify for the participation in the Rights Entitlement.

11. In the event of the liquidation of the Company, all unexercised Options will lapse upon the occurrence of that liquidation.
12. The Options do not provide any entitlement to dividends paid to ordinary shareholders.
13. The Options do not entitle the Option Holder to vote at any meeting of shareholders
14. To the extent (if any) that any of these Option Terms And Conditions are inconsistent with or contrary to the ASX Listing Rules, the ASX Listing Rules provisions will prevail and these Option Terms And Conditions are deemed to incorporate the relevant ASX Listing Rules provisions as an amendment to these terms.
15. These Terms and Conditions are governed by the laws of the State of Victoria. The parties submit to the non-exclusive jurisdiction of the courts of Victoria.

Appendix D - Terms and conditions of Options proposed to be issued to Directors under the ESOP

Each Option is issued under, and subject to the terms of, the Company's Executive Share Option Plan (as amended from time to time in accordance with the plan) (**ESOP**); and entitles the **Option Holder** to subscribe for and be issued one fully paid ordinary share (**Share**) in **Adherium Limited** ACN 605 352 510 (**Company**) on the following terms:

1. If the Option Holder's employment with the Company ceases:
 - a) as a result of, or in connection with, the fraud, deliberate act or other misconduct of the Option Holder (**Termination of Employment**), then all unexercised Options (whether vested or unvested) shall immediately lapse and cease to be of any effect whatsoever upon that Termination of Employment; and
 - b) for any other reason the treatment of the Options (and any entitlements to exercise) are dealt with in accordance with the Option Plan.
2. Any Options not exercised by the date being 12 months from the Issue Date (**Expiry Date**) will automatically lapse on the Expiry Date.
3. Subject to the ESOP rules and clauses 1 and 2 above, the Options may only be exercised by the Option Holder giving written notice in the required form (**Notice of Exercise**) to the Company at its registered office prior to the Expiry Date.
4. The exercise price for each Option (which is payable immediately on exercise) is \$0.04 per Share (**Exercise Price**).
5. On receipt by the Company of the Notice of Exercise and payment in full of the Exercise Price, the Company must within 2 Business Days and if the Shares are listed on the ASX within the time period prescribed by the Listing Rules of the ASX (**ASX Listing Rules**):
 - a) allot to the Option Holder one Share in the Company for each Option exercised by the Option Holder;
 - b) cause to be despatched to the Option Holder the relevant acknowledgement of issue, a holding statement or share certificate (as applicable) as soon as is reasonably practicable detailing the issue of the relevant Share/s; and
 - c) issue (if applicable) a new holding statement (or option certificate) for the balance of the Options that remain unexercised.
6. Shares allotted on the exercise of Options will rank equally in all respects with the then existing issued ordinary fully paid shares in the capital of the Company (except in respect to any dividends which shall have been declared but not yet distributed before the actual exercise of an Option) and will be subject to the provisions of the Constitution of the Company.
7. The Options are non-transferable by an Option Holder except with the prior written consent of the Company, provided that all Shares issued on the exercise of an Option, must be held and not transferred (or otherwise dealt with) by the Option Holder, for a period of at least two calendar years from the issue date of the Options.
8. If any reorganisation (including consolidation, subdivision, reduction, return or cancellation) of the issued capital of the Company occurs before the expiry of any Options, the number of Options to which each Option Holder is entitled or the Exercise Price of his or her Options or both must be reorganised in accordance with the ASX Listing Rules applying to a reorganisation at the time of the reorganisation (which adjustment formula will apply even where the Company is not admitted to the ASX Official List).
9. An Option does not confer the right to participate in new issues of capital offered to holders of Shares (**Rights Entitlement**) during the currency of the Options without exercising the Options. However, the Company will ensure that for the purpose of determining Rights Entitlements to any such issue, the Option Holder is to receive at least 5 business days written notice from the Company of the pending closing or record date and sufficient time for the Option Holder to exercise the Options prior to that closing or record date in order to qualify for the participation in the Rights Entitlement.
10. In the event of the liquidation of the Company, all unexercised Options will lapse upon the occurrence of that liquidation.
11. The Options do not provide any entitlement to dividends paid to ordinary shareholders.
12. The Options do not entitle the Option Holder to vote at any meeting of shareholders
13. To the extent (if any) that any of these Option Terms And Conditions are inconsistent with or contrary to the ASX Listing Rules, the ASX Listing Rules provisions will prevail and these Option

Terms And Conditions are deemed to incorporate the relevant ASX Listing Rules provisions as an amendment to these terms.

- 14.** These Terms and Conditions are governed by the laws of the State of Victoria. The parties submit to the non-exclusive jurisdiction of the courts of Victoria.

Appendix E - Terms and conditions of Employee Share Plan

The Employee Share Plan (**ESP** or **Plan**) is administered by the Board. Pursuant to the rules of the Plan, the Board may determine, amongst other things:

- (a) the participants (which includes all Directors) who are eligible to participate in the Plan and purchase Shares under the Plan (**Plan Shares**) from time to time;
- (b) the price of the Plan Share and if a loan to acquire the Plan Shares will be provided by the Company to the participant for the purposes of acquiring the Plan Shares (**Plan Loan**);
- (c) the terms of the Plan Loan (including the loan agreement required to be executed by the participant) and any vesting conditions applicable to the Plan Shares; and
- (d) whether or not the Plan Loan will be secured or unsecured.

Under the Australian Executive Share Plan legal title to the Plan Shares will be held by the participant.

Key Terms of the Plan Loans

The key terms of each Plan Loan provided under the Plans are as follows:

- (a) the Plan Loan is a limited recourse loan, such that on the Repayment Date (defined below) the repayment obligation under the Plan Loan will be limited to the lesser of:
 - (i) the outstanding balance of the Plan Loan; and
 - (ii) the market value of the Plan Shares on that date.

The participant may elect for the Loan Shares to be provided to the Company in full satisfaction of the outstanding balance of the Plan Loan, in which case the Company must accept the Plan Shares as full settlement of the repayment obligation under the Plan Loan;
- (b) the Plan Loan may only be applied towards the subscription price for the Plan Shares;
- (c) the Plan Loan will be interest free;
- (d) by signing and returning a loan application, the participant acknowledges and agrees that the Plan Shares will not be transferred, encumbered, otherwise disposed of, or have a security interest granted over it (other than in favour of the Company), by or on behalf of that participant until the Plan Loan is repaid in full to the Company;
- (e) the loan becomes repayable on (**Repayment Date**) the earliest of:
 - (i) Five years from the date on which the loan is advanced to the participant (or such other lesser period as specified by the Company in its invitation to the employee to apply for the Plan Shares);
 - (ii) subject to paragraph (iii) following, 90 days after the date of the participant's cessation of employment or engagement by the Company; or
 - (iii) six months after the participant ceases to be an employee of the Company due to their death or total and permanent disability (with repayment by the participant or the legal personal representative of the deceased participant);
- (f) notwithstanding paragraph (e) above, the participant may repay all or part of the Plan Loan at any time before the Repayment Date.

Rights attaching to Plan Shares

The Plan Shares will rank equally with all other fully paid ordinary Shares on issue in the capital of the Company. Holders of Plan Shares will be entitled to exercise all voting rights attaching to the Shares in

accordance with the Company's Constitution. In addition, holders of Plan Shares will be entitled to participate in dividends declared and paid by the Company in accordance with the Company's Constitution.

The Plan Shares may only be sold by a participant where vesting conditions have been satisfied, the Plan Loan, or any unpaid part of it, has been repaid in full (otherwise any dealing by the participant in the Plan Shares is otherwise prohibited without the prior written consent of the Company), and other restrictions agreed with a participant have been complied with or expired.

Repayment of the Plan Loan

If the Plan Loan becomes due and payable under the loan agreement and the participant has not repaid the amount of the loan in full within 21 days of the due date, then the participant will forfeit their interest in the Plan Shares as full consideration for the repayment of the outstanding loan balance and the Company may either (at its election) take such action in the participant's name (under a power of attorney) or direct that the participant take such action in relation to the Plan Shares as the Company considers appropriate, which may include but is not limited to the Company undertaking a buy-back or cancellation of the Plan Shares or selling the Plan Shares.

Appendix F – Independent Expert's Report

The Independent Expert's Report is set out on the following pages.



ADHERIUM LIMITED

Financial Services Guide and Independent Expert's Report

5 June 2020

FINANCIAL SERVICES GUIDE

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 ("RSM Corporate Australia Pty Ltd" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ("AFCA"). AFCA is an independent dispute resolution scheme that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au. You may contact AFCA directly by email, telephone or in writing at the address set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
Toll Free: 1800 931 678
Email: info@afca.org.au

Time limits may apply to make a complaint to the AFCA, so you should act promptly or consult the AFCA website to determine if or when the time limit relevant to your circumstance expires.

Contact details

You may contact us using the details set out at the top of our letterhead on page 5 of this report.

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5 June 2020

The Directors
Adherium Limited
Collins Square, Tower 4
Level 18, 727 Collins Street
Melbourne VIC 3008

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of Extraordinary General Meeting and Explanatory Memorandum ("Notice") to be provided to shareholders for an Extraordinary General Meeting of Adherium Limited ("Adherium" or "the Company") to be held on or around 3 July 2020, at which shareholder approval will be sought for a number of resolutions, including the issue of shares and options to BioScience Managers Translation Fund 1 ("BMTF"), as set out below:

Resolution 1 – Ratification of prior issue of approximately 104 million shares to BioScience Managers Translation Fund 1 (BMTF)

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That, in accordance with ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify and approve for the purposes of ASX Listing Rule 7.1 and Listing Rule 7.1A the previous issue to BioScience Managers Translation Fund 1 (BMTF) of an aggregate of 104,261,036 Shares in the Company at \$0.03 per Share on 5 June 2020, as further detailed in the Explanatory Memorandum".

Resolution 2 – Approval to issue approximately 62 million additional shares to BioScience Managers Translation Fund 1 (BMTF)

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That subject to the approval of Resolution 3, for the purposes of Section 611(7) of the Corporations Act 2001, exception 8 of ASX Listing Rule 7.2 and for all other purposes, shareholders approve the issue of 62,405,631 Shares in the Company to BioScience Managers Translation Fund 1 (BMTF) at \$0.03 per Share and on the further terms and conditions set out in the Explanatory Memorandum accompanying this Notice".

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Corporate Australia Pty Ltd is beneficially owned by the Directors of RSM Australia Pty Ltd. RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 Australian Financial Services Licence No. 255847

Resolution 3 – Approval to issue approximately 83 million additional options to BioScience Managers Translation Fund 1 (BMTF)

“That subject to the approval of Resolution 2, shareholders approve the issue of 83,333,333 options to subscribe for Shares in the Company (Options) to BioScience Managers Translation Fund 1 (BMTF) for the purposes of ASX Listing Rule 7.1, exception 8 of ASX Listing Rule 7.2 and Section 611(7) of the Corporations Act 2001 (in respect of any Shares issued on conversion of those Options) and for all other purposes on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice”.

- 1.2 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd (“RSM”), being independent and qualified for the purpose, express an opinion as to whether Resolutions 2 and 3 (“the Proposed Transaction”) is fair and reasonable to Adherium shareholders not associated with the Proposed Transaction (“Shareholders” or “Non-Associated Shareholders”).
- 1.3 As Resolutions 2 and 3 are interdependent, we have considered the impact of Resolutions 2 and 3 as a whole in our assessment of the fairness and reasonableness of the Proposed Transaction.
- 1.4 The ultimate decision whether to approve the Proposed Transaction should be based on each Shareholder’s assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take regarding the Proposed Transaction, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

Opinion

- 2.1 In our opinion, for the reasons set out in sections 8 and 9 of this Report, and for the purposes of section 611 item 7 of the Corporations Act, the Proposed Transaction is **not fair but reasonable** to Non-Associated Shareholders.

Approach

- 2.2 In assessing whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders, we have considered Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 – Content of expert reports (“RG 111”), which provides specific guidance as to how an expert is to appraise transactions.
- 2.3 Where an issue of shares by a company otherwise prohibited under section 606 of the Corporations Act 2001 (“Corporations Act” or “the Act”) is approved under Section 611, item 7, and the effect on the company shareholding is comparable to a takeover bid, such as the Proposed Transaction, RG 111 states that the transaction should be analysed as if it was a takeover bid.
- 2.4 Therefore, we have considered whether or not the Proposed Transaction is “fair” to Non-Associated Shareholders by assessing and comparing:
 - the Fair Value of a Share in Adherium on a controlling basis prior to the Proposed Transaction; with
 - the Fair Value of a Share in Adherium on a non-controlling basis immediately post completion of the Proposed Transaction.
- 2.5 Our assessment of the Fair Value of a share in Adherium has been prepared on the following basis:

“the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm’s length”.
- 2.6 We have also considered whether the Proposed Transaction is “reasonable” to Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposed Transaction which are

likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposed Transaction.

- 2.7 Further information on the approach we have employed in assessing whether the Proposed Transaction is “fair” and “reasonable” is set out Section 4 of this Report.

Fairness

- 2.8 In assessing the fairness of the Proposed Transaction, we have valued a share in Adherium prior to and immediately after the Proposed Transaction as set out in the table below.

	Ref	Low	High	Preferred
Fair Value per share prior to the Proposed Transaction (controlling basis)	Table 8	\$0.0376	\$0.0376	\$0.0376
Fair Value per share immediately after the Proposed Transaction (non-controlling basis)	Table 14	\$0.0275	\$0.0286	\$0.0281

Source: RSM analysis

Table 1: Valuation Summary

- 2.9 As we have utilised the net assets on a going concern basis as our primary valuation methodology, our valuation of an Adherium share prior to the Proposed Transaction comprises a single value. The range obtained in our valuation of an Adherium share immediately after the Proposed Transaction is due to our application of a discount for minority interest in the range of 20.0% to 23.1% in our assessment of the value of an Adherium share on a non-controlling basis.
- 2.10 The above is represented graphically as set out in the chart below.

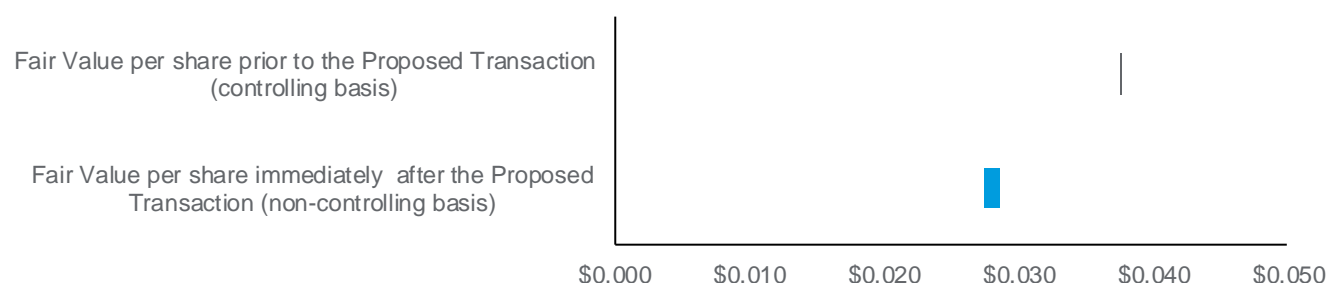


Chart 1: Valuation summary graphical representation

- 2.11 In our opinion, as the Fair Value of an Adherium share (on a non-controlling basis) immediately after the Proposed Transaction, is less than the Fair Value of an Adherium share (on a controlling basis) prior to the Proposed Transaction, we consider the Proposed Transaction is **not fair** to the Non-Associated Shareholders of Adherium.

Reasonableness

- 2.12 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:

- the future prospects of the Company if the Proposed Transaction does not proceed;
- the trading of Adherium’s shares following the announcement of the Proposed Transaction;

- other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding; and
- alternative proposals to the Proposed Transaction.

Future prospects of Adherium if the Proposed Transaction does not proceed

- 2.13 If Resolutions 2 and 3 are not approved, Adherium will not be able to issue the shares or the options proposed under Resolutions 2 and 3, respectively, and the Company will not receive \$1.9 million in funding or the potential of additional funding should the options be exercised by BMTF.
- 2.14 For the half-year ended 31 December 2019 (“HY20”), Adherium disclosed net losses before tax of \$4.5 million and operating cash outflows of \$3.2 million.
- 2.15 The reviewed financial statements for HY20 included an emphasis of matter in the independent auditor's report issued by PwC that stated that a material uncertainty existed that may cast significant doubt on the Company's ability to continue as a going concern. Whilst the auditor's opinion was not modified in respect of this matter, it was noted that Adherium's ability to continue as a going concern was dependent on whether Adherium could raise additional capital until the Company is supported by cash flows from operations.
- 2.16 Given Adherium's existing cash burn, in the event that the Proposed Transaction is not approved, the Directors would implement measures to manage cash outflows to conserve existing cash while identifying alternate sources of capital. These measures would include delaying spend on existing research and development projects, pausing initiation of new development projects and stopping planned recruitment. Depending on the delays required and timing of securing additional funding, these delays could impact on Adherium's ability to meet development project timelines and meet partner commitments. The Directors consider this would have negative commercial implications in relation to short term revenue generation as well as longer term in relation to market penetration with the enhanced sensor device portfolio.
- 2.17 In the event that the Company is unable to complete additional capital raisings as and when required, there is a risk that the Company may not be able to continue as a going concern.

Advantages of approving the Proposed Transaction to Shareholders:

- 2.18 The advantages of the Proposed Transaction are:
- approval of the Proposed Transaction will provide an additional \$1.9 million in funding and would enable the Company to support the progression of software and hardware development in Melbourne, Australia. This includes the Company's project development activity with Planet Innovation as well as the recruitment of a limited number of skilled software technology experts based in Melbourne. The Directors consider this development will enable Adherium to secure key platform coverage across the major inhaled sensor devices used in the treatment of both asthma and chronic obstructive pulmonary disease (“COPD”) and include the incorporation of physiological measures which are a requirement for US reimbursement for remote patient monitoring;
 - the investment from BMTF fits the purposes of both Adherium and the fund given its specific mandate to invest in innovative healthcare and technology development in Australia;
 - the Proposed Transaction allows Adherium to utilise the existing cash resources not raised from BMTF to support activities in New Zealand and selective critical recruitment in the US aligned to partnership development;
 - the Proposed Transaction is priced at the same value as the recent rights offer completed in January 2020; and
 - the Company may receive future additional funding from BMTF in the event that BMTF elects to exercise some or all of the BMTF Options.

Disadvantages of approving the Proposed Transaction to Shareholders:

2.19 The disadvantages of the Proposed Transaction are:

- the Proposed Transaction is not fair
- the dilution of Non-Associated Shareholders' interests from 82.7% to 74.9%, immediately following the approval of the Proposed Transaction, and further diluted to 66.5% in the event that all options issued to BMTF ("BMTF Options") in accordance with Resolution 3 are exercised (and assuming no other share issues or options exercised);
- BMTF will hold a 25.1% interest in the Company immediately after the completion of the Proposed Transaction and will constitute the largest shareholder in Adherium when compared to the existing top 20 shareholders as set out in Table 6. Accordingly, we consider that BMTF will have significant influence on the strategic direction of the Company as compared to existing Non-Associated Shareholders; and
- the dilution of Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

Alternative proposals

2.20 We are not aware of any alternative proposals which may provide greater benefit to Non-Associated Shareholders at this time.

Response of the market to the Proposed Transaction

2.21 Adherium's volume weighted average share price ("VWAP") of \$0.027 post the announcement of the Proposed Transaction was greater than the 10 and 90-day VWAP of \$0.023 and \$0.026, respectively, but equivalent to the 60-day VWAP of \$0.027 and below the 30-day VWAP of \$0.031.

2.22 Notwithstanding the relatively low liquidity of the Company's shares, we consider that the market has, on the whole, reacted favourably to the announcement of the Proposed Transaction.

Conclusion on Reasonableness

2.23 In our opinion, and in the absence of any other relevant information and/or a superior offer, for the purposes of section 611, item 7 of the Corporations Act, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of Adherium.

3. Summary of Proposed Transaction

Overview

3.1 On 26 May 2020, the Company announced the execution of a Subscription Agreement with BMTF to raise a total of \$5 million on the following terms:

- the issue of 104,261,036 new ordinary Shares in the Company at \$0.03 per share to raise \$3.1 million ("Tranche 1"); and
- the issue of 62,405,631 new ordinary Shares in the Company at \$0.03 per share to raise \$1.9 million ("Tranche 2").

3.2 The Subscription Agreement also includes the issue of 83,333,333 BMTF Options to BMTF exercisable at \$0.06 per Share after 12 months from the issue date, and expiring 18 months after the issue date, with an aggregate exercise price for all of the Options of \$5 million.

- 3.3 The issue of the Tranche 2 Shares and BMTF Options are subject to Shareholder approval under Resolutions 2 and 3, respectively. As Resolutions 2 and 3 are interdependent, we have considered the impact of Resolutions 2 and 3 as a whole in our assessment of the fairness and reasonableness of the Proposed Transaction.

Impact of Proposed Transaction on Adherium's Capital Structure

- 3.4 The table below summarises the capital structure of the Company prior to, and immediately following the Proposed Transaction.

	Number of shares	%	Number of options	%
Adherium capital structure prior to the Proposed Transaction				
Number of ordinary shares held by BMTF	104,261,036	17.3%	-	0.0%
Number of ordinary shares and unlisted options held by Non- Associated Shareholders	497,044,147	82.7%	49,752,156	100.0%
Total	601,305,183	100.0%	49,752,156	100.0%
Adherium capital structure after the Proposed Transaction				
Number of ordinary shares and Options held by BMTF	166,666,667	25.1%	83,333,333	62.6%
Number of ordinary shares and unlisted options held by Non- Associated Shareholders	497,044,147	74.9%	49,752,156	37.4%
Total	663,710,814	100.0%	133,085,489	100.0%
Adherium capital structure after the Proposed Transaction (fully diluted)				
Number of ordinary shares held by BMTF (fully diluted in relation to BMTF Options)	250,000,000	33.5%	-	0.0%
Number of ordinary shares and unlisted options held by Non- Associated Shareholders	497,044,147	66.5%	49,752,156	100.0%
Total	747,044,147	100.0%	49,752,156	100.0%

Table 2: Adherium capital structure prior to and immediately after the Proposed Transaction

- 3.5 Completion of the Proposed Transaction would result in the dilution of Non-Associated Shareholders' interests from 82.7% to 74.9%, and BMTF increasing its 17.3% interest in the Company to 25.1% and up to 33.5% if all BMTF Options were exercised.
- 3.6 As at the date of this Report, Adherium has 49,752,156 unlisted share options on issue on the terms as set out below.

No.	Exercise price	Expiry date
217,214	\$0.134039	30-Nov-20
542,952	\$0.134039	16-Dec-20
1,039,428	\$0.134039	01-Jan-21
259,857	\$0.134039	24-Mar-21
173,238	\$0.134039	31-Mar-22
27,519,467	\$0.0219	29-Jan-27
20,000,000	\$0.04	14-Apr-27

Table 3: Adherium unlisted options on issue

- 3.7 Table 3 above does not include the issue of BMTF Options as part of the Proposed Transaction.
- 3.8 We have included the potential dilutionary impact of the current unlisted options on issue in our assessment of the value of an Adherium share pre and post the Proposed Transaction as set out in Section 7 of this Report.

- 3.9 We have also included the potential dilutionary impact of the BMTF Options in our assessment of the value of an Adherium share post the Proposed Transaction as set out in Section 7 of this Report.
- 3.10 Further details on the assumptions and inputs we have used to value the potential dilutionary impact of the options are set out in Appendix D.

4. Scope of the Report

Corporations Act

- 4.1 Section 606(1) of the Corporations Act provides that, subject to limited specified exemptions, a person must not acquire a "relevant interest" in issued voting shares in a public company, if as a result of the acquisition, any person's voting power in the company would increase from 20% or below to more than 20%, or, from a starting point that is above 20% and below 90%. In broad terms, a person has a "relevant interest" if that person holds shares or has the power to control the right to vote or dispose of shares. A person's voting power in a company is the number of voting shares in which the person (and its associates) holds, compared with the total number of voting shares in the company.
- 4.2 Completion of the Proposed Transaction will result in BMTF holding a relevant interest in Adherium of 25.1% and potentially holding a relevant interest of 35.5% if all BMTF Options are exercised.
- 4.3 Therefore, the Company will be in breach of section 606(1) of the Corporations Act in the absence of an applicable exemption.
- 4.4 Section 611, item 7 of the Corporations Act provides an exemption to the rule noted in paragraph 4.1 above as it allows a party (and its affiliates) to acquire a relevant interest in shares that would otherwise be prohibited under section 606(1) if the proposed acquisition is approved in advance by a resolution passed at a general meeting of the Company and:
1. no votes are cast in favour of the resolution by the proposed acquirers or respective associates; and
 2. there was full disclosure of all information that was known to the persons proposed to make the acquisition or their associates or known to the Company that was material to a decision on how to vote on the resolution.
- 4.5 Section 611 states that shareholders must be given all information that is material to the decision on how to vote at the meeting. RG 111 advises the commissioning of an IER and provides guidance on the content.

Basis of Evaluation

- 4.6 In determining whether the Proposed Transaction is "fair and reasonable", we have given regard to the views expressed by ASIC in RG 111.
- 4.7 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
- 4.8 RG 111 states that the expert report should focus on:
- the issues facing the security holders for whom the report is being prepared; and
 - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.9 Where an issue of shares by a company otherwise prohibited under section 606 is approved under item 7 of section 611 and the effect on the company's shareholding is comparable to a takeover bid, RG 111 states that the transaction should be analysed as if it was a takeover bid.

- 4.10 RG 111 applies the "fair and reasonable" test as two distinct criteria in the circumstance of a takeover bid, stating:
- a takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
 - a takeover offer is considered "reasonable" if it is fair or, where the offer is "not fair", it may still be "reasonable" if the expert believes that there are sufficient reasons for security holders to accept the offer.
- 4.11 Consistent with the guidelines in RG 111, in determining whether the Proposed Transaction is "fair and reasonable" to the Non-Associated Shareholders, the analysis undertaken is as follows:
- a comparison of the Fair Value of an ordinary share in Adherium prior to, and immediately following the Proposed Transaction, being the "consideration" for Non-Associated Shareholders in the assessment of fairness; and
 - a review of other significant factors which Non-Associated Shareholders might consider prior to approving the Proposed Transaction in the assessment of reasonableness.
- 4.12 In particular, we have considered the advantages and disadvantages of the Proposed Transaction in the event that the Proposed Transaction proceeds or does not proceed including:
- the future prospects of the Company if the Proposed Transaction does not proceed; and
 - any other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.
- 4.13 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of Adherium Limited

Background

- 5.1 Adherium is a provider of digital health solutions that address sub-optimal medication use and improve health outcomes in chronic disease in New Zealand, Australia, Europe, North America and Asia.
- 5.2 The Company offers its Hailie® solution (previously known as the Smartinhaler™ platform), an asthma and chronic obstructive pulmonary disease (COPD) medication adherence solution for patients with chronic respiratory diseases. Within the Hailie® solution, the Company provides a range of smart device sensors for respiratory medications, such as Bluetooth® enabled Hailie® sensors that wrap around a patient's existing inhaler and automatically sends usage data to smartphones via a Hailie® application. That application and a cloud-based portal enables patients, caregivers and healthcare professionals to track medication adherence, set daily reminders, and discover insights into medication usage.
- 5.3 Adherium also offers digital health solutions to patients, pharmaceutical companies, healthcare providers and contract research organisations. The Company was founded in 2001 and its principal administrative office is in Auckland, New Zealand. The Company listed on the ASX on 26 August 2015.

5.4 The Adherium group of companies comprises the Company and the following wholly-owned subsidiaries:

- Adherium (NZ) Limited;
- Adherium North America, Inc.;
- Adherium Europe Ltd; and
- Nexus6 Limited (dormant).

Directors and management

5.5 At the date of this Report, the directors and key management of Adherium comprise the following:

- Mr James Ward-Lilley (Chairman);
- Mr Mike Motion (Chief Executive Officer and Executive Director);
- Mr Jeremy Curnock Cook (Non-Executive Director)
- Dr William Hunter (Non-Executive Director)
- Mr Bruce McHarrie (Non-Executive Director)
- Mr Matthew McNamara (Non-Executive Director)
- Mr Bryan Mogridge (Non-Executive Director)
- Ms Anne Bell (Chief Financial Officer)
- Mr Rob Turnbull (General Manager and Joint Company Secretary)
- Mr Mark Licciardo (Joint Company Secretary)

Financial information

5.6 The information in the following section provides a summary of the consolidated financial performance and financial position of Adherium for the half-year ended 31 December 2019 (HY20), and the years ended 30 June 2019 ("FY19") and 30 June 2019 ("FY18"), extracted from the reviewed and audited financial statements, as applicable.

Financial performance

- 5.7 The following table sets out a summary of the consolidated financial performance of Adherium for HY20, FY19 and FY18.

Adherium Limited Historical Financial Performance	Note	HY20 Reviewed \$'000	FY19 Audited \$'000	FY18 Audited \$'000
Continuing operations				
Sales	5.8, 5.9	1,415	2,779	5,867
Cost of sales	5.8, 5.9	(418)	(1,133)	(1,099)
Gross profit		997	1,646	4,768
Grants income		-	279	503
Manufacturing support		(319)	(1,293)	(1,364)
Research and development costs		(1,830)	(5,120)	(4,447)
Sales and marketing costs		(676)	(3,028)	(3,687)
Administrative expenses		(1,706)	(4,345)	(5,412)
Total operating expenses	5.10	(4,531)	(13,786)	(14,910)
Operating loss		(3,534)	(11,861)	(9,639)
Finance (cost)/income	5.12	(947)	67	301
Loss before income tax	5.13	(4,481)	(11,794)	(9,338)
Income tax expense		-	-	-
Loss for the period attributable to equity holders		(4,481)	(11,794)	(9,338)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss when certain conditions are met: Foreign exchange differences on translation of foreign operation		(150)	(69)	(615)
Total comprehensive loss for the period		(4,631)	(11,863)	(9,953)
Total comprehensive loss attributable to:				
Equity holders of Adherium Limited		(4,631)	(11,863)	(9,953)

Source: Company reviewed and audited financial statements

Table 4: Adherium Financial Performance

- 5.8 Adherium disclosed total sales of \$5.9 million for FY18, with sales comprising sensor sales and monitoring services and new product design and engineering services of \$1.8 million and \$4.0 million, respectively. Total sales declined to \$2.8 million for FY19, primarily due to lower levels of new product design and engineering services, with total sales comprising sensor sales and monitoring services and new product design and engineering services of \$1.5 million and \$1.3 million, respectively. In addition, while sales volumes increased from 27,000 in FY18 to 28,000 in FY19, revenue from sensor sales declined to \$1.5 million from \$1.8 million due primarily to promotional pricing as part of the Company's direct-to-consumer channel launch during the 2018 calendar year. The promotional pricing also impacted gross profit margins on sensor sales.
- 5.9 Adherium disclosed total sales of \$1.4 million for HY20, comprising device sales and monitoring services and new product design and engineering services of \$900k and \$515k, respectively.
- 5.10 Operating expenses comprise research and development costs, sales and marketing, administrative, and manufacturing support expenses. Operating expenses totalled \$14.9 million for FY18 and declined to \$13.8 million for FY19 and \$4.5 million for HY20. The decline in operating expenses was due to the implementation of the Company's reorganisation, which commenced in December 2018, and resulted in a smaller and refocused operational structure and the discontinuation of a number of non-core activities.

- 5.11 Activities for HY20 reflected preparations and initiatives for implementing a more focused strategy, including test integrations with third party healthcare applications, as well as sensor testing as part of obtaining regulatory approvals in new geographies, and planning for sensor enhancements.
- 5.12 Finance income for FY18 and FY19 comprised net interest income. Finance costs incurred for HY20 were primarily due to finance expense recognised on convertible notes of \$1.5 million, offset by a fair value gain of \$562k recognised on the convertible notes' conversion features.
- 5.13 The Company disclosed net losses before income tax of \$4.5 million, \$11.8 million and \$9.3 million for HY20, FY19 and FY18, respectively.

Financial position

- 5.14 The table below sets out a summary of the consolidated financial position of Adherium as at 31 December 2019 and 30 June 2019.

Adherium Limited Historical Financial Position	Note	As at 31-Dec-19 Reviewed \$'000	As at 30-Jun-19 Audited \$'000
Current assets			
Cash and cash equivalents	5.16	378	763
Trade and other receivables		335	436
Inventories		566	417
Prepayments		361	156
Total current assets		1,640	1,772
Non-current assets			
Property, plant and equipment	5.19	270	380
Intangible assets	5.20	41	92
Total non-current assets		311	472
Total assets		1,951	2,244
Current liabilities			
Trade and other payables		1,537	1,375
Income received in advance		79	39
Convertible notes	5.17, 5.18	3,876	-
Total current liabilities		5,492	1,414
Total liabilities		5,492	1,414
Net assets	5.15	(3,541)	830
Share capital		74,510	74,349
Accumulated deficit		(51,433)	(46,952)
Other reserves		(26,618)	(26,567)
Total equity	5.15	(3,541)	830

Source: Reviewed and audited financial statements

Table 5: Adherium Financial Position

- 5.15 Adherium disclosed net assets of \$830k at 30 June 2019 compared to net liabilities of \$3.5 million at 31 December 2019. The decline was due primarily to net losses disclosed for HY20.
- 5.16 As set out in the Company's quarterly cash flow report to 31 March 2020, Adherium disclosed cash and cash equivalents of \$3.9 million as at 31 March 2020. The increase was due primarily to the Company's capital raising activities in early 2020. In January, Adherium completed a 1:1 non-renounceable rights issue

and related short fall placements, issuing 179,723,413 ordinary shares to raise \$5.4 million (before costs) at \$0.03 per share (“Rights Offer”).

- 5.17 During HY20, the Company issued secured debt notes with a face value of \$2.9 million and maturity date of 31 January 2020. The terms of the notes included conversion features, which were subject to shareholder approval. These entitled the convertible note holders to convert the notes and accrued interest to ordinary shares and options at a discount to the market price of the ordinary shares, or for the notes and accrued interest to mandatorily convert to shares and options should the Company raise \$2.5 million or more capital prior to maturity. Shareholder approval of the conversion features was obtained in November 2019.
- 5.18 The Rights Offer as set out above met the threshold to mandatorily convert the convertible notes, and accordingly, 137,597,321 ordinary shares and 27,519,467 options were issued to discharge the convertible notes on 29 January 2020. Further detail on these convertible notes (“2019 Notes”) are set out at paragraphs 5.29(5) and 5.29(7), and further detail on the Rights Offer is set out at paragraphs 5.29(9) to 5.29(11).
- 5.19 Property, plant and equipment primarily comprised manufacturing equipment, computer equipment, fixture and fittings and office equipment.
- 5.20 Intangible assets comprised acquired software. Adherium has not capitalised material development expenditure in relation to the development of the Hailie® sensors and platform.

Capital structure

- 5.21 As at the date of this Report, Adherium had 601,305,183 ordinary shares on issue of which 85.2% were held by the top 20 shareholders. The top 20 Adherium shareholders are set out in the table below.

Shareholder	Number	%
PHILLIP ASSET MANAGEMENT LIMITED <BIOSCIENCE TRANS FUND 1 A/C>	104,261,036	17.3%
TRUDELL MEDICAL LTD	89,364,179	14.9%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	50,187,132	8.3%
ONE FUNDS MANAGEMENT LIMITED	48,808,957	8.1%
CITICORP NOMINEES PTY LIMITED	44,842,318	7.5%
SUMMATIX PTY LTD	35,496,341	5.9%
K ONE W ONE LTD	33,836,351	5.6%
NATIONAL NOMINEES LIMITED	25,000,000	4.2%
JMID PTY LTD <JAM SUPERFUND A/C>	16,400,000	2.7%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	11,705,739	1.9%
ADHERIUM ESP TRUSTEE LIMITED	10,303,149	1.7%
BNP PARIBAS NOMS (NZ) LTD <DRP>	8,221,667	1.4%
CALCIUM INVESTMENTS LIMITED	7,112,779	1.2%
MR GARTH CAMPBELL SUTHERLAND	5,174,885	0.9%
NATIONAL NOMINEES LIMITED <DB A/C>	4,574,936	0.8%
CHAG PTY LTD	4,550,000	0.8%
NZVIF INVESTMENTS LIMITED	4,483,383	0.7%
MRS LEORA SHAMGAR	3,000,000	0.5%
MR DANIEL BLACKWOOD RITCHIE	2,614,454	0.4%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,402,000	0.4%
	512,339,306	85.2%
Other Shareholders	88,965,877	14.8%
Total	601,305,183	100.0%

Table 6: Adherium shareholder summary

- 5.22 As at the date of this Report, Adherium has 49,752,156 unlisted share options on issue on the terms as set out below.

No.	Exercise price	Expiry date
217,214	\$0.134039	30-Nov-20
542,952	\$0.134039	16-Dec-20
1,039,428	\$0.134039	01-Jan-21
259,857	\$0.134039	24-Mar-21
173,238	\$0.134039	31-Mar-22
27,519,467	\$0.0219	29-Jan-27
20,000,000	\$0.04	14-Apr-27
49,752,156		

Table 7: Adherium unlisted options on issue

- 5.23 Table 7 above does not include the issue of BMTF Options as part of the Proposed Transaction.
- 5.24 We have included the potential dilutionary impact of the current unlisted options on issue in our assessment of the value of an Adherium share pre and post the Proposed Transaction as set out in Section 7 of this Report.
- 5.25 We have also included the potential dilutionary impact of the BMTF Options in our assessment of the value of an Adherium share post the Proposed Transaction as set out in Section 7 of this Report.
- 5.26 Further details on the assumptions and inputs we have used to value the potential dilutionary impact of the options are set out in Appendix D.

Share price performance

5.27 The chart below sets out a summary of Adherium's daily closing share price and traded volumes on the ASX from the period 2 January 2019 to 5 June 2020 (the last day shares were traded to the date of this Report).

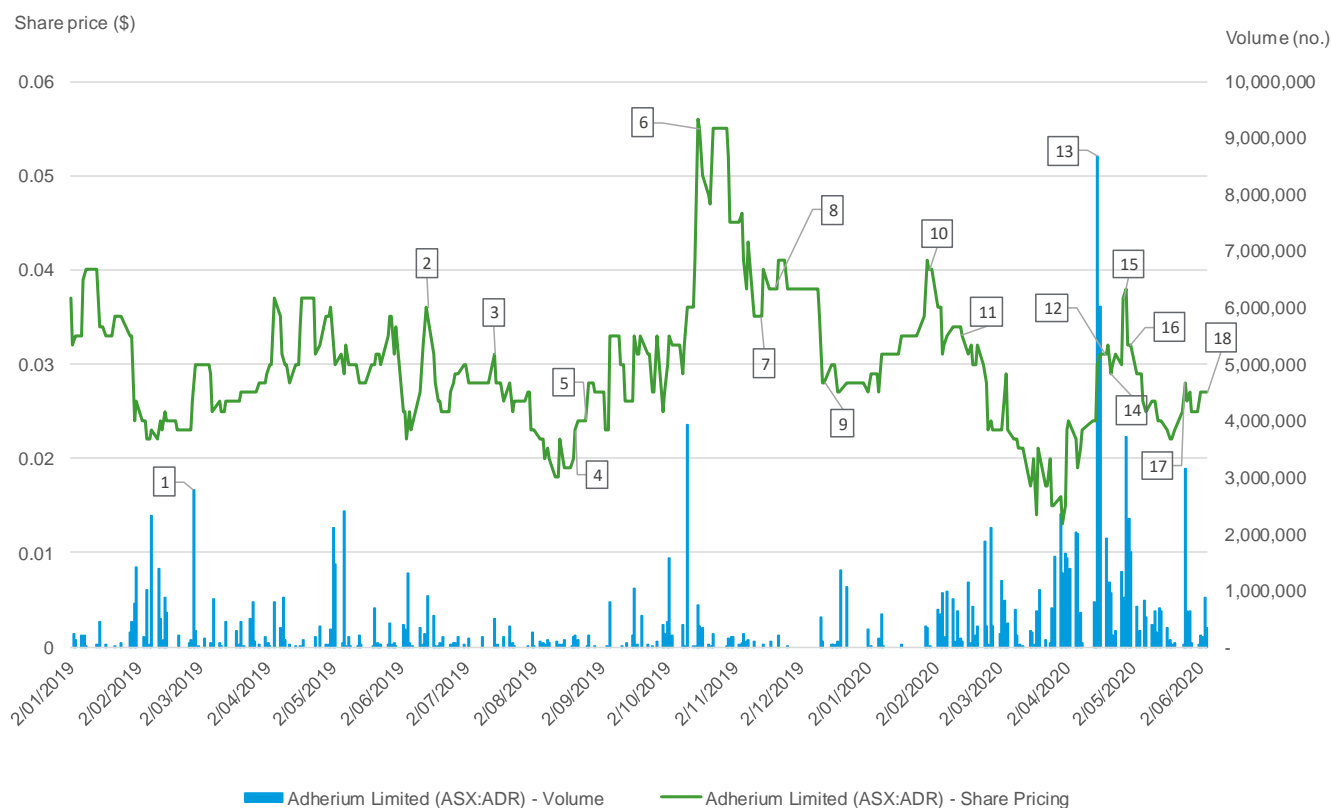


Chart 2: Adherium traded share price and volume chart

5.28 Over the period above, Adherium's shares have traded from a high of \$0.056 on 14 October 2019 to a low of \$0.013 on 27 March 2020.

5.29 Notable dates with regards to movements in share price and volumes traded include:

1. On 28 February 2019, the Company released its financial statements and interim report for the half-year ended 31 December 2018 ("HY19"). The report announced that the reorganisation of the Company, announced in early December 2018, was largely complete at the date of the issue of the interim financial report. The reorganisation included the discontinuation of a number of non-core activities including the "direct-to-consumer" offering, and the refocusing of resources on using external parties to enhance its sensor development and platform capabilities, with the aim to deliver scalability and features in sensors and mobile and platform applications in a total solution for managing populations with chronic respiratory disease. The Company also announced that the reorganisation would result in a significant reduction in recurring future operating costs.

The Company also reported that during HY19, Adherium continued to enhance its Hailie® solution, implementing further customer and clinician focused features through its updates to its mobile app and cloud platform, including Apple watch integrations. Applications for over-the-counter ("OTC") regulatory clearance in the US were submitted for another two of Adherium's Hailie® range of sensors, for use with GSK's Advair®, Diskus®, FloventDiskus®, Flixotide Accuhaler®, and Seretide Accuhaler®, and Boehringer Ingelheim's Spiriva® Handihaler®. These clearances were expected to be received in the

second half of the 2019 fiscal year. The Company also announced that US Food and Drug Administration (“FDA”) 510(k) OTC clearance for Adherium’s sensor for AstraZeneca’s Bevespi® medication was also received during the HY19 period.

2. On 13 June 2019, the Company announced that 7,258,581 ordinary shares had been cancelled as per previous notifications to the ASX lodged on 11 June 2019. Following this cancellation, the total number of ordinary shares on issue and listed was 167,015,351. Consideration paid was the extinguishment of loans totalling \$3,629,290.50, originally advanced by the Company to former employees for the purchase of the Employee Share Plans Shares cancelled. No cash was paid by the Company for the buy-back.
3. On 15 July 2019, the Company announced that the US FDA had granted 510(k) clearance for OTC sales of its Hailie® sensors for asthma and COPD inhalers using Advair® and Flovent® in the Diskus® format (known as Seretide® and Flixotide® Accuhaler® outside the of the US), and Spiriva® in the Handihaler®. These clearances from the US FDA added to Adherium’s existing range of OTC cleared sensors in the US, and increased coverage to an estimated 80% of asthma and COPD medications, mostly supplied by AstraZeneca, Boehringer Ingelheim, GlaxoSmithKline (GSK) and Teva Pharmaceuticals.
4. On 20 August 2019, Adherium announced a strategic data-based initiative with Summatix Pty Ltd (“Summatix”), with the objective of enabling clinicians globally to enhance their care of patients with asthma and COPD. Through the initiative, Adherium would gain access to the regulated Summatix platform, enabling data generated from Adherium’s connected Hailie® sensors to be disseminated for clinical and other relevant use. The Company announced that it was seeking to work with Summatix and other parties to co-fund this innovation, with a focus on the US market given its favourable reimbursement of digital health solutions for remote patient monitoring.

Adherium also announced the launch of the new Hailie® patient-facing application and physician platform that had been revamped and strengthened so that it can be easily used by users globally. Enhancements included a cloud-first architecture and compliance with global privacy and interoperability standards, which would enable the Company to quickly enter markets that have stringent data protection regulation, by ensuring that data stays in the relevant geographical boundaries in line with regulatory requirements.

5. On 22 August 2019, the Company announced that it had received commitments from existing significant shareholders and new investors to subscribe for \$1.8 million of secured notes (the 2019 Notes referenced in paragraphs 5.17 and 5.18). Subscribers to the 2019 Notes included One Funds Management Limited, an existing substantial shareholder, and Summatix, an entity ultimately controlled through Canary Medical Inc., by one of the directors of Adherium, Dr William Hunter. The Company announced it would be seeking shareholder approval in November 2019 for the conversion features in the 2019 Notes. Initially, the 2019 Notes were to be subscribed as debt notes, and following shareholder approval, would be regarded as convertible into shares and options in the Company. Repayment of the 2019 Notes was to be secured over the assets of the Company and its wholly owned New Zealand subsidiary, however, subject to shareholder approval, the Company anticipated the 2019 Notes would convert on completion of a future capital raising.
6. On 11 October 2019, 3.9 million shares were traded, and the Company’s share price closed at \$0.036. On 16 October 2019, the share price rose to a high of \$0.056. However, we note that no announcements were made in the weeks preceding the increase in overall share trading and price.
7. On 11 November 2019, Adherium announced a second round of secured debt note financing (part of the 2019 Notes), receiving a further \$1.1 million from a strategic new investor, Trudell Medical Limited. The second round of secured debt notes were issued on the same terms as the first round of the 2019 Notes. The funds raised from the issue of these notes would be used for working capital purposes. As previously advised, the Company would seek shareholder approval for the conversion features in both the first and second round of secured debt notes issued (collectively, the 2019 Notes with a total face

value of \$2.9 million) in November 2019. Shareholder approval for the conversion features was obtained at the Company's Annual General Meeting on 25 November 2019.

8. On 18 November 2019, Adherium announced that the Company and Patients Know Best® had entered into a strategic collaboration in the UK, with the objective of integrating the Hailie® and Patient Knows Best® platforms to improve clinician and patient access to asthma and COPD adherence and usage data. The integration would allow patients to access their personal health record data, which would include data from their Hailie® sensors through the Patients Know Best® platform. Patients Know Best and Adherium would work together to promote the Hailie® technology's National Health Service (NHS) economic benefit in the UK, concurrent to the work to develop a reimbursement code.
9. On 11 December 2019, Adherium announced a 1 for 1 non-renounceable pro rata rights offer (Rights Offer) to raise \$5.4 million through the issue of approximately 180 million new ordinary shares in the Company at \$0.03 per share. The Rights Offer had a minimum subscription of \$2.5 million, with the Company reserving the right to place any shortfall. The funds from the Rights Offer would be used towards advancing the Company's plan to develop features in its product range to gain reimbursement, extend the portfolio of products from asthma into COPD, and for working capital purposes. The indicative timetable estimated the despatch of the Rights Offer document and the opening of the Rights Offer on 19 December 2019, the close of the Rights Offer on 10 January 2020, and the allotment of new shares to be completed on 17 January 2020.
10. On 28 January 2020, the Company advised that subscriptions to the Rights Offer had exceeded the minimum subscription amount of \$2.5million and shares would be issued under the subscription and shortfall applications on 30 January 2020, with the details of the placement of the remaining shortfall shares totalling 162,206,104 shares, to be announced in due course.

On 30 January 2020, the Company announced that the Rights Offer met the threshold to mandatorily convert the 2019 Notes, and accordingly, 137,597,321 ordinary shares and 27,519,467 options had been issued to discharge the 2019 Notes on 29 January 2020.

11. On 11 February 2020, the Company confirmed the completion of the Rights Offer to raise its target of \$5.4 million (before costs) by allocating 17,517,309 shares in entitlement subscriptions and 162,206,104 shortfall shares to wholesale and exempt investors at \$0.03 per share. Adherium's share price traded at \$0.034 from 10 to 13 February 2020.
12. On 14 April 2020, Adherium announced the appointment of Mr James Ward-Lilley as Chairman of the Board of Directors. The Company also announced the promotion of Mr Mike Motion from Chief Commercial Officer (CCO) to Chief Operating Officer (COO).
13. On 16 April 2020, Adherium announced a US disease management collaboration with HGE Health Care Solutions, LLC ("HGE Health"). Both parties would evaluate and integrate Adherium's sensor and software technology into HGE Health's established telemedicine platform to better assess, manage and treat high risk respiratory patients. HGE Health's telemedicine platform called HGE Care, allows pulmonary and primary care physicians to remotely care for patients from anywhere in the US, and help patients better understand and manage changes in their COPD symptoms.
14. On 21 April 2020, the Company announced that it had entered into a strategic device hardware and software development partnership with Melbourne-based Planet Innovation, to further develop Adherium's device coverage position in both asthma and COPD with sensors developed to provide the physiological data required to enable physician monitoring reimbursement in the US. The Company also noted the recent introduction of Current Procedural Terminology ("CPT") reimbursement codes for remote patient monitoring and that this came alongside the increased global physician and provider interest in Telehealth which is being accelerated due to the conditions arising from the COVID-19 pandemic. The partnership with Planet Innovation is considered complementary to the collaboration with Summatix, a Melbourne-based medical informatics company developing an open, scalable, regulated data platform to assist its clients in the dissemination and creation of actionable medical data for clinicians in the delivery of healthcare for their patients.

15. On 24 April 2020, the Company announced the promotion of Mr Mike Motion from COO to the role of Chief Executive Officer (CEO), replacing Mr Jeremy Curnock Cook who had held the position on an interim basis. Mr Motion would also join the Board as an Executive Director and Mr Curnock Cook would continue as a Non-Executive Director. The Company also announced the appointment of Ms Anne Bell as Chief Financial Officer (CFO).
 16. On 29 April 2020, Adherium announced that it had signed a heads of terms sales agreement with Monaghan Medical Corporation (“Monaghan”), a US subsidiary of Trudell Medical Limited (“Trudell”). Monaghan is engaged in the development and manufacture of aerosol drug delivery devices and respiratory management solutions in the US. Trudell is also a significant shareholder of Adherium. Adherium considered the sales agreement to be a further step in the execution of the revised commercial strategy for Adherium’s Hailie® platform in the US. The agreement with Monaghan covers specialty sales and complements the collaboration with the disease management group HGE Health.
 17. On 26 May 2020, the Company announced the Proposed Transaction. On the same day, the Company’s share price closed at \$0.028, compared to \$0.025 on 25 May 2020.
 18. On 5 June 2020, the Company announced the issue of the Tranche 1 shares to BMTF. The share price closed at \$0.027 on 5 June 2020.
- 5.30 As set out above, Adherium’s share price traded at \$0.034 for several days after the confirmation of the completion of the Rights Offer. Thereafter, Adherium’s share price declined to a low of \$0.013 on 31 March 2020, before rising to a high of \$0.038 on 29 April 2020. The share price has subsequently shown a declining trend and closed at \$0.025 on 25 April 2020, the day before the announcement of the Proposed Transaction.
- 5.31 Whilst Adherium’s shares are relatively illiquid, we consider that the recent volatility to be partly attributable to the uncertain economic conditions arising from the COVID-19 pandemic.

6. Valuation Approach

Basis of Valuation

- 6.1 The valuation of an Adherium share prior to, and immediately after the Proposed Transaction has been prepared on the basis of Fair Value being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

Valuation methodologies

- 6.2 In assessing the value of an Adherium share prior to and immediately following the Proposed Transaction, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
 - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
 - the amount which would be available for distribution on an orderly realisation of assets;
 - the quoted price for listed securities; and
 - any recent genuine offers received.
- 6.3 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows:
- Market Based Methods;
 - Income Based Methods; and
 - Asset Based Methods.

Market based methods

- 6.4 Market based methods estimate the Market Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include;
- the quoted price for listed securities; and
 - industry specific methods.
- 6.5 The recent quoted price for listed securities method provides evidence of the fair value of a company's securities where they are publicly traded in an informed and liquid market.
- 6.6 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the fair market value of a company than other market-based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 6.7 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:
- capitalisation of maintainable earnings; and

- discounted cash flow (DCF) methods.

- 6.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.
- 6.9 The capitalisation of earnings methodology is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings ("FME") of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

Asset based methods

- 6.10 Asset based methodologies estimate the Market Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
 - liquidation of assets method; and
 - net assets on a going concern basis.
- 6.11 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.
- 6.12 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame.
- 6.13 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

Selection of Valuation Methodologies

Valuation of Adherium prior to the Proposed Transaction

- 6.14 Income based methods are appropriate where earnings of the business are maintainable and sufficient to justify a value exceeding the value of the underlying assets.
- 6.15 Adherium disclosed losses before income tax of \$4.5 million and \$11.8 million for HY20 and FY19, respectively, and has actively sought funding to fund existing business activities. As a result, and in accordance with RG 111, we have not utilised an income-based methodology in our assessment of the Fair Value of an Adherium share.
- 6.16 In assessing the Fair Value of an Adherium share, we have, therefore, utilised the net assets on a going concern basis as our primary valuation methodology. In utilising this methodology, we have relied upon the net book value of assets and liabilities as set out in Adherium's reviewed financial statements as at 31 December 2019, adjusted for certain pro forma adjustments and material movements in balance sheet to 31 March 2020.

- 6.17 We have also utilised the quoted market price methodology as our secondary valuation methodology. Adherium's shares are listed on the ASX which means there is a regulated and observable market for its shares. However, consideration must be paid to adequate liquidity and activity in order to rely on the quoted market price method.
- 6.18 Notwithstanding the relatively low liquidity of Adherium's shares (discussed in further detail in section 7), we have utilised the quoted market price as our secondary methodology in valuing an Adherium share, noting the Company has also undertaken a recent rights issue and share placement.

Valuation of Adherium immediately after the Proposed Transaction

- 6.19 We have also selected the net assets on a going concern basis methodology in our assessment of the value of a share in Adherium immediately following the completion of the Proposed Transaction. Our assessment of the value of a share in Adherium immediately following the Proposed Transaction is also based on the pro forma financial position at 31 December 2019 and adjusted for the terms of the Proposed Transaction.
- 6.20 As the approval of the Proposed Transaction will result in the decrease of Non-Associated Shareholders' interest in Adherium from 82.7% to 74.9% (on an undiluted basis), in accordance with RG 111, we have ascribed a discount for lack of control to the value of an Adherium share immediately after the Proposed Transaction.

7. Valuation of Adherium

- 7.1 The basis of our evaluation of “fairness” is to compare the Fair Value of an Adherium share prior to, and immediately after the Proposed Transaction.

Valuation of an Adherium share prior to the Proposed Transaction (on a controlling basis)

- 7.2 As stated in section 6, we have assessed the Fair Value of an Adherium share using the net assets on a going concern basis methodology and relied upon the net book value of assets and liabilities as set out in Adherium’s reviewed statement of financial position at 31 December 2019, adjusted for material movements in the balance sheet to 31 March 2020, primarily comprising the completion of the Rights Offer and the conversion of the 2019 Notes.
- 7.3 We have also had regard to research and development expenses incurred by the Company over the last three financial years and to the nine month period ended 31 March 2020 (“YTD20”) in our assessment of the Fair Value of an Adherium share. We consider the expenses incurred from FY17 to YTD20 to be reasonably reflective of expenses necessarily incurred to facilitate the development and commercialisation of the current Hailie® ecosystem, including obtaining US FDA clearance for OTC sales of various Hailie® sensors in the US and other countries globally.
- 7.4 Our assessment of the Fair Value of an Adherium share prior to the Proposed Transaction is set out below.

Adherium Limited	As at 31-Dec-19 Reviewed \$'000	Note	Adjustments \$'000	Assessed Value Prior to the Proposed Transaction \$'000
Current assets				
Cash and cash equivalents	378	7.6	6,664	7,042
Trade and other receivables	335		-	335
Inventories	566		-	566
Prepayments	361	7.6	(131)	230
Total current assets	1,640			8,173
Non-current assets				
Property, plant and equipment	270		-	270
Intangible assets	41	7.7	16,200	16,241
Total non-current assets	311			16,511
Total assets	1,951			24,684
Current liabilities				
Trade and other payables	1,537		-	1,537
Income received in advance	79		-	79
Convertible notes (2019 Notes)	3,876	7.6	(3,876)	-
Potential dilutionary impact of options	-	7.8	486	486
Total current liabilities	5,492			2,102
Total liabilities	5,492			2,102
Net assets	(3,541)			22,582
Number of shares on issue ('000)	179,723	7.6	421,582	601,305
Assessed Fair Value per share (controlling basis)	-\$0.020	7.9		\$0.0376

Table 8: Assessed Fair Value of Adherium prior to the Proposed Transaction (controlling basis)

- 7.5 The assessment of the Fair Value of an Adherium share prior to the Proposed Transaction is based on the pro forma consolidated balance sheet of the Company as at 31 December 2019.
- 7.6 We have adjusted Adherium's balance sheet as at 31 December 2019 for the following:
- an increase in the Company's cash balance to \$3.9 million as at 31 March 2020 due primarily to the Rights Offer undertaken, and the issue of a total of 317,320,734 shares from the Rights Offer and the conversion of the 2019 Notes to shares and options as set out in paragraphs 5.16 to 5.18;
 - reduction in prepayments to \$230k, consistent with the management accounts as at 31 March 2020;
 - based on our review of the management accounts for YTD20, we consider that other than the above adjustments, the balance sheet at 31 March 2020 was materially consistent with the balance sheet at 31 December 2019; and
 - the issue of the Tranche 1 shares to BMTF which will raise \$3.1 million through the issue of 104,261,036 shares at \$0.03 per share.
- 7.7 We have also adjusted intangible assets by \$16.2 million based on the following:
- Adherium has not capitalised development expenditure in relation to the Hailie® solution but has consistently incurred research and development expenditure to develop the Hailie® ecosystem which comprises both sensors (hardware and related firmware) and software (mobile applications, software development, desktop connection and the cloud platform);
 - we have been provided with a breakdown of the Company's historical research and development expenditure incurred for FY17, FY18, FY19 and YTD20. Based on the \$16.5 million in expenditure incurred to YTD20, Management considers that \$300k was incurred in relation to establishing the "direct-to-consumer" program in the US. This program was subsequently discontinued. The remaining \$16.2 million in expenditure has been attributed to overall development of the current Hailie® ecosystem. Accordingly, we have adjusted intangible assets for an additional \$16.2 million in our assessment of a more accurate reflection of the Company's underlying intellectual property and value; and
 - we have not adjusted for research and development rebates as the expenditure incurred has been assessed by Management as not meeting qualifying requirements.
- 7.8 As set out in Sections 3 and 5, Adherium has 49,752,156 unlisted share options on issue. We have included the potential dilutionary impact of these options in our assessment of the Fair Value of an Adherium share prior to the Proposed Transaction. Further detail on the assumptions and inputs we have used to value the potential dilutionary impact of the unlisted options is set out in Appendix D.
- 7.9 Based on the above, our assessed value of an Adherium share prior to the Proposed Transaction (on a controlling basis) is \$0.0376.
- 7.10 The value of an Adherium share prior to the Proposed Transaction is the value of a share on a controlling basis. The net assets on a going concern methodology applied represents the value of a controlling shareholding. Accordingly, we consider no further premium is considered necessary to assess the value of Adherium prior to the Proposed Transaction.

Quoted Price of Listed Securities (Secondary methodology)

- 7.11 In order to provide a comparison and cross-check to our valuation of an Adherium share under the net assets methodology, we have considered the recent quoted market price of Adherium shares prior to the announcement of the Proposed Transaction.

7.12 RG 111.69 indicates that for the quoted market share price methodology to represent a reliable indicator of Market Value, there needs to be an active and liquid market for the securities. The following characteristics may be considered to be representative of a liquid and active market:

- regular trading in the company's securities;
- approximately 1% of a company's securities traded on a weekly basis;
- the bid/ask spread of a company's shares must not be so great that a single majority trade can significantly affect the market capitalisation of the company; and
- there are no significant but unexplained movements in the share price.

7.13 The Proposed Transaction was announced on 26 May 2020. To provide further analysis of the quoted market prices for Adherium's shares, we have considered the volume weighted average share price (VWAP) over a number of trading day periods prior to 26 May 2020. An analysis of the volume in trading in Adherium's shares for the 5, 10, 30, 60, 90, 120 and 180-day trading periods is set out in the following table.

Calendar days	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
5 days	0.023	0.025	2	100,000	2,360	0.024	0.02%
10 days	0.022	0.025	5	608,030	13,881	0.023	0.12%
30 days	0.022	0.038	19	15,423,490	482,228	0.031	3.10%
60 days	0.013	0.038	38	49,976,050	1,356,331	0.027	10.05%
90 days	0.013	0.038	58	59,404,880	1,560,735	0.026	11.95%
120 days	0.013	0.041	78	70,052,630	1,906,041	0.027	14.28%
180 days	0.013	0.041	92	74,485,010	2,034,266	0.027	19.25%

Source: Capital IQ and RSM analysis

Table 9: Traded volume of Adherium shares prior to 26 May 2020

7.14 We note the following:

- 3.10% of Adherium's quoted shares were traded in the 30-day trading period prior to the announcement of the Proposed Transaction;
- Adherium's VWAP was \$0.024 and \$0.023 for the 5 and 10 days-day trading period, respectively, and subsequently was in the range of \$0.026 to \$0.031 for the 30 to 180-day trading period;
- during the 180-day trading period, the Company completed its Rights Offer, raising \$5.4 million (before costs) at \$0.03 per share and also issued 137,597,321 new ordinary shares and 27,519,467 options to convert circa \$3.0 million in 2019 Notes;
- the bid/ask spread is often used to measure efficiency. For the 180-day period, the closing bid/ask spread of Adherium averaged 13.2% of the midpoint price. On the basis that, over a comparable period, all stocks trading on the ASX had an average bid-ask spread of 0.186%¹, we consider the bid/ask spread of Adherium to be large; and
- notwithstanding the low levels of liquidity, Adherium complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of Adherium; Based on the above, we have assessed the value of an Adherium share (on a non-controlling basis), and having specific regard to the VWAP during the 30 to 90-day VWAP prior to the announcement of the Proposed Transaction (which includes the market's reaction to the COVID-19 pandemic) to be \$0.026 to \$0.031.

¹ Equity market data for the quarter ended 31 December 2019 – ASIC

- 7.15 The value above is indicative of the value of a marketable parcel of securities assuming a holder does not have control of the Company. In the case of a section 611, item 7 acquisition, RG 111 states that the independent expert should calculate the value of a target's securities as if 100% control were being obtained. Therefore, in our assessment of the Fair Value of an Adherium share, we should include a premium for control.

Premium for control

- 7.16 Obtaining control of an entity usually provides the acquirer with a number of advantages including the following:
- access to potential synergies;
 - control over decision making and strategic direction;
 - access to underlying cash flows; and
 - control over dividend policies.
- 7.17 In the case of publicly traded securities, given the advantages control of an entity provides an acquirer, they are usually expected to pay a premium to the quoted market price to achieve control, which is often referred to as a control premium. A control premium is the amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the premium a buyer will pay to acquire control in a business enterprise. Consequently, earnings multiples for listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).
- 7.18 RSM has undertaken a survey of control premiums paid over a 5-year period to 30 June 2016 in 463 successful takeovers and schemes of arrangements of companies listed on the ASX ("RSM Control Premium Study 2017"). The findings are summarised in the table below, showing the average control premiums paid 20, 5 and 2 days prior to announcement of a transaction, which are applied at the equity level.

	Number of transactions	20 days pre	5 days pre	2 days pre
Average control premium - all industries	463	34.5%	28.3%	26.4%

Source: RSM Control Premium Study 2017

Table 10: Control premium study

- 7.19 Based on the above, we consider that a control premium in the range of 25% to 30% is appropriate in assessing the value of an Adherium share on a controlling basis.
- 7.20 The table below sets out our assessment of the value of an Adherium share on a controlling basis utilising the quoted price of listed securities methodology.

	Low	High	Preferred
Quoted market price (non-controlling basis)	\$0.0260	\$0.0310	\$0.0285
Control premium	25.0%	30.0%	27.5%
Value of a VIP share (controlling basis)	\$0.0325	\$0.0403	\$0.0363

Source: RSM analysis

Table 11: Assessed Fair Value of an Adherium share – Quoted Price of Listed Securities cross check

Valuation Summary (Prior to the Proposed Transaction)

7.21 A summary of our assessed values of an Adherium share prior to the Proposed Transaction is set out in the table below.

	Ref	Low	High	Preferred
Net assets on a going concern - primary method	Table 8	\$0.0376	\$0.0376	\$0.0376
Quoted price of listed securities - secondary method	Table 11	\$0.0325	\$0.0403	\$0.0363

Table 12: Valuation of an Adherium share prior to the Proposed Transaction (controlling basis)

- 7.22 We have relied upon the net assets on a going concern basis as our primary methodology. Given the Company's lack of liquidity, we consider that the Company's share price may not be reflective of Adherium's Fair Value.
- 7.23 However, notwithstanding the low liquidity of the Company's shares, as well as recent volatility experienced by the market as a result of the COVID-19 pandemic, we consider that our assessment of the Fair Value of an Adherium share using the quoted price of securities methodology (also on a controlling basis), is supportive of our primary methodology.

Valuation of an Adherium share immediately after the Proposed Transaction

7.24 Our assessment of the Fair Value of an Adherium share immediately after the Proposed Transaction (on a controlling basis), is set out in the table below.

Adherium Limited Historical Financial Position	Pro Forma Prior to the Proposed Transaction \$'000	Ref	Adjustments \$'000	Assessed Value \$'000
Current assets				
Cash and cash equivalents	7,042	7.26	1,872	8,914
Trade and other receivables	335		-	335
Inventories	566		-	566
Prepayments	230		-	230
Total current assets	8,173		1,872	10,045
Non-current assets				
Property, plant and equipment	270		-	270
Intangible assets	16,241		-	16,241
Total non-current assets	16,511		-	16,511
Total assets	24,684		1,872	26,556
Current liabilities				
Trade and other payables	1,537		-	1,537
Income received in advance	79		-	79
Dilutionary impact of options and BMTF Options	486	7.27	699	1,185
Total current liabilities	2,102		699	2,801
Total liabilities	2,102		699	2,801
Net assets	22,582		1,173	23,755
Number of shares on issue	601,305	7.26	62,406	663,711
Assessed Fair Value per share (controlling basis)				\$0.0358

Table 13: Assessed Fair Value of an Adherium share immediately after the Proposed Transaction (controlling basis)

- 7.25 The assessment of the Fair Value of an Adenium share immediately after the Proposed Transaction is also based on the pro forma balance sheet of the Company as at 31 December 2019, adjusted for:
- material movements in the balance sheet to 31 March 2020;
 - the issue of the Tranche 1 shares;
 - increase in intangible assets to include \$16.2 million in development expenses; and
 - the potential dilutionary impact of the options on issue.
- 7.26 In our assessment of the Fair Value of an Adherium share immediately after the Proposed Transaction, we have adjusted for the issue of the Tranche 2 shares as contemplated under the Proposed Transaction, comprising the issue of 62,405,631 shares to raise \$1.9 million.
- 7.27 We have also adjusted for the potential dilutionary impact of the BMTF Options in our assessment of the Fair Value of an Adherium share immediately post the Proposed Transaction. Further detail on the assumptions and inputs we have used to value the potential dilutionary impact of the BMTF Options is set out in Appendix D.
- 7.28 Based on the above, we have assessed the Fair Value of an Adherium share immediately after the Proposed Transaction (on a controlling basis) to be \$0.0358.

Valuation of an Adherium share immediately after the approval of the Proposed Transaction (non-controlling basis)

- 7.29 The table below sets out our assessment of the value of an Adherium share on a minority interest basis immediately after the approval of the Proposed Transaction.

	Ref	Low	High	Preferred
Value per share (controlling basis)	Table 13	\$0.0358	\$0.0358	\$0.0358
Discount for minority interest	7.31	-23.1%	-20.0%	-21.6%
Value per share (non-controlling interest)		\$0.0275	\$0.0286	\$0.0281

Table 14: Assessed Fair Value of an Adherium share immediately after the Proposed Transaction (on a non-controlling basis)

- 7.30 As the approval of the Proposed Transaction will result in the decrease of Non-Associated Shareholders' interest in Adherium from 82.7% to 74.9%, in accordance with RG 111, we have ascribed a discount for lack of control to the value of an Adherium share immediately after the Proposed Transaction.
- 7.31 A discount for a minority interest (non-controlling interest) is the inverse of a premium for control. We have therefore applied a discount of 20.0% to 23.1% (rounded), being the inverse of the control premium utilised in our assessment of the value of an Adherium share on a quoted price of listed securities basis.
- 7.32 Based on the above, our assessed Fair Value of an Adherium share immediately after the Proposed Transaction (on a non-controlling basis), is in the range of \$0.0275 to \$0.0286, with a preferred value of \$0.0281.

8. Is the Proposed Transaction Fair?

8.1 In assessing whether we consider the Proposed Transaction to be fair to Non-Associated Shareholders, we have valued a share in Adherium prior to and immediately after the Proposed Transaction to determine whether a Non-Associated Shareholder would be better or worse off should the Proposed Transaction be approved. Our assessed values are summarised in the table below.

	Ref	Low	High	Preferred
Fair Value per share prior to the Proposed Transaction (controlling basis)	Table 8	\$0.0376	\$0.0376	\$0.0376
Fair Value per share immediately after the Proposed Transaction (non-controlling basis)	Table 14	\$0.0275	\$0.0286	\$0.0281

Source: RSM analysis

Table 15: Valuation Summary

8.2 The above comparison is depicted graphically in the chart below.



Chart 3: Valuation summary graphical representation

8.3 In our opinion, as the Fair Value of an Adherium share (on a non-controlling basis) immediately after the Proposed Transaction, is less than the Fair Value of an Adherium share (on a controlling basis) prior to the Proposed Transaction, we consider the Proposed Transaction is **not fair** to the Non-Associated Shareholders of Adherium.

9. Is the Proposed Transaction Reasonable?

9.1 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:

- the future prospects of Adherium if the Proposed Transaction does not proceed;
- the trading of Adherium shares following the announcement of the Proposed Transaction;
- other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding; and
- alternative proposals to the Proposed Transaction.

Future prospects of Adherium if the Proposed Transaction does not proceed

- 9.2 If Resolutions 2 and 3 are not approved, Adherium will not be able to issue the Tranche 2 shares or the BMTF Options under Resolutions 2 and 3, respectively, and the Company will not receive \$1.9 million in funding or the potential of additional funding should the BMTF Options be exercised.
- 9.3 For HY20, Adherium disclosed net losses before tax of \$4.5 million and operating cash outflows of \$3.2 million.
- 9.4 The reviewed financial statements for HY20 included an emphasis of matter in the independent auditor's report issued by PwC that stated that a material uncertainty existed that may cast significant doubt on the Company's ability to continue as a going concern. Whilst the auditor's opinion was not modified in respect of this matter, it was noted that Adherium's ability to continue as a going concern was dependent on whether Adherium could raise additional capital until the Company is supported by cash flows from operations.
- 9.5 Given Adherium's existing cash burn, in the event the Proposed Transaction is not approved, the Directors would implement measures to manage cash outflows to conserve existing cash while identifying alternate sources of capital. These measures would include delaying spend on existing research and development projects, pausing initiation of new development projects and stopping planned recruitment. Depending on the delays required and timing of securing additional funding, these delays could impact on Adherium's ability to meet development project timelines and meet partner commitments. The Directors consider that this would have negative commercial implications in relation to short term revenue generation as well as longer term in relation to market penetration with the enhanced sensor device portfolio.
- 9.6 In the event that the Company is unable to complete additional capital raisings as and when required, there is a risk that the Company may not be able to continue as a going concern.

Response of the Market to the Announcement of the Proposed Transaction

- 9.7 The table below sets out the Company's VWAP of shares traded from the date of the announcement of the Proposed Transaction to 5 June 2020.

	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
<i>Calendar days prior to 26 May 2020</i>							
10 days	0.022	0.025	5	608,030	13,881	0.023	0.12%
30 days	0.022	0.038	19	15,423,490	482,228	0.031	3.10%
60 days	0.013	0.038	38	49,976,050	1,356,331	0.027	10.05%
90 days	0.013	0.038	58	59,404,880	1,560,735	0.026	11.95%
<i>Calendar days from 26 May 2020</i>							
11 days	0.025	0.028	9	6,134,700	167,944	0.027	1.21%

Source: Capital IQ and RSM analysis

Table 16: Adherium VWAP after the announcement of the Proposed Transaction

- 9.8 Adherium's VWAP of \$0.027 post the announcement of the Proposed Transaction was greater than the 10 and 90-day VWAP of \$0.023 and \$0.026, respectively, but equivalent to the 60-day VWAP of \$0.027 and below the 30-day VWAP of \$0.031.
- 9.9 Notwithstanding the relatively low liquidity of the Company's shares, we consider that the market has, on the whole, reacted favourably to the announcement of the Proposed Transaction.

Advantages of approving the Proposed Transaction

9.10 The advantages of approving the Proposed Transaction are:

- approval of the Proposed Transaction will provide an additional \$1.9 million in funding from the issue of the Tranche 2 shares and would enable the Company to support the progression of software and hardware development in Melbourne, Australia. This includes the Company's project development activity with Planet Innovation as well as the recruitment of a limited number of skilled software technology experts based in Melbourne. The Directors consider this development will enable Adherium to secure key platform coverage across the major inhaled sensor devices used in the treatment of both asthma and COPD and include the incorporation of physiological measures which are a requirement for US reimbursement for remote patient monitoring;
- the investment from BMTF fits the purposes of both Adherium and the fund given its specific mandate to invest in innovative healthcare and technology development in Australia;
- the Proposed Transaction allows Adherium to utilise existing cash resources not raised from BMTF to support activities in New Zealand and selective critical recruitment in the US aligned to partnership development;
- the Proposed Transaction is priced at the same value as the recent Rights Offer; and
- the Company may receive future additional funding from BMTF in the event that BMTF elects to exercise some or all of the BMTF Options.

Disadvantages of approving the Proposed Transaction

9.11 The disadvantages of the Proposed Transaction are:

- the Proposed Transaction is not fair;
- the dilution of Non-Associated Shareholders' interests from 82.7% to 74.9%, immediately following the approval of the Proposed Transaction, and further diluted to 66.5% in the event that all BMTF Options are exercised;
- BMTF will hold a 25.1% interest in the Company immediately after the completion of the Proposed Transaction and will constitute the largest shareholder in Adherium when compared to the existing top 20 shareholders as set out in Table 6. Accordingly, we consider that BMTF will have significant influence on the strategic direction of the Company as compared to existing Non-Associated Shareholders; and
- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

Alternative proposals

9.12 We are not aware of any alternative proposal at the current time which might offer Non-Associated Shareholders a greater benefit than the Proposed Transaction.

Conclusion on Reasonableness

- 9.13 In our opinion, and in the absence of any other relevant information and/or a superior offer, for the purposes of section 611, item 7 of the Corporations Act, we consider that the Proposed Transaction is **reasonable** for Non-Associated Shareholders.
- 9.14 An individual Shareholder's decision in relation to the Proposed Transaction may be influenced by his or her individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD

G YATES

A handwritten signature in blue ink, appearing to read "G Yates".

Director

A CLIFFORD

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

Director



APPENDICES

A. DECLARATIONS AND DISCLAIMERS

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Mr Glyn Yates and Mr Andrew Clifford are directors of RSM Corporate Australia Pty Ltd. Both Mr Yates and Mr Clifford are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and Management of Adherium Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Glyn Yates, Andrew Clifford, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$17,500, excluding GST, based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether Adherium Limited receives Shareholder approval for the Proposed Transaction, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Annual General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of Extraordinary General Meeting and Explanatory Memorandum.

B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Audited financial statements for Adherium for the three years ended 30 June 2019;
- Reviewed financial statements for Adherium for the half-year ended 31 December 2019;
- Unaudited management accounts for Adherium for the 9-month period ended 31 March 2020;
- Share and options register of Adherium as at 5 June 2020;
- ASX announcements of Adherium;
- S&P Capital IQ database; and
- Discussions with Directors and Management.

C. GLOSSARY OF TERMS AND ABBREVIATIONS

Term or Abbreviation	Definition
\$ or A\$	Australian dollar
AFCA	Australian Financial Complaints Authority
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of ASX as amended from time to time
BMTF	BioScience Managers Translation Fund 1
BMTF Options	The proposed issue of 83.33 million options in the Company to BMTF exercisable at \$0.06 per Share and expiring 18 months after the issue date, with an aggregate price for all of the BMTF Options of \$5 million and the subject of Resolution 3 as set out in the Notice
Company or Adherium	Adherium Limited
Control or controlling basis	As assessment of the Fair Value on an equity interest, which assumes the holder or holders have control of the entity in which the equity is held
Control premium	An amount or percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the power of control
COPD	Chronic obstructive pulmonary disease
Corporations Act	Corporations Act 2001 (Cth)
Discounted cash flow (DCF)	A method within the income approach which values a business as the present value of future expected cash flows and is calculated using a discount rate
Directors	Directors of the Company
Fair Value or Market Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
Future maintainable earnings (FME)	The normal maintainable earnings expected to be achieved in the future
FSG	Financial Services Guide
FYXX	Financial year ended 30 June 20XX
Going concern	An ongoing operating business enterprise
HY19	Half-year ended 31 December 2018
HY20	Half-year ended 31 December 2019
IER or Report	This Independent Expert Report
k	Thousands
m	Millions
Management	The management of Adherium Limited
Minority interest	A non-controlling ownership interest, generally less than 50% of a company's voting shares

Term or Abbreviation	Definition
Notice	The Notice of Extraordinary General Meeting and Explanatory Memorandum accompanying this IER
Proposed Transaction	Resolutions 2 and 3 as set out in the Notice
RG 111	ASIC Regulatory Guide 111 – Content of expert reports
RG 112	ASIC Regulatory Guide 112 – Independence of experts
RSM	RSM Corporate Australia Pty Ltd
S&P Capital IQ or Capital IQ	An entity of Standard and Poor's which is a third-party provider of company and other financial information
Share	Ordinary fully paid share in the capital of the Company
Shareholders or Non-Associated Shareholders	Adherium shareholders who are not a party, or associated to a party, to the Proposed Transaction
Tranche 1 shares	The issue of 104,261,036 new ordinary Shares at \$0.03 per share to BMTF to raise \$3.1 million and the subject of Resolution 1 as set out in the Notice
Tranche 2 shares	The proposed issue of 62,405,631 new ordinary Shares at \$0.03 per share to BMTF to raise \$1.9 million and the subject of Resolution 2 as set out in the Notice
VWAP	Volume weighted average share price
YTD20	9-month period ended 31 March 2020

D. ASSESSMENT OF IMPACT ON VALUATION OF THE POTENTIAL DILUTIVE IMPACT OF OPTIONS

Existing Unlisted Options

The Company has 49,752,156 unlisted options on issue. As the unlisted options are American Options (may be exercised at any time before the expiration date), we have utilised the binomial options valuation model to enable expected early exercise of the Options to be factored into the valuation.

The binomial model uses either a binomial or a trinomial distribution process to derive value by separating the total maturity period of the option into discrete periods. When progressing from one time period, or node, to another, the underlying common stock price is assumed to have an equal probability of increasing and/or decreasing by upward and downward price movements.

The inputs and assumptions we have used in the binomial model to value the potential dilutionary impact of the options are set out in the table below.

Input	Executive Share Option						Former 2019 Notes holders
Number of options	217,214	542,952	1,039,428	259,857	173,238	20,000,000	27,519,467
Valuation date	5-Jun-20	5-Jun-20	5-Jun-20	5-Jun-20	5-Jun-20	5-Jun-20	5-Jun-20
Expiry date	30-Nov-20	16-Dec-20	1-Jan-21	24-Mar-21	31-Mar-22	14-Apr-27	29-Jan-27
Exercise price	\$0.134039	\$0.134039	\$0.134039	\$0.134039	\$0.134039	\$0.0400	\$0.0219
Initial share price	\$0.0301	\$0.0301	\$0.0301	\$0.0301	\$0.0301	\$0.0301	\$0.0301
Maximum option life in years	0.50	0.58	0.58	0.83	1.83	6.92	4.67
Assessed volatility	100%	100%	100%	100%	100%	100%	100%
Risk free rate	0.205%	0.205%	0.205%	0.270%	0.285%	0.725%	0.727%
Dividend yield	0%	0%	0%	0%	0%	0%	0%
Vesting condition	Vested	Vested	Vested	Vested	Vested	One third vesting annually over three years from grant date, being 14-Apr-20	Vested
Early exercise factor	2.5	2.5	2.5	2.5	2.5	2.5	2.5

Valuation date and option life – we have valued the options as at the date of this Report and accordingly, have calculated remaining option life in years based on the date of this Report to the expiry date under the terms of each of the options on issue.

Exercise price – subject to the terms of the various options on issue as set out above.

Initial share price – we have adopted a share price of \$0.0301, being our assessment of the value of an Adherium share prior to the Proposed Transaction on a non-controlling basis at the midpoint of our range. We assessed the value of an Adherium share on a controlling basis to be \$0.0384 (before adjustment for potential dilutionary impact of the options). Consistent with our assessment of a discount for minority interest in our valuation of an Adherium share post the Proposed Transaction, we applied a discount of 20.0% to 23.1%, resulting in an assessed value per share of \$0.0295 to \$0.0307, with a preferred value of \$0.0301.

Volatility – the volatility of the share price is a measure of the uncertainty about the returns provided by Adherium shares. Generally, it is possible to predict future volatility of a stock by reference to its historical volatility. A share with a greater volatility has a greater time component of the total value.

Our assumption is predicated on the fact that historical volatility is representative of expected future volatility.

Based on the above, and, having regard to the liquidity and historical volatility of Adherium's shares, we have included a volatility of 100% for the Company in our assessment, based on the average weekly share price volatility of Adherium for the last 4 years.

Risk free rate – we have determined this based on the yield of Commonwealth bond rates at 22 May 2020 that cover the period that best match the life of the options as at the respective valuation date as set out above.

Dividend yield – we have utilised a dividend yield of 0% on the basis that Adherium has no current plans to issue dividends.

Vesting condition – as set out above, 20,000,000 options granted on 14 April 2020 vest in equal instalments over three years from grant date. Accordingly, we have assumed that only 555,556 of these options had vested as of the date of this Report.

Early exercise factor – Expected early exercise is factored into the valuation by our application of the binomial model. The model incorporates an exercise factor, which determines the conditions under which an option holder is expected to exercise their options. It is defined as a multiple of the exercise price (e.g. 2.5 would mean that on average employees tend to exercise their options when the stock price reaches 2.5 times the exercise price).

This is considered more reliable than trying to guess the average time to exercise. For example, trying to estimate an average time after which employees exercise is likely to be inaccurate as during periods when the market is high employees are more likely to exercise early as opposed to times when the market is low. Using an exercise multiple, which is based on a robust theory of stock price behaviour/distribution overcomes these problems.

We have assumed that the exercise factor for these options is 2.5. There have been a number of historical studies that indicate that option holders early exercise options generally at between 2 to 3 times the exercise price, with the higher multiples generally attributable to more senior employees within the company.

Based on the inputs and assumptions above, our assessed value of the potential dilutionary impact of the unlisted options prior to and immediately after the Proposed Transaction are set out in the table below.

Option type	Number of options	Exercise price (\$)	Value of one option (\$)	Total dilutionary impact (\$)
Executive Share Option plan	217,214	0.134039	\$0.000267	\$58
Executive Share Option plan	542,952	0.134039	\$0.000438	\$238
Executive Share Option plan	1,039,428	0.134039	\$0.000438	\$455
Executive Share Option plan	259,857	0.134039	\$0.001148	\$298
Executive Share Option plan	173,238	0.134039	\$0.004912	\$851
Executive Share Option plan	555,556	0.04	\$0.017002	\$9,445
Former 2019 Notes holders	27,519,467	0.0219	\$0.017237	\$474,358
Total				\$485,704

BMTF Options

As the proposed BMTF Options are also American Options, we have utilised the binomial options valuation model to enable expected early exercise of the BMTF Options to be factored into the valuation.

The inputs and assumptions we have used in the binomial model to value the potential dilutionary impact of the BMTF Options are set out in the table below.

Input	BMTF Options
Number of options	83,333,333
Valuation date	5-Jun-20
Expiry date	5-Dec-21
Exercise price	\$0.06
Initial share price	\$0.0301
Maximum option life in years	1.50
Assessed volatility	100%
Risk free rate	0.285%
Dividend yield	0%
Vesting condition	1 year from grant date
Early exercise factor	2.5

Valuation date and option life – we have valued the BMTF Options as at the date of this Report and accordingly, have calculated remaining option life in years based on the date of this Report to the expiry date under the terms of the Proposed Transaction.

Exercise price – subject to the terms of the Proposed Transaction as set out above.

The assumptions regarding the initial share price, volatility, risk-free rate, dividend yield, and early exercise factor are consistent with that applied to Adherium's current options on issue.

Vesting condition – 12 months from grant date under the terms of the Proposed Transaction.

Based on the inputs and assumptions above, our assessed value of the potential dilutionary impact of the BMTF Options immediately after the Proposed Transaction are set out in the table below.

Option type	Number of options	Exercise price (\$)	Value of one option (\$)	Total dilutionary impact (\$)
BMTF Options	83,333,333	\$0.06	\$0.008388	\$699,022

E. INDUSTRY OVERVIEW

The Company's operations are closely aligned to the smart inhalers market and the respiratory device market, with its target market primarily comprising the US and Europe.

North America Smart Inhalers Market to 2027²

Smart inhaler devices are connected digitally, enabling patients to get advice from their physicians, even when situated far away. The North America smart inhalers market is expected to reach US\$3.7 billion in 2027 from US\$503.9 million in 2018. The market is estimated to grow with a compound annual growth rate (CAGR) of 25.7% from 2019-2027.

The growth of the smart inhalers market is primarily attributed to the growing geriatric population and a rising prevalence of COPD and asthma, along with rising awareness regarding the medical condition, and the presence of supportive associations in the region. However, risks associated with cyber threats with smart inhalers are likely to pose a negative impact on the market growth.

The cases of asthma and COPD have been increasing across the globe at a significant rate, exacerbated by a rise in the number of smokers, as well as air pollution in developed as well as developing countries.

Based on estimates provided by the World Health Organisation (WHO), there are currently 235 million people suffering from asthma across the globe. According to the Centers for Disease Control and Prevention (CDC), the number of adults above 18 years of age currently suffering from asthma is approximately 19 million in the United States, accounting for almost 7.7% of the total adult population.

Similarly, there has been rising prevalence of COPD across North America. Based on the Global Burden of Disease Study report, a prevalence of around 251 million cases of COPD were recorded globally during 2016. It is estimated that approximately 3.17 million deaths globally were due to COPD during 2015, accounting for almost 5% of all deaths in that year. COPD is recognised as the third leading cause of death by disease in the US. Accordingly, the rising prevalence of respiratory conditions such as asthma and COPD are anticipated to fuel the global growth of the smart inhalers market.

Major primary and secondary sources for smart inhalers include GlaxoSmithKline plc, Adherium Ltd., Vectura Group plc, Novartis AG, Findair Sp. z o. o., Cohero Health, Crux Product Design Ltd, Teva Pharmaceuticals, 3M, and Amiko Digital Health Limited.

US Respiratory Device Market 2019-2025³

The US respiratory device market was circa US\$6.2 billion in 2018 and is anticipated to grow at a CAGR of approximately 6.3% during the period 2019-2025. The rising prevalence of chronic respiratory diseases, increasing geriatric population, and technological advancement are the major factors that have been attributed to augmenting the growth of the respiratory device market in North America. The increasing demand from COPD, Sleep Apnoea and asthma patients in the US for respiratory device, and favourable reimbursement in the US is favouring the growth of the regional market.

The US respiratory device market is segmented on the basis of product and end-user. The respiratory product segment is further sub-segmented into therapeutic devices, diagnosis and monitoring devices, and consumables and accessories. The therapeutic devices segment is estimated to dominate the US's market. The high cost of therapeutics device and significant demand for continuous positive airway pressure (CPAP) devices and masks, ventilator, oxygen concentrator, and oxygen hoods contribute significantly to the segmental growth of the market for therapeutic devices. Based on end-user, the market is analysed into hospitals and clinics, and home care.

Additionally, the market is characterised by the presence of several players that are providing respiratory devices. Some of the key players of the market include ResMed Corp., Invacare Corp., GlaxoSmithKline PLC, 3M Co., Novartis AG, and Omron Healthcare Inc. The market players are adopting strategies including merger & acquisition, product launch and expansion of their manufacturing facilities to increase their market share.

² P&T Community – North America Smart Inhalers Market to 2027, October 2019

³ P&T Community – US Respiratory Device Market 2019-2025, February 2020

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RSM Australia Pty Ltd is a member of the RSM network and trades as RSM.
RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU.

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Liability limited by a scheme approved under professional standards legislation



Adherium Limited
ABN 24 605 352 510

ADR

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Need assistance?



Phone:
1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)



Online:
www.investorcentre.com/contact



YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **9:00am (AEST)** **Wednesday 22 July 2020.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Lodge your Proxy Form:

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Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



Control Number: 999999
SRN/HIN: I9999999999
PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030



Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark ☒ to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Adherium Limited hereby appoint



the Chairman
of the Meeting

OR

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Adherium Limited to be held virtually on Friday, 24 July 2020 at 9:00am (AEST) and at any adjournment or postponement of that meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Items 4, 5, 6, 7, 8 & 9 (except where I/we have indicated a different voting intention in step 2) even though Items 4, 5, 6, 7, 8 & 9 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Items 4, 5, 6, 7, 8 & 9 by marking the appropriate box in step 2.

Step 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Item 1	Ratification of prior issue of approximately 104 million Shares to BioScience Managers Translation Fund 1 (BMTF)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2	Approval to issue approximately 62 million additional Shares to BioScience Managers Translation Fund 1 (BMTF)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3	Approval to issue approximately 83 million options to BioScience Managers Translation Fund 1 (BMTF)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 4	Ratification of Options Issued to Mike Motion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 5	Ratification of Options Issued to James Ward-Lilley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 6	Approval of existing Executive Share Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 7	Approval of proposed issue of Options to Bryan Mogridge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 8	Approval of proposed issue of Options to William Hunter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 9	Approval of proposed issue of Employee Share Plan Shares to Bruce McHarrie	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director & Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

/ /

Date

Update your communication details (Optional)

Mobile Number

Email Address

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

ADR

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