

Notice of Annual General Meeting

Notice is given that the Annual General Meeting (**AGM or the Meeting**) of Shareholders of Adherium Limited ACN 605 352 510 (**Adherium or the Company**) will be held as follows:

Date: **30 November 2022**
Time: **3:00pm (AEDT)**
Venue: **Offices of K&L Gates
Level 25, Rialto South Tower,
525 Collins Street
Melbourne, VIC 3000**

Distribution of Notice of Meeting: In accordance with section 110D(1) of the Corporations Act 2001 the Company will not be sending through hard copies of this Notice of Meeting to shareholders unless a shareholder has requested a hard copy of this Notice or made an election for the purposes of Section 110E of the Corporations Act to receive documents from the Company in physical form. This Notice can be viewed and downloaded from the Company's website at www.adherium.com or the ASX at www2.asx.com.au

This Notice of Annual 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.

Shareholders of the Company should carefully consider the Independent Expert's Report (**IER**) prepared by RSM Australia Pty Ltd before considering Resolution 6 in this Notice of Meeting. The IER comments on the fairness and reasonableness of the Securities Subscription by Trudell Medical as a whole to the current non-associated Shareholders of the Company.

RSM has concluded that the Securities Subscription by Trudell Medical is not fair but reasonable to current non-associated Shareholders of the Company.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on CompanySec@adherium.com.

Voting: Shareholders will be able to participate in the Meeting of the Company by attending in person at the venue, to ask questions and to vote either by lodging a valid proxy (paper form), voting in person at the Meeting or voting on-line prior to the Meeting.

All Resolutions by Poll: All votes will be taken on a poll via proxy or online voting.

Voting Methods

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 131953 and your Adherium SRN or HIN;

For Intermediary Online voting by Custodians, please submit your votes electronically via www.intermediaryonline.com;

For all of the above voting you must ensure your vote is received not later than 3.00pm on Monday, 28 November 2022.

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 AEDT Friday, 25 November 2022.

The business and formal resolutions proposed to be considered at the Meeting follow

Business

Financial Statements and Reports

To receive and consider the Company's annual financial report, including the directors' report and audit report for the period ended 30 June 2022.

Note: There is no requirement for Shareholders to vote upon or approve these reports and financial statements.

Resolutions

1. Resolution 1 - Adoption of Remuneration Report

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

"That the Company adopt the Remuneration Report for the year period ended 30 June 2022 as set out in the Company's Annual Report in accordance with Section 250R(2) of the Corporations Act."

Note: The vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Exclusion Statement: Corporations Act - A vote must not be cast (in any capacity) on this Resolution 1 by, or on behalf of, a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report, or a Closely Related Party of such member (collectively, a **KMP**). However, a KMP may cast a vote on this Resolution 1 as a proxy if the vote is not cast on behalf of a KMP and either:

- (a) the KMP is acting as proxy and the proxy form specifies how the proxy is to vote; or
- (b) the KMP is the Chair of the meeting and the appointment as proxy (i) does not specify the way the proxy is to vote on the Resolution, and (ii) which expressly authorises the Chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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

2. Resolution 2 - Re-Election of William Hunter as a Director

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

"That William Hunter, who retires in accordance with the Company's Constitution and ASX Listing Rule 14.4 and, being eligible and having submitted himself for re-election, be appointed as a Director of the Company."

3. Resolution 3 - Election of Mr Lou Panaccio as a Director

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

"That Mr Lou Panaccio, who was appointed by the Directors on 25 February 2022 to fill a casual vacancy retires in accordance with Clause 13.1(d) of the Company's Constitution and, being eligible and having submitted himself for election, be appointed as a Director of the Company."

4. Resolution 4 - Approval of additional 10% Placement Facility

To consider and if thought fit, pass the following resolution as a **special resolution**:

"That, for the purpose of ASX Listing Rule 7.1A and for all other purposes, the Shareholders approve the issue of equity securities of up to 10% of the total issued capital of the Company (at the time of the issue), calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 over a 12 month period and on the terms and conditions set out in the Explanatory Memorandum."

Voting Exclusion Statement: ASX Listing Rules - The Company will disregard any votes cast in favour of Resolution 4 if at the time the approval of Resolution 4 is sought the Company is proposing to make an issue of securities under rule 7.1A.2, by or on behalf of any person (or their associates) who is expected to participate, or will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of the Company's ordinary securities).

However, the Company need not disregard a vote on Resolution 4 if:

- (a) it is cast by a person as proxy or attorney for a person who is entitled to vote, in accordance with the directions given to the proxy or attorney to vote on the resolution in that way; or
- (b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- (c) a holder 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.

At the date of this Notice of Meeting, the Company has not approached any particular existing Shareholder to participate in an issue of equity securities under the 10% Placement Facility (as defined in the Explanatory Memorandum). Therefore, the Company does not expect to be excluding any existing Shareholder's votes under the above voting exclusion.

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

5. Resolution 5 - Amendment to the Constitution

To consider, and if thought fit, to pass the following resolution as a **special resolution**:

"That for the purposes of section 136(2) of the Corporations Act, the existing constitution of the Company be amended as detailed in the Explanatory Memorandum, effective at the close of this meeting."

6. Resolution 6 – Issue of 152,500,000 Shares and 76,250,000 Options to Trudell Medical Limited

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

That shareholders approve for the purposes of section 611 (item 7) of the Corporations Act and for all other purposes the issue of 152,500,000 Shares in the Company at \$0.005 per Share and 76,250,000 Options by way of a private placement, on the 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 6 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 6.

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 Annual 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 financial or legal adviser for assistance.

Voting by proxy

Any Shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy to attend 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:

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

not later than 3.00pm (AEDT) on Monday 28 November, 2022.

Address (hand deliveries): Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnson Street,
Abbotsford, Victoria, 3067

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 bring 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.

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 (AEDT) on Monday, 28 November 2022. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

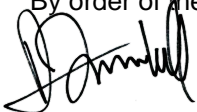
All Enquiries

Call Computershare: (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

A handwritten signature in black ink, appearing to read 'Rob Turnbull', is written over the printed name.

Rob Turnbull
Joint Company Secretary
28 October 2022

This Explanatory Memorandum sets out further information regarding the proposed Resolutions to be considered by Shareholders of Adherium Limited (**Adherium** or **the Company**) at the 2022 Annual General Meeting to be held commencing at 3.00pm (AEDT) on Wednesday, 30 November 2022.

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

Financial statements and reports

Under Section 317 of the Corporations Act, Adherium is required to lay its Annual Report, Directors' Report and Remuneration Report before its Shareholders at its Annual General Meeting. The Annual Report is submitted for Shareholders' consideration and discussion at the Annual General Meeting as required. Meeting attendees are invited to direct questions to the Chairman in respect of any aspect of the report they wish to discuss.

Representatives of Adherium's auditor, PricewaterhouseCoopers (**PwC**), will be present for discussion purposes on matters of relevance to the audit.

1. Resolution 1 – Adoption of Remuneration Report

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 1. The Chairman of the meeting intends to vote undirected proxies in **FAVOUR** of Resolution 1.

Resolution 1 provides Shareholders the opportunity to vote on Adherium's Remuneration Report. The Remuneration Report is contained within the Directors' Report in the Annual Report. Under Section 250R(2) of the Corporations Act, the Company must put the adoption of its remuneration report to a vote at its Annual General Meeting.

This vote is advisory only and does not bind the Directors or the Company. However, under the Corporations Act:

- (a) if at least 25% of the votes cast at any annual general meeting (**AGM**) on a resolution to adopt the remuneration report are cast against the adoption of the remuneration report ("first strike"), the Company's subsequent remuneration report must include an explanation of the Board's proposed action in response to the "no vote" or an explanation of why no action has been taken; and
- (b) if at the following AGM the Company's remuneration report also receives a "no vote" of at least 25% of the votes cast ("second strike"), then Shareholders will be asked to vote at that following AGM on whether or not the Company is to hold another general Shareholder's meeting (within the following 90 days) to vote on a "spill resolution" under section 250V of the Corporations Act. The Company did not receive a first strike at the 2021 AGM and so will not be asking Shareholders at this 2022 AGM to vote on a spill resolution.

As set out in the Notice of Meeting, Key Management Personnel (including Directors) and their closely related parties must not cast a vote on the Remuneration Report, unless as holders of directed proxies for Shareholders eligible to vote on Resolution 1.

2. Resolution 2 – Re-Election of Dr William Hunter as a Director

Board recommendation and undirected proxies. The Board (with the exception of Dr Hunter due to his interest in the outcome) recommends that Shareholders vote in **FAVOUR** of Resolution 2. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 2.

In accordance with clause 13.3(b) of the Company's Constitution and ASX Listing Rule 14.4, Dr Hunter who was last elected as a Director on 25 November 2019 is due to retire, is eligible for re-election and has submitted himself for re-election at this Meeting.

Resolution 2 provides for the re-election of Dr Hunter as Director of the Company.

Dr Hunter has extensive experience in commercialising medical device technologies. He co-founded Angiotech Pharmaceuticals in 1992 and assumed the position of CEO in 1997 when Angiotech was a venture-stage, private, pre-clinical company with less than 50 employees. He led Angiotech through its IPO and listing on the Toronto Stock Exchange and NASDAQ. Dr Hunter has over 200 patents and patent applications to his name and products in which he was an inventor or co-inventor, including the TAXUS Drug-Eluting Coronary Stent, the Zilver PTX Peripheral DrugEluting Stent, the Quill barbed wound closure device and the 5-FU Anti-Infective Catheter. Combined, these products have generated revenues of over \$12 billion and have helped the lives of over 15 million patients globally. He is currently President and CEO of Canary Medical Inc. and formerly Correvio Pharma Corp (NASDAQ: CORV). Dr Hunter is also a Director of Rex Bionics and an Industry Expert Advisor for BioScience Managers (manager of a major shareholder in Adherium). He has previously served as a director of Epirus Biopharmaceuticals (NASDAQ: EPRS) and Union Medtech.

Dr Hunter completed his BSc from McGill University and a MSC and MD from the University of British Columbia. Dr Hunter served as a practising physician in British Columbia for five years. Dr Hunter held no other Australian public company directorships in the last three years.

The Company believes Dr Hunter's experience noted above is particularly relevant to its current strategy and the markets it operates in.

3. Resolution 3 – Election of Mr Lou Panaccio as a Director

Board recommendation and undirected proxies. The Board (with the exception of Mr Panaccio due to his interest in the outcome) recommends that Shareholders vote in **FAVOUR** of Resolution 3. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 3.

Mr Panaccio was appointed by the Directors on 25 February 2022 following the resignation of Matthew McNamara. Pursuant to Clause 13.1(d) of the Company's Constitution Mr Panaccio only holds office as a director until the next annual general meeting following his appointment, being this Meeting. Mr Panaccio retires in accordance with Clause 13.1(d) of the Company's Constitution and, being eligible and having submitted himself for election, seeks to be elected as a Director of the Company.

Mr Panaccio is currently on the boards of ASX and NASDAQ listed Avita Therapeutics Inc. (Non-executive Chairman from July 2014), ASX50 company Sonic Healthcare Limited, one of the world's largest medical diagnostics companies (Nonexecutive Director from June 2015), and ASX-listed Rhythm Biosciences Limited (Non-executive Director from August 2017). He is also a Non-executive Director of Unison Housing Limited, VGI Health Technology Limited, NeuralDX Limited (Nonexecutive Chairman from March 2019) and Haemokinesis Limited (from July 2021). Mr Panaccio was the Chief Executive Officer and Executive Director of Melbourne Pathology for ten years to 2001, the Chief Executive Officer of Monash IVF until 2009 and the Executive Chairman of Health Networks Australia until 2017. He was also a Non-executive Director of ASX-listed Genera Biosystems Limited from November 2010 until 28 June 2019 (Chairman from July 2011 until 28 June 2019).

Mr Panaccio holds a Bachelor of Economics from Monash University and is a Member of the Australian Institute of Company Directors.

The Company believes Mr Panaccio's experience noted above is particularly relevant to its current strategy and the markets it operates in.

4. Resolution 4 – Approval of additional 10% Placement Facility

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 4. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 4.

The purpose of this Resolution 4 is to authorise the Company to issue up to a further 10% of its issued share capital (**Placement Securities**) through one or more placements under ASX Listing Rule 7.1A during the 10% Placement Period (as defined below) (**10% Placement Facility**) in addition to, and without using, the Company's 15% placement capacity under ASX Listing Rule 7.1.

This would effectively provide the Company with a total placement capacity of 25% (less that part of its placement capacity already utilised and not available under ASX Listing Rule 7.1) for a period of up to 12 months from the date of the Company's 2022 AGM meeting (subject to possible earlier cessation described below).

If Resolution 4 is not approved, the Company will not be able to utilise the further 10% capacity which may otherwise be available to it under ASX Listing Rule 7.1A. In those circumstances the Company would be limited in new capital raising to its then capacity under ASX Listing Rule 7.1; any exceptions to that capacity limit under ASX Listing Rule 7.2 or otherwise subject to prior shareholder approval.

An "eligible entity" for the purposes of ASX Listing Rule 7.1A is an entity that (as at the date of the annual general meeting):

- is not included in the S&P / ASX 300 Index; and
- has a market capitalisation of \$300 million or less.

As at the date of this Notice of Meeting, the Company is an "eligible entity" for the purposes of ASX Listing Rule 7.1A.

Placement Securities issued must be in the same class as an existing quoted class of equity securities of the Company. The Company, as at the date of this Notice of Meeting has on issue one quoted class of equity securities, namely fully paid ordinary shares (ASX Code: ADR).

The Company is seeking Shareholder approval by this special resolution to have the ability to issue Placement Securities. The exact number of Placement Securities that could be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 and described below.

ASX Listing Rule 7.1A.2 provides that eligible entities that have obtained Shareholder approval at an annual general meeting under ASX Listing Rule 7.1A may issue, or agree to issue, during the 12-month period after the date of the annual general meeting, up to the number of equity securities (i.e. Placement Securities) calculated in accordance with the following formula:

$$(A \times D) - E$$

A = The number of fully paid shares on issue 12 months before the date of issue or agreement to issue:

- plus the number of fully paid shares issued in the 12 months under an exception in ASX Listing Rule 7.2 other than exception 9, 16 or 17;
- plus the number of fully paid ordinary securities issued in the relevant period on the conversion of convertible securities within Listing Rule 7.2 exception 9 where:
 - the convertible securities were issued or agreed to be issued before the commencement of the relevant period; or
 - the issue of, or agreement to issue, the convertible securities was approved, or taken under these rules to have been approved, under Listing Rule 7.1 or Listing Rule 7.4,
- plus the number of fully paid ordinary securities issued in the relevant period under an agreement to issue securities within Listing Rule 7.2 exception 16 where:
 - the agreement was entered into before the commencement of the relevant period; or
 - the agreement or issue was approved, or taken under these rules to have been approved, under Listing Rule 7.1 or Listing Rule 7.4,
- plus the number of partly paid shares that became fully paid in the 12 months;
- plus the number of fully paid shares issued in the 12 months with approval of shareholders under ASX Listing Rules 7.1 or 7.4; and
- less the number of fully paid shares cancelled in the 12 months.

D = 10%.

E = The number of equity securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue, that are not issued with the

approval of shareholders under ASX Listing Rules 7.1 or 7.4.

Specific disclosures required by ASX Listing Rule 7.3A

Pursuant to and in accordance with ASX Listing Rule 7.3A, the below information is provided in relation to the approval of the 10% Placement Facility:

a. Issue Price: In accordance with the ASX Listing Rule 7.1A.3, Placement Securities (if any) will be issued for *cash* at an issue price per security of not less than 75% of the volume weighted average market price of the Company's equity securities in that class over the 15 trading days on which trades in that class were recorded immediately before:

- i. the date on which the price at which the securities are to be issued is agreed; or
- ii. if the securities are not issued within 10 trading days of the date mentioned in paragraph (i) above, the date on which the securities are issued.

b. Risk of Economic and Voting Dilution: If Resolution 4 is approved by Shareholders and the Company issues Shares under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted.

Shareholders should be aware that there is a risk that:

- the market price for the Company's equity securities in that class may be significantly lower on the date of the issue of the Placement Securities than on the date of the approval under Listing Rule 7.1A (being the date of the Annual General Meeting); and
- the Placement Securities may be issued at a price that is at a discount to the market price for the Company's equity securities on the issue date, which may have an effect on the amount of funds raised by the issue of the Placement Securities.

The table below is included for illustrative purposes only and shows the dilution of existing Shareholders on the basis of the current market price of shares as at 24 October 2022 and the current number of ordinary securities for variable "A" calculated in accordance with the formula in ASX Listing Rule 7.1A.2 as at the date of this Notice of Meeting.

The table also shows the voting dilution impact where the number of shares on issue (variable A in the formula) changes and the economic dilution where there are changes in the issue price of shares issued under the 10% Placement Capacity.

Number of Shares on issue*	Number of Shares that may be issued under 10% Placement Facility	Dilution		
		Funds raised based on issue price of \$0.0025 (50% decrease in issue price of \$0.005)	Funds raised based on issue price of \$0.005 (issue price)	Funds raised based on issue price of \$0.0075 (50% increase in issue price of \$0.005)
2,561,849,866	256,184,986	\$640,462	\$1,280,925	\$1,921,387
3,842,774,799 (50% increase)	384,277,479	\$960,694	\$1,921,387	\$2,882,081
5,123,699,732 (100% increase)	512,369,973	\$1,280,925	\$2,561,850	\$3,842,775

* The number of shares on issue (variable "A" in the formula) could increase as a result of the issue of shares that do not require Shareholder approval under ASX Listing Rule 7.1 or that are issued with Shareholder approval under ASX Listing Rule 7.1.

Table 1 has been prepared on the following assumptions:

- the current shares on issue are the shares on issue as at the date of this Explanatory Memorandum;
- the current issue price set out above is the closing price of the shares on the ASX on 24 October 2022;
- the Company issues the maximum number of Placement Securities available under the 10% Placement Facility; and
- no options are exercised into shares before the date of the issue of the Placement Securities under the 10% Placement Facility.

c. Issue date

The Company will only issue Placement Securities during the 10% Placement Period (as defined below).

Shareholder approval under ASX Listing Rule 7.1A is valid from the date of Shareholder approval until the earliest of:

- the time and date of the Company's 2023 AGM;
- the date that is 12 months after the date of approval of this Resolution under ASX Listing Rule 7.1A; or
- the date the Company obtains Shareholder approval for a transaction under ASX Listing Rule 11.1.2 (significant change to nature or scale of activities) or ASX Listing Rule 11.2 (disposal of main undertaking),

("10% Placement Period").

d. Purpose of Issue

The Company may use the funds raised (without limitation):

- to advance initiatives in the commercialisation of the Company's technology in accordance with its business plan; or
- for general working capital purposes.

There are no current proposals to utilise the 10% Placement Facility. Should any specific proposals be approved by the Board, the Company will announce same to ASX as required by its continuous disclosure obligations.

e. Allocation Policy

The Company will comply with the disclosure obligations under ASX Listing Rules 7.1A.4 and 3.10.5A upon issue of any Placement Securities using the 10% Placement Facility. The Company's allocation policy will be dependent on the prevailing market conditions at the time of any proposed issue. The identity of the allottees of Placement Securities will be determined on a case-by-case basis having regard to a range of factors, including but not limited to, the following:

- the methods for raising funds that are available to the Company, including but not limited to, a rights issue and other fundraising structures in which existing security holders can participate;
- the effect of the issue of the Shares on the control of the Company;
- the financial situation and solvency of the Company; and
- advice from corporate, financial and broking advisers (if applicable).

Any proposed allottees under the 10% Placement Facility have not been determined as at the date of this Notice of Meeting and so the Company will not be excluding any shareholders from voting with respect to this Resolution 4.

f. Previous Approval under ASX Listing Rule 7.1A

The number of equity securities issued under Listing Rule 7.1A.2 in the 12 months preceding the date of this Meeting is set out in the below table:

Type of Equity Security	Number	% of Number on issue at start of 12-month period
Ordinary shares	Nil	Nil

5. Resolution 5 – Amendment of the Constitution

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 5. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 5.

Background

The Company proposes to make amendments to its Constitution by special resolution of Shareholders under section 136(2) of the Corporations Act to bring the Constitution in line with current laws and corporate governance practices. The proposed amendments include changes:

- in relation to the laws pertaining to virtual meetings and other electronic arrangements by the replacement of the existing clause 12.23 of the Company's Constitution; and
- A new Clause 12 to replace the existing Clause 12 contains the provisions required by Listing Rule 15.12 and will allow the Company to comply with the Listing Rules in connection with the issue restricted securities in the future should that be necessary.

Under section 137(a) of the Corporations Act, the modifications are effective on the date on which Resolution is passed, if it specifies no later date. As such, if this Resolution is passed, the amended Constitution will be in effect from the date of the Meeting.

Amendment for Virtual General Meetings

During the period from 14 August 2021 until 1 August 2022 companies were permitted to hold shareholder meetings (including their annual general meetings) virtually under the previous temporary provisions introduced by the Treasury Laws Amendment (2021 Measures No.1) Act 2021 (**TLAA**). The provisions of the TLAA expired on 2 August 2022.

Commencing as from 3 August 2022 the provisions of Schedule 2 to the *Corporations Amendment (Meetings and Documents) Act 2021 (Cth)* relating to electronic meetings and sending of documents came into effect. Under the provisions of that Act, company meetings can now be held:

- physically in person;
- partly in person and partly virtually using virtual meeting technology;
- entirely virtually using virtual meeting technology, so long as that is expressly allowed under the company's constitution – this is a new requirement that was not in place under the previous temporary TLAA provisions.

The current Constitution of the Company does not specifically allow for shareholder meetings to be held 'virtually'. The new clause 16A has been crafted so that where that clause does not address a particular item already dealt with in the Constitution, the existing provisions of the Constitution still apply. The Company wishes to retain the flexibility (that previously existed under the above TLAA temporary measures) to be able to conduct meetings virtually, as it believes in many instances a shareholder meeting held virtually is a more efficient and less costly means of conducting a shareholder meeting and provides more shareholders with the opportunity to attend the meeting.

The proposed changes do not seek to mandate that all shareholders meetings must be held virtually, just that the Company has the ability to do so if it decides to do so. If this Resolution 6 is not approved by Members the Company will not be able to hold member meetings virtually, all shareholder meetings will have to be held as hybrid meetings or entirely 'physical' (in person) meetings and will not have the above described flexibility and costs savings.

Amendment for Restricted Securities

On 1 December 2019, ASX Listing Rule 15.12 was amended to require entities admitted to the Official List, or that issue restricted securities, on or after that date to include the provisions set out in ASX Listing Rules 15.12.1 to 15.12.5 (relating to restricted securities) in the entity's constitution.

It is proposed that the Constitution be amended to include the provisions set out in ASX Listing Rule 15.12.

A new Clause 12 (as set out in Schedule 1) is proposed to be inserted in place of the existing Clause 12. This new Clause 12 states the provisions set out in ASX Listing Rules 15.12.1 to 15.12.5 and will allow the Company to comply with the Listing Rules in connection with the issue restricted securities in the future should that be necessary.

A marked-up version of the proposed amendments to the Constitution is available for review at the Meeting. The proposed amendments (as described above) are set out in Schedule 1 to this Notice of Meeting.

This Resolution is a special resolution and so requires the approval of 75% or more of the votes cast by Shareholders.

6. Resolution 6 – Issue of 152,500,000 Shares and 76,250,000 Options to Trudell Medical Limited

Background

As detailed in the Company's Notice of General Meeting dated 21 September 2022 for its extraordinary general meeting held on 21 October 2022 (**EGM**), the Company entered into binding subscription agreements, subject to shareholder approvals, including for the proposed issue of 2,213,345,670 additional new Shares at \$0.005 per Share (**Tranche 2 Commitments**) and the Tranche 1 and 2 Options (1,273,750,000 Options). Shareholders approved the issue of these new Shares and Options at the EGM and these were allotted on 28 October 2022.

The issue of new Shares under the Tranche 2 Commitments took the Relevant Interest of Trudell Medical Limited (**Trudell**) to 19.91% of the issued share capital of the Company. Trudell has agreed, subject to shareholder approval, to also subscribe for a further 152,500,000 additional new Shares at \$0.005 per Share and 76,250,000 Options (**Subscription Securities**).

Shareholder approval under item 7 of section 611 of the Corporations Act is required because at Completion of the subscription by Trudell of the Subscription Securities, Trudell is projected to increase its voting power from 20% or below to more than 20% (see discussion below concerning the Takeover Prohibition).

Independent Expert's Report (IER): Shareholders of the Company should carefully consider the IER that has been prepared by RSM Australia Pty Ltd (**RSM**) before voting on this Resolution 6. The IER comments on the fairness and reasonableness of the Subscription by Trudell (being referred to as the **Proposed Transaction** in the IER) to the existing non-associated Shareholders of the Company. The IER has concluded that the Subscription by Trudell is **not fair but reasonable to the existing non-associated Shareholders of the Company**.

Regulatory Requirements

The Corporations Act sets out a number of regulatory requirements that must be satisfied in relation to the proposed issue of securities under Resolution 6. 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, such as the Company) if that acquisition results in a person's voting power increasing:

- (i) from 20% or below to more than 20%; or
- (ii) 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.

Where Resolution 6 is approved and the subscription for the Shares the subject of Resolution 6 is completed by Trudell - then Trudell 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 1.3(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 Shares to Trudell (which is the subject of Resolution 6). 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 the Subscription Securities:

Trudell Medical Limited (**Trudell**).

(ii) The maximum extent of the increase in Trudell's voting power in the Company that would result from the acquisition of the Subscription Securities:

As at the date of this Notice Trudell has a Voting Power in the Company of 19.9%. On completion of the subscription for the Subscription Securities the subject of Resolution 6, Trudell's voting power would be 22.4% after the subscription of the Shares, and (based on the current total issued capital of the Company) 27.5% if all the Options (including other options already held by Trudell) are exercised.

(iii) 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 Trudell's Associates would have as a result of the acquisition of the Subscription Securities.

Trudell does not have any associates with a shareholding in the Company. Adherium director, Mr George Baran has a 33.3% beneficial interest in Trudell, however he does not control Trudell and does not hold any Adherium equity securities himself.

(iv) Trudell's intentions for the Company after the issue of the Subscription Securities the subject of Resolution 6

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

- A. being actively involved in the management of the Company but would be willing to nominate a representative be appointed to the Board of the Company if invited, other than to the extent that Mr George Baran, having a 33.3% beneficial interest in (but not control of) Trudell, is already a director of the Company;
- B. making any significant changes to the business of, or employment of present employees of, the Company;
- C. transferring any assets of the Company to Trudell or Trudell'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.

(v) *When is the proposed issue to be made*

Within 1 month of Shareholder approval

(vi) *What is the reason for the proposed issue of the Subscription Securities to Trudell*

The Shares are issued to raise funds for the Company. The intended use of the funds raised, in conjunction with the funds raised in previously announced Placement Tranches 1 and 2 and the Share Purchase Plan offer, is:

Product Development	\$4.6m
Sales, Platform Integration, Marketing, Business Development	\$7.0m
General Administration / Other (net of product margin)	\$1.4m
Capex	\$0.8m
Offer Expenses	\$0.7m
Total proposed use of funds	\$14.5m

The Company is unaware if and when the Options may be exercised and so cannot at this stage indicate what any funds raised from the exercise of any Options may be spent on.

(vii) *What are the interests of the Directors of the Company in the proposed issue of the Subscription Securities to Trudell*

Mr George Baran has a 33.3% beneficial (but non-controlling) interest in Trudell. No other Directors have an interest in the proposed issue.

(viii) *Which Directors approved or voted against the proposal to put Resolution 6 to Shareholders and their recommendation to Shareholders*

All of the Directors eligible to vote at the relevant Board Meeting (except Mr George Baran who absented himself due to his interest in the outcome of the Resolution) voted unanimously to put Resolution 6 to Shareholders, recommended approval of this Resolution 6 to Shareholders and have approved this Explanatory Memorandum

As Resolution 6 seeks approval for the issue of the above-mentioned Shares for the purposes of Item 7 of Section 611 of the Corporations Act, Exception 8 to Listing Rule 7.2 applies. Accordingly, separate approval for the issue of the above-mentioned Shares for the purposes of Listing Rule 7.1 is not required.

Advantages and Disadvantages of the Issue of the Subscription Securities to Trudell

Advantages

In the Board's view, the advantages of the proposed issue of the Subscription Securities are:

- The investment further enables Adherium to fund and maintain momentum in its US commercial activities, including recruitment and partner/customer development;
- This funding is available at the same value as the previously announced Placement Tranches 1 & 2;
- The investment by Trudell together with the Options with an exercise price of 1 cent per Share shows confidence in the Company and its future;
- Adherium currently has one other shareholder with a holding in excess of 20% (BioScience Managers Translation Fund 1) and having another significant non-associated shareholding (Trudell) provides some balance to the share register; and
- The cash funding is borne by Trudell and not existing shareholders.

Disadvantages

In the Board's view, the disadvantages of the proposed issue of the Subscription Securities are:

- The subscription would further increase Trudell's shareholding in the Company, which 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 funding of continued development of the Company's products and services and expansion of commercial activities;
- The likelihood of the Options being exercised is unknown, they are in the sole control of Trudell and if exercised would result in further dilution to existing or new shareholders and increase Trudell's potential control position as a major shareholder in the Company; and
- The Option exercise price at the time of exercise could present a significant discount on the Company's share price achieved within the approximate 4-month exercise period.

Independent Expert's Report

The Corporations Act provides that an IER on the issue of the Subscription Securities must be provided to Shareholders of the Company, which provides an opinion on the fairness and reasonableness of the issue of the Subscription Securities to the existing non-associated Shareholders of the Company. A copy of the IER, prepared by RSM, is contained in Schedule 3 of this Notice of Meeting. As part of its review, the IER has also provided a valuation of the Company pre and post completion of the issue of the Subscription Securities.

This Notice of Meeting and IER can be accessed on the Company's website, www.adherium.com and a copy will be provided to every Shareholder in accordance with the provisions of the Corporations Act and ASX Listing Rules.

The IER provides an opinion as to whether the issue of the Subscription Securities as a whole is fair and reasonable to the current non-associated Shareholders of the Company.

The IER has concluded that, in the absence of a superior alternative transaction or any other information, the issue of the Subscription Securities (and the acquisition of the voting power and relevant interests by the Relevant Interest Holders (or their nominees)), is not fair but reasonable to the current non-associated Shareholders of the Company.

If the issue of the Subscription Securities is approved, the Relevant Interest of Trudell will be an aggregate 22.39% (before completion of the announced Share Purchase Plan offer to existing shareholders). The Company's existing non-associated Shareholders' voting interest will be diluted from 80.09% to 77.61%.

RSM concluded that in its opinion, the position of Shareholders if the issue Subscription Securities is approved is more advantageous than the position if the issue Subscription Securities is not approved.

The advantages and disadvantages of the acquisition of the voting power and interest by Trudell Medical (or their nominees) are outlined in the IER (sections 2.20 and 2.21 of the IER) and are provided to assist the current non-associated Shareholders of the Company in making their determination whether they are better off if the acquisition of the voting power and relevant interest by Trudell Medical (or their nominees) did not proceed.

The advantages of the issue of the Subscription Securities stated in the IER are:

- The approval of the Proposed Transaction will provide an additional \$0.76m in funding (in addition to the \$12.7m raised (before costs) under Tranches 1 and 2 of the Placement) and would enable the Company to continue to fund and maintain momentum in its US commercial activities, including recruitment and partner/customer development.
- The Company may receive future additional funding from Trudell in the event that Trudell elects to exercise some or all of the options held by Trudell ("Trudell Options").

- The Company currently has one other shareholder with a shareholding in excess of 20% (BioScience Managers Translation Fund 1 ("BMTF")). Having another significant non-associated shareholder (Trudell) may provide balance to the influence exerted by BMTF on the strategic direction of Adherium.
- The Proposed Transaction is priced at the same value as Tranches 1 and 2 under the Placement (with Trudell participating in Tranche 2), as well as a proposed share purchase plan ("SPP") offer to be made to shareholders and participating directors under a prospectus ("SPP Prospectus") for which shareholder approval was obtained at an extraordinary general meeting ("EGM") held on 21 October 2022.

The disadvantages of the issue of the Subscription Securities stated in the IER are:

- As set out in the IER, 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.
- Trudell will hold a 22.4% interest in the Company immediately after the completion of Proposed Transaction. Accordingly, we consider that Trudell will have significant influence on the strategic direction of the Company as compared to Non-Associated Shareholders (with portfolio interests in the Company)
- Non-Associated Shareholders' interests will be diluted from 80.1% to 77.6% immediately following the approval of the Proposed Transaction, and further diluted to 72.5% in the event that all Trudell Options are exercised (and assuming no other Share issues or other options exercised including Share and Option issues contemplated by the SPP).
- The dilution of existing Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposal.

Shareholders are urged to carefully read the IER in its entirety before deciding how to vote on Resolution 6.

If you have any doubt or do not understand any of Resolution 6, it is strongly recommended that you seek advice from an accountant, solicitor or other professional advisor.

Consequences if Resolution 6 is not approved (re ASX Listing Rule 14.1A)

Where Resolution 6 is not approved, the Company will not be able to proceed with the issue of the new Shares or Options and will not receive the approximate \$760,000 in funding under the previously announced Placement nor the potential of additional funding should any of the Options be exercised.

Recommendation

The Company's Board believes that an issue of the Subscription Securities to Trudell on the terms described in this Explanatory Memorandum is of significant benefit to the Company to provide working capital for the Company's immediate requirements.

The Directors (except for Mr Baran who absented himself due to his interest in the outcome of the Resolution) unanimously recommend that Shareholders vote in favour of this Resolution 6.

7. Questions and Comments by Shareholders at the Meeting

In accordance with the Corporations Act, a reasonable opportunity will be given to Shareholders - as a whole - to ask questions or make comments on the management of the Company at the Annual General Meeting.

Similarly, a reasonable opportunity will be given to Shareholders - as a whole - to ask questions to the Company's external Auditor, PricewaterhouseCoopers (**PwC**), relevant to:

- (a) the conduct of the audit;
- (b) the preparation and contents of the audit;
- (c) the accounting policies adopted by the Company in relation to the preparation of its financial statements; and
- (d) the independence of the Auditor in relation to the conduct of the audit.

Shareholders may also submit a written question to PwC if the question is relevant to the content of PwC's audit report or the conduct of its audit of the Company's financial report for the year ended 30 June 2022.

Relevant written questions to PwC must be received by no later than 5:00pm (AEDT) on Friday, 25 November 2022. A list of those questions will be made available to Shareholders attending the meeting. PwC will either answer questions at the Meeting or table written answers to them at the meeting. If written answers are tabled at the Meeting, they will be made available to Shareholders as soon as practicable after the Meeting.

Please send written questions for PwC to:

By facsimile - +61 3 9602 4709;

Post to – C/- Mertons Corporate Services Pty Ltd – Level 7, 330 Collins Street, Melbourne VIC 3000

by no later than 5:00pm (AEDT) on 25 November 2022.

Glossary

In this Explanatory Memorandum, and the Notice of Meeting:

Annual General Meeting / AGM means the annual general meeting of the Company to be held at 3.00pm AEDT on 30 November 2022 pursuant to the Notice of Meeting.

Annual Report means the Directors' Report (including Remuneration Report), the Financial Report and the Auditor's Report in respect to the financial year ended 30 June 2022.

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.

Company means **Adherium Limited** ACN 605 352 510.

Constitution means the constitution of the Company.

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

Director means a director of the Company.

Directors' Report means the annual Directors' Report prepared under chapter 2M of the Corporations Act for the Company and its controlled entity.

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

Key Management Personnel or **KMP** means the key personnel as disclosed in the Remuneration Report.

Meeting means the Annual General Meeting of the Company the subject of this Notice of Meeting scheduled to occur on Wednesday 30 November 2022.

Monthly Average Price means the average of daily closing prices of Shares as traded on the ASX for each calendar month.

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

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

Remuneration Report means the remuneration report of the Company for the year ended 30 June 2022 as set out in the Company's Director's Report for the year ended 30 June 2022.

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

Shareholder means a holder of a Share.

Share means an ordinary share in the capital of the Company.

voting power has the meaning provided in section 610 of the Corporation Act.

Schedule 1

Amendments to the Constitution of Adherium Limited ACN 605 352 510 ("Constitution") are as follows:

Section 1.1 of the Constitution is amended by the deletion of the definition of "Member Present" and the insertion of the following definitions:

"Meeting Technology means any technology approved by the Directors that is reasonable to use for the purpose of holding a meeting at one or more physical venues or entirely virtually by electronic means (without any physical meeting) or by a combination of those methods and otherwise satisfies the requirements of this Constitution and the Corporations Act;"

"Present means, in connection with a meeting, the Member being present in person or by proxy, by attorney or, where the Member is a body corporate, by representative, and includes being present at a different venue from the venue at which other Members are participating in the same meeting or virtually where the meeting is held using Meeting Technology, providing the pre-requisites for a valid meeting as set out in this Constitution and the Corporations Act are observed;"

(a) The current Clause 27 is removed and replaced with the following new Clause 27

"27 Restricted Securities

27.1 In this clause 27, "dispose" (and any other grammatical forms of it), "securities", "class", "issuer-sponsored subregister", "holding lock" and "restriction deed" have the meaning given by the Listing Rules.

27.2 A holder of Restricted Securities must not dispose of, or agree or offer to dispose of, the securities during the escrow period applicable to those securities, except as permitted by the Listing Rules or ASX.

27.3 If the Restricted Securities are in the same class as quoted securities, the holder will be taken to have agreed in writing that the Restricted Securities are to be kept on the Company's issuer-sponsored subregister and are to have a holding lock applied for the duration of the escrow period applicable to those securities.

27.4 The Company will refuse to acknowledge any disposal (including, without limitation, to register any transfer) of Restricted Securities during the escrow period applicable to those securities except as permitted by the Listing Rules or ASX.

27.5 A holder of Restricted Securities will not be entitled to participate in any return of capital on those securities during the escrow period applicable to those securities except as permitted by the Listing Rules or ASX.

27.6 If a holder of Restricted Securities breaches a restriction deed or a provision of the Constitution restricting a disposal of those securities, the holder will not be entitled to any dividend or distribution, or to exercise any voting rights, in respect of those securities for so long as the breach continues.

27.7 notwithstanding any other provision of this Constitution to the contrary, the provisions of this clause 27 apply to this Constitution, and to the extent there is a conflict (if any) between this clause 27 and any other provision of this Constitution (other than clause 1.7), the provisions of this clause 27 shall prevail."

(b) The current Clause 12.23 is removed and replaced with the following new Clause 12.23

" 12.23 Use of technology

Notwithstanding any other provision of this Constitution to the contrary, the following shall apply, and to the extent there is a conflict (if any) between this clause 12.23 and any other provision of this Constitution (other than clause 1.7), the provisions of this clause 12.23 shall prevail:

(a) Subject to any applicable Law, the Company may hold a meeting of Members:

- (i) at a physical venue;
 - (ii) at one or more physical venues and virtually using Meeting Technology;
 - (iii) virtually, using Meeting Technology only; or
 - (iv) in any other way permitted by the Corporations Act.
- (b) The Company must give the Members entitled to attend the meeting, as a whole, a reasonable opportunity to participate in the meeting, however it is held.
- (c) A Member, or a proxy, attorney or representative of a Member, who attends the meeting (whether at a physical venue or virtually by using Meeting Technology) is taken for all purposes to be Present at the meeting while so attending.
- (d) If, before or during a meeting of Members, any technical difficulty occurs, such that the Members as a whole do not have a reasonable opportunity to participate, the Chairperson of the meeting may:
 - (i) adjourn the meeting until the technical difficulty is remedied; or
 - (ii) subject to the Corporations Act, where a quorum remains Present and able to participate, continue the meeting.
- (e) Each notice convening a general meeting must include the following where Meeting Technology is to be used in holding the meeting -
 - (i) sufficient information to allow Members to participate in the meeting by means of the technology;
 - (ii) Where a general meeting is held only virtually using Meeting Technology:
 - (A) the place for the meeting is taken to be the address of the registered office of the Company; and
 - (B) the time for the meeting is taken to be the time at that place, and.
 - (iii) any other information required by Law or the Listing Rules
- (f) If a quorum is not Present within 15 minutes after the time appointed for the general meeting the meeting stands adjourned to a day and at a time and place as the Directors decide or, if no decision is made by the Directors:
 - (i) the meeting is adjourned to the same day in the next week at the same time;
 - (ii) if any of the Members was entitled to physically attend the meeting and the location is not specified, the meeting is adjourned to the same location or locations as were specified for the original meeting; and
 - (iii) if Meeting Technology was used in holding the original meeting and sufficient information to allow members to participate in the resumed meeting by means of the technology is not specified, participation in the adjourned meeting by means of the Meeting Technology must be provided in the same manner as set out in the notice for the original meeting.
- (g) Subject to clause 12.23(g)(iii), and the requirements of any Law and the Listing Rules, any resolution to be considered at a general meeting will be decided:
 - (i) on a poll, if:
 - (A) Meeting Technology is used in holding the meeting; or
 - (B) a poll is demanded at or before the declaration of the result of the show of hands; or
 - (ii) otherwise, on a show of hands.
 - (iii) Any resolution to be considered at a general meeting and which seeks an approval under (or in connection with) the Listing Rules must be decided by way of a poll.

- (h) *The Directors may hold a valid meeting of Directors using Meeting Technology, and in that case:*
- (i) *the participating Directors are taken for all purposes to be present at the meeting while so participating;*
 - (ii) *subject to the Corporations Act, the meeting is taken to be held at the place where the Chairperson of the meeting is and at the time at that place; and*
 - (iii) *all proceedings of the Directors conducted in that manner are as valid and effective as if conducted at a meeting at which all of them were present in person."*

Schedule 2

Option Terms and Conditions

Each option (**Option**) entitles the holder (**Option Holder**) to subscribe for and be issued one fully paid ordinary share (**Share**) in **Adherium Limited** ABN 24 605 352 510 (**Company**) on the following terms:

1. Subject to clause 2 and any restrictions imposed by the ASX Limited (**ASX**), each Option is exercisable at any time after the date it is issued (**Issue Date**), until and including their expiry date, namely 5pm on 31 March 2024 (**Expiry Date**). Any Options not exercised by the Expiry Date will automatically lapse at 5pm on the Expiry Date.
1. The Options may be exercised for part or all of the Options held at a particular time 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 together with payment in full of the exercise price of \$0.01 per Option (**Exercise Price**), provided that each Notice of Exercise must be for the exercise of a minimum of 1,000,000 Options or if less, the Option Holder's remaining Options holding.
2. On receipt by the Company of the Notice of Exercise and payment of the Exercise Price, the Company must, within 4 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.
3. The Option Holder agrees in respect of any Shares issued on exercise of an Option, the Option Holder will not deal with the entitlement to the relevant Shares or trade / dispose of the relevant Shares until the Company has lodged a cleansing notice in respect of the issue of the Shares (in accordance with section 708A of the Corporations Act) or otherwise able to "cleanse" the allotment of the Shares under section 708A of the Corporations Act.
4. 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.
5. The Options are transferable by an Option Holder on written notice to the Company, provided that the Options cannot be transferred or assigned within 12 months after the Issue Date except in accordance with the Corporations Act.
6. 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).
7. 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 use reasonable endeavours to see that for the purpose of determining Rights Entitlements to any such issue, the Option Holder is to receive at least 2 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.
8. In the event of the liquidation of the Company, all unexercised Options will lapse upon the occurrence of that liquidation.
9. The Options do not provide any entitlement to dividends paid to ordinary shareholders.
10. The Options do not entitle the Option Holder to vote at any meeting of shareholders
11. 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; and

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

Schedule 3

Independent Expert's Report

(attached)



ADHERIUM LIMITED

Financial Services Guide and Independent Expert's Report

26 October 2022

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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26 October 2022

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 Annual General Meeting and Explanatory Memorandum ("Notice") to be provided to shareholders for an Annual General Meeting of Adherium Limited ("Adherium" or "the Company") to be held on or around 30 November 2022, at which shareholder approval will be sought for a number of resolutions, including the issue of Shares and Options to Trudell Medical Limited as set out in Resolution 6 as detailed below:

Resolution 6 – Issue of 152,500,000 Shares and 76,250,000 Options to Trudell Medical Limited ("Trudell")

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

That shareholders approve for the purposes of section 611 (item 7) of the Corporations Act and for all other purposes the issue of 152,500,000 Shares in the Company at \$0.005 per Share and 76,250,000 Options by way of a private placement, 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 Resolution 6 ("the Proposed Transaction") is fair and reasonable to Adherium shareholders not associated with the Proposed Transaction ("Shareholders" or "Non-Associated Shareholders").
- 1.3 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.

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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 11	\$0.0066	\$0.0066	\$0.0066
Fair Value per Share immediately after the Proposed Transaction (non-controlling basis)	Table 17	\$0.0050	\$0.0052	\$0.0051

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.

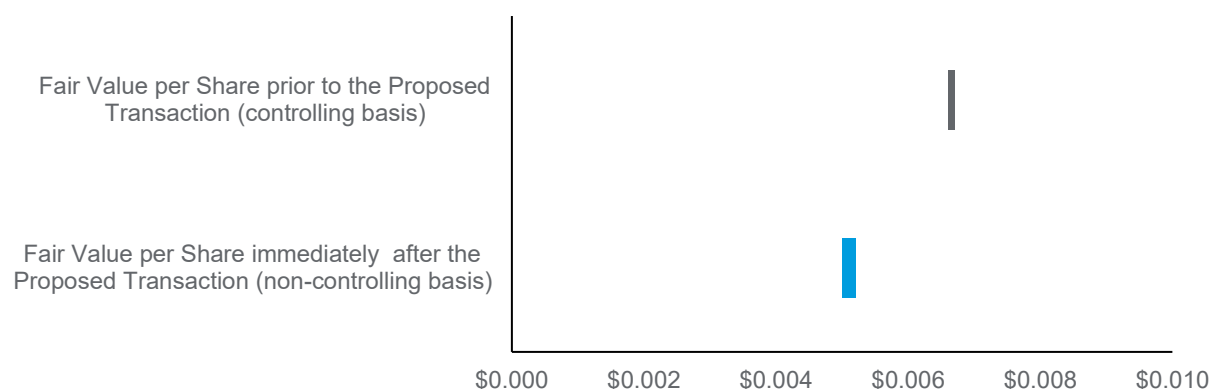


Chart 1: Valuation summary graphical representation

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 Resolution 6 is not approved, Adherium will not be able to issue the Shares or Options proposed under Resolution 6, and the Company will not receive \$0.76m in funding or the potential of additional funding should the options be exercised by Trudell.
- 2.14 For the year ended 30 June 2020 ("FY22"), Adherium disclosed net losses before tax of \$10.0m and operating cash outflows of \$9.6m.
- 2.15 The audited financial statements for FY22 included an emphasis of matter in the independent auditor's report issued by PriceWaterhouseCoopers ("PwC") dated 30 September 2022 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 We note that the Company has recently raised approximately \$12.7m (before costs) (refer paragraph 2.19 below), with the funds to be raised from the Proposed Transaction forming the final tranche of this Placement. However, given Adherium's significant cash burn, approval of the Proposed Transaction would provide additional working capital in addition to the above funds, which will further fund Adherium's research and development projects and commercial activities.
- 2.17 Adherium's current operations are dependent upon the Company continuing to raise sufficient capital to provide long-term funding for existing research and development projects, as well as the commercial roll out of developed technology. If the Proposed Transaction does not proceed, it is likely that Adherium will need to undertake a further capital raising at an earlier date than if the Proposed Transaction does proceed.

Response of the market to the Proposed Transaction

- 2.18 Adherium's volume weighted average share price ("VWAP") of \$0.0054 post the announcement of the Proposed Transaction was less than the 10, 30, 60 and 90-day VWAP of \$0.0074, \$0.0083, \$0.0092 and \$0.0089, respectively.
- 2.19 We consider that the market has, on the whole, reacted unfavourably to the announcement of the Proposed Transaction. However, we consider the decline in the VWAP has been influenced by the announcement of the Company's planned capital raising activities, including the approval of the \$13.5m secured capital raising commitments from new and existing institutional and sophisticated investors first announced on 16 September 2022 ("Placement"). The Proposed Transaction considered in this Report forms the final Tranche 3 of the Placement announced on 16 September 2022 (with the Placement comprising the issue of Shares and Options under previous Tranches 1 and 2, as well as Tranche 3 contemplated by the Proposed Transaction).

Advantages of approving the Proposed Transaction to Shareholders:

- 2.20 The advantages of the Proposed Transaction are:

Advantage	Details
Additional capital raised	The approval of the Proposed Transaction will provide an additional \$0.76m in funding (in addition to the \$12.7m raised (before costs) under Tranches 1 and 2 of the Placement) and would enable the Company to continue to fund and maintain momentum in its US commercial activities, including recruitment and partner/customer development.
Potential for future additional funding from Trudell	The Company may receive future additional funding from Trudell in the event that Trudell elects to exercise some or all of the options held by Trudell ("Trudell Options").

Advantage	Details
Share register balance	The Company currently has one other shareholder with a shareholding in excess of 20% (BioScience Managers Translation Fund 1 ("BMTF")). Having another significant non-associated shareholder (Trudell) may provide balance to the influence exerted by BMTF on the strategic direction of Adherium.
Proposed Transaction is priced at the same value as Tranches 1 and 2 of the Placement	The Proposed Transaction is priced at the same value as Tranches 1 and 2 under the Placement (with Trudell participating in Tranche 2), as well as a proposed share purchase plan ("SPP") offer to be made to shareholders and participating directors under a prospectus ("SPP Prospectus") for which shareholder approval was obtained at an extraordinary general meeting ("EGM") held on 21 October 2022.

Table 2: Advantages of the Proposed Transaction

Disadvantages of approving the Proposed Transaction to Shareholders:

2.21 The disadvantages of the Proposed Transaction are:

Disadvantage	Details
The Proposed Transaction is not fair	As set out above, 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.
Trudell will hold a significant interest in the Company	Trudell will hold a 22.4% interest in the Company immediately after the completion of Proposed Transaction. Accordingly, we consider that Trudell will have significant influence on the strategic direction of the Company as compared to Non-Associated Shareholders (with portfolio interests in the Company)
Dilution of Shareholders interest	<p>Non-Associated Shareholders' interests will be diluted from 80.1% to 77.6% immediately following the approval of the Proposed Transaction, and further diluted to 72.5% in the event that all Trudell Options are exercised (and assuming no other Share issues or other options exercised including Share and Option issues contemplated by the SPP).</p> <p>The dilution of existing Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposal.</p>

Table 3: Disadvantages of the Proposed Transaction

Alternative proposals

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

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 16 September 2022, Adherium announced that the Company had secured subscription commitments (“the Placement”) to raise circa \$13.5m on the following terms:
- the issue of 334,154,330 new ordinary Shares in the Company at \$0.005 per share to raise \$1.7m, as well as the issue of share options (“Options”), with 1 Option for every 2 new Shares issued (“Tranche 1”);
 - the issue of 2,213,345,670 new ordinary Shares in the Company at \$0.005 per share to raise \$11.1m, as well as the issue of Options, with 1 Option for every 2 new Shares issued (“Tranche 2”); and
 - the issue of 152,500,000 new ordinary Shares in the Company at \$0.005 per share to raise \$763k as well as the issue of Options, with 1 Option for every 2 new Shares issued (“Tranche 3”).
- 3.2 The Options are exercisable at \$0.01 per Share and have an expiration date of 31 March 2024, with an aggregate exercise price for all of the Options totalling \$13.5m.
- 3.3 The issue of the Tranche 3 Shares and Options are subject to Shareholder approval under Resolutions 6 (Proposed Transaction).

Impact of Proposed Transaction on Adherium's Capital Structure

- 3.4 The table below summarises the capital structure of the Company at the date of this Report, and prior to and immediately following the Proposed Transaction. At the date of this Report, the Tranche 2 Shares and Options have not yet been issued and allotted (the allotment is scheduled for 28 October 2022). We also note that shareholder approval for the Tranche 1 Options was obtained at the EGM held on 21 October 2022, and consistent with the Tranche 2 Shares and Options, are scheduled to be issued and allotted on 28 October 2022. Accordingly, at the date of this Report, only Tranche 1 Shares had been issued.

	Number of Shares ('000)	%	Number of Options ('000)	%
Adherium capital structure at the date of this Report (including the issue of Tranche 1 Shares)				
Number of ordinary Shares and options held by Trudell	423,080	16.5%	10,486	8.8%
Number of ordinary Shares and unlisted options held by Non-Associated Shareholders	2,138,770	83.5%	109,210	91.2%
Total	2,561,850	100.0%	119,696	100.0%
Adherium capital structure prior to the Proposed Transaction (including the issue of Tranche 2 Shares and Options and Tranche 1 Options)				
Number of ordinary Shares and options held by Trudell	950,580	19.9%	274,236	19.7%
Number of ordinary Shares and unlisted options held by Non-Associated Shareholders	3,824,615	80.1%	1,119,210	80.3%
Total	4,775,196	100.0%	1,393,446	100.0%
Adherium capital structure immediately after the Proposed Transaction				
Number of ordinary Shares and options held by Trudell	1,103,080	22.4%	350,486	23.8%
Number of ordinary Shares and unlisted options held by Non-Associated Shareholders	3,824,615	77.6%	1,119,210	76.2%
Total	4,927,696	100.0%	1,469,696	100.0%
Adherium capital structure after the Proposed Transaction (fully diluted)				
Number of ordinary Shares held by Trudell (fully diluted in relation to Trudell Options)	1,453,566	27.5%	-	0.0%
Number of ordinary Shares and unlisted options held by Non-Associated Shareholders	3,824,615	72.5%	1,119,210	100.0%
Total	5,278,181	100.0%	1,119,210	100.0%

Table 4: 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 80.1% to 77.6%, and Trudell increasing its 19.9% interest in the Company to 22.4% and up to 27.5% if all Trudell Options were exercised.

- 3.6 Following the issue of Options under Tranches 1 and 2 of the Placement, Adherium will have 1,393,446,026 unlisted share options on issue on the terms as set out below.

No.	Exercise price	Expiry date
25,000,000	\$0.0200	07-May-23
25,000,000	\$0.0300	07-May-23
25,000,000	\$0.0400	07-May-23
17,176,559	\$0.0400	14-Apr-27
27,519,467	\$0.0219	29-Jan-27
1,273,750,000	\$0.0100	31-Mar-24
1,393,446,026		

Table 5: Adherium unlisted options on issue

- 3.7 We have included the potential dilutionary impact of the above unlisted options on issue or to be issued, including the issue of Options under Tranches 1 and 2 of the Placement 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.
- 3.8 We have included the potential dilutionary impact of the Options to be issued under Resolution 6 (Tranche 3) in our assessment of the value of an Adherium Share post the Proposed Transaction as set out in section 7 of this Report.
- 3.9 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 Trudell holding a relevant interest in Adherium of 22.4% and potentially holding a relevant interest of 27.5% if all Trudell Options are exercised and assuming no other Share issues or other options exercised, including Share and Options issues contemplated by the SPP.
- 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 integrated digital health solutions. The Hailie® solution provides clinicians, healthcare providers and patients access and the ability to remotely monitor medication usage parameters and adherence, supporting reimbursement for qualifying patient management.
- 5.2 The Hailie® solution includes a suite of integration tools to enable the capture and sharing of health data via mobile and desktop applications, Software Development Kit (SDK) and Application Programming Interface (API) integration tools, and Adherium's range of sensors connected to respiratory medications. The Hailie® solution is designed to provide visibility to healthcare providers of medication use history to better understand patterns in patient respiratory disease with the aim to enable people who live with asthma and COPD to more easily manage their condition with input from their healthcare provider.
- 5.3 Adherium 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 Lou Panaccio (Non-Executive Chairman);
 - Mr Rick Legleiter (Chief Executive Officer);
 - Mr James Ward-Lilley (Non-Executive Director);
 - Mr George Baran (Non-Executive Director);
 - Mr Jeremy Curnock Cook (Non-Executive Director);
 - Dr William Hunter (Non-Executive Director);
 - Mr Bruce McHarrie (Non-Executive Director);
 - Mr Daniel Kaplon (Chief Financial Officer – Appointed 10 October 2022);
 - Mr Rob Turnbull (General Manager and Joint Company Secretary); and
 - Mr Mark Licciardo (Joint Company Secretary).

Financial information

- 5.6 The information in the following section provides a summary of the consolidated financial performance of Adherium for the years ended 30 June 2020 ("FY20"), 30 June 2021 ("FY21") and 30 June 2022 (FY22), and the consolidated financial position of Adherium at 30 June 2021 and 30 June 2022, extracted from Adherium's audited financial statements.

Financial performance

- 5.7 The following table sets out a summary of the consolidated financial performance of Adherium for FY20, FY21 and FY22.

Adherium Limited Historical Financial Performance	FY20 Audited \$'000	FY21 Audited \$'000	FY22 Audited \$'000
Continuing operations			
Sales	2,218	401	529
Cost of sales	(814)	(426)	(207)
Gross profit	1,404	(25)	322
Other income	-	431	2,807
Manufacturing support	(727)	(764)	(1,012)
Research and development costs	(3,953)	(5,477)	(5,877)
Sales and marketing costs	(1,766)	(845)	(944)
Administrative expenses	(3,769)	(6,143)	(5,363)
Total operating expenses	(10,215)	(13,229)	(13,196)
Operating loss	(8,811)	(12,823)	(10,067)
Finance income	15	23	24
Finance expense	(2,601)	(2,236)	(1)
Finance (cost) / income - net	(2,586)	(2,213)	23
Loss before income tax	(11,397)	(15,036)	(10,044)
Income tax expense	-	-	-
Loss for the period attributable to equity holders	(11,397)	(15,036)	(10,044)
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	(209)	864	50
Total comprehensive loss for the period	(11,606)	(14,172)	(9,994)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited	(11,606)	(14,172)	(9,994)

Source: Company audited financial statements

Table 6: Adherium Financial Performance

- 5.8 Adherium disclosed total sales of \$2.2m for FY20, with sales comprising sensor sales and monitoring services and new product design and engineering services of \$1.2m and \$1.0m, respectively. Total sales declined to \$401k for FY21, 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 \$264k and \$137k, respectively. Total sales increased slightly to \$529k for FY22, with sales comprising sensor sales and monitoring services and new product design and engineering services of \$294k and \$235k, respectively.
- 5.9 Operating expenses comprise manufacturing support, research and development costs, sales and marketing and administrative expenses. Operating expenses totalled \$10.2m, \$13.2m and \$13.2m for F20, FY21 and FY22, respectively, with the overall increase in operating expenses due primarily to the increase in research and development costs, as well as administrative expenses.
- 5.10 Finance income for FY22 comprised net interest income. Finance costs of \$2.6m and \$2.2m recognised for FY20 and FY21, respectively, were due to finance expenses recognised in relation to convertible notes issued during FY20 ("2019 Notes") and FY21 ("2020 Notes"), respectively, as set out in further detail below.

- 5.11 The Company disclosed net losses before income tax of \$11.4m, \$15.0m and \$10.0m for FY20, FY21 and FY22, respectively.

Financial position

- 5.12 The table below sets out a summary of the consolidated financial position of Adherium as at 30 June 2021 and 30 June 2022.

Adherium Limited Historical Financial Position	As at 30-Jun-21 Audited \$'000	As at 30-Jun-22 Audited \$'000
Current assets		
Cash and cash equivalents	15,178	5,283
Trade and other receivables	567	1,593
Inventories	962	1,071
Prepayments	202	272
Total current assets	16,909	8,219
Non-current assets		
Property, plant and equipment	127	227
Intangible assets	3	1
Right-of-use assets	-	86
Total non-current assets	130	314
Total assets	17,039	8,533
Current liabilities		
Trade and other payables	2,319	1,697
Income received in advance	685	1,214
Lease liabilities	-	42
Total current liabilities	3,004	2,953
Non-current liabilities		
Lease liabilities	-	43
Total non-current liabilities	-	43
Total liabilities	3,004	2,996
Net assets	14,035	5,537
Share capital	110,172	110,523
Accumulated deficit	(73,385)	(83,429)
Other reserves	(22,752)	(21,557)
Total equity	14,035	5,537

Source: Company audited financial statements

Table 7: Adherium Financial Position

- 5.13 Adherium disclosed net assets of \$14.0m and \$5.5m at 30 June 2021 and 30 June 2022, respectively, with the decline in net assets due primarily to net losses disclosed for FY22.
- 5.14 During FY21, the Company issued secured convertible notes (2020 Notes) with a face value of \$3.0m, an interest rate of 9.0% and maturity date of 25 October 2022. The terms of the notes included conversion features, which allowed the noteholder to convert the principal and accrued interest to shares in the Company at 3 cents per share after the occurrence of certain events.

- 5.15 On 18 March 2021 the Company and noteholder agreed to modify the 2020 Notes' terms to:
- automatically convert the 2020 Notes' principal amount plus interest to ordinary shares at the same time and price as under a capital raise for at least \$15.0m; and
 - in consideration of the variation of the 2020 Notes to provide for the automatic conversion mechanism referred to above, at closing of the capital raising to issue to the noteholder various options over ordinary shares.
- 5.16 On 30 April 2021, the Company received shareholder approval to amend the 2020 Notes and proceed with the capital raise. This was completed on 7 May 2021 for a total of \$18.0m, and accordingly the 2020 Notes automatically converted to 238,989,991 ordinary shares in addition to the grant of c. 180m options to the noteholder on the terms as set out below:
- 104,855,877 unlisted options over ordinary shares with an expiry on 25 October 2022 with an exercise price of \$0.03;
 - 25,000,000 unlisted options over ordinary shares with an expiry on 7 May 2023 with an exercise price of \$0.02;
 - 25,000,000 unlisted options over ordinary shares with an expiry on 7 May 2023 with an exercise price of \$0.03; and
 - 25,000,000 unlisted options over ordinary shares with an expiry on 7 May 2023 with an exercise price of \$0.04.
- 5.17 During FY20, the Company also issued secured convertible notes (2019 Notes) with a face value of \$2.96m and a maturity date of 31 January 2020. The terms of the 2019 Notes included conversion features, which were subject to shareholder approval (which was subsequently obtained). On the Company raising \$5.4m under a rights issue completed in January 2020, the 2019 Notes converted to 137,597,321 ordinary shares and 27,519,467 options over ordinary shares, with an exercise price of \$0.0219 per option and expiring 29 January 2027.
- 5.18 Property, plant and equipment primarily comprised manufacturing equipment, computer equipment, fixture and fittings and office equipment.
- 5.19 Intangible assets comprised acquired software and intellectual property. Adherium has not capitalised material development expenditure in relation to the development of the Hailie® sensors and platform.

Capital structure

- 5.20 As at the date of this Report, Adherium had 2,561,849,866 ordinary shares on issue of which 83.0% were held by the top 20 shareholders. The top 20 Adherium shareholders are set out in the table below. The table below includes the issue of Tranche 1 Shares, with the issue and allotment of Tranche 2 Shares scheduled for 28 October 2022.

Shareholder	Domicile	Number	%
PHILLIP ASSET MANAGEMENT LIMITED <BIOSCIENCE TRANS FUND 1 A/C>	AUSTRALIA	500,000,000	19.5%
TRUDELL MEDICAL LTD	CANADA	423,080,272	16.5%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	AUSTRALIA	236,720,404	9.2%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	AUSTRALIA	231,724,364	9.0%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	AUSTRALIA	209,050,039	8.2%
K ONE W ONE LTD	ZEALAND	107,081,008	4.2%
CITICORP NOMINEES PTY LIMITED	AUSTRALIA	90,059,160	3.5%
ONE FUNDS MANAGEMENT LIMITED <ASIA PAC HEALTH FUND II A/C>	AUSTRALIA	48,808,957	1.9%
QUANTAMATICS PTY LTD	AUSTRALIA	38,186,966	1.5%
ADHERIUM ESP TRUSTEE LIMITED	ZEALAND	35,849,066	1.4%
SUMMATIX PTY LTD	AUSTRALIA	35,496,341	1.4%
BNP PARIBAS NOMS (NZ) LTD <DRP>	AUSTRALIA	28,516,873	1.1%
PLANET INNOVATION PTY LTD	AUSTRALIA	26,666,667	1.0%
TARA CREAVEN-CAPASSO	AUSTRALIA	19,444,444	0.8%
GEOFF FEAKES	AUSTRALIA	19,000,000	0.7%
JMID PTY LTD <JAM SUPERFUND A/C>	AUSTRALIA	18,644,497	0.7%
MISS RUTH AMANDA STROPPIANA	AUSTRALIA	18,125,327	0.7%
DR HUY TRAN	AUSTRALIA	14,606,060	0.6%
NATIONAL NOMINEES LIMITED	AUSTRALIA	14,035,000	0.5%
MR KHIM THIEW KHOR	AUSTRALIA	11,748,383	0.5%
		2,126,843,828	83.0%
Other Shareholders		435,006,038	17.0%
Total		2,561,849,866	100.0%

Table 8: Adherium shareholder summary

- 5.21 Following the issue of Options under Tranches 1 and 2 of the Placement, Adherium will have 1,393,446,026 unlisted share options on issue on the terms as set out below.

No.	Exercise price	Expiry date
25,000,000	\$0.0200	07-May-23
25,000,000	\$0.0300	07-May-23
25,000,000	\$0.0400	07-May-23
17,176,559	\$0.0400	14-Apr-27
27,519,467	\$0.0219	29-Jan-27
1,273,750,000	\$0.0100	31-Mar-24
1,393,446,026		

Table 9: Adherium unlisted options on issue

- 5.22 We have included the potential dilutionary impact of the current unlisted options on issue, as well as the issue of Options under Tranches 1 and 2 of the Placement, 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.
- 5.23 We have included the potential dilutionary impact of the Options to be issued under Resolution 6 (Tranche 3) in our assessment of the value of an Adherium Share post the Proposed Transaction as set out in section 7 of this Report.

5.24 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

5.25 The chart below sets out a summary of Adherium's daily closing share price and traded volumes on the ASX from the period 1 April 2021 to 24 October 2022.



Chart 2: Adherium traded share price and volume chart

5.26 Over the period above, Adherium's Shares have traded from a high of \$0.023 on 9 September 2021 to a low of \$0.004 on 4 October 2022.

5.27 We make the following comments with regard to Adherium's recent share price performance and ASX announcements

Ref	Date	Announcement details
(1)	29 Apr 2021	A copy of Respire Limited's ("Respire") bidder's statement in relation to its takeover bid of Adherium was lodged with ASIC, comprising an off-market takeover bid for all of the Company's shares on issue. The takeover bid comprised an offer of 1 Respire share for every 7 Adherium shares.
(2)	17 Jun 2021	The Adherium Board unanimously recommended that shareholders reject Respire's takeover offer.
(3)	27 Aug 2021	The Company released its FY21 annual report, announcing an after-tax loss of \$15.0m compared to \$11.4m in FY20. Additionally, Adherium reported revenue of \$401k for FY21, compared to \$2.2m for FY20.

Ref	Date	Announcement details
(4)	9 Sep 2021	Adherium announced the receipt of United States Food and Drug Administration (“US FDA”) 510(k) clearance for the next generation Hailie® sensors with physiological measures.
(5)	24 Sep 2021	The Company announced it was awarded with a contract for sensor and software supply to an AstraZeneca clinical study. Adherium announced it would be providing a bespoke version of its Hailie® sensor and software to track the usage of the investigational inhaler medications via the study participants’ phones.
(6)	8 Oct 2021	Adherium announced that the Company had submitted commentary on the proposed new Remote Therapeutic Monitoring reimbursement and criteria to the United States Centre for Medicare and Medicaid Services.
(7)	19 Jan 2022	Adherium announced the receipt of a \$1.6m Australian R&D tax incentive claim for FY21, compared to \$370k in FY20.
(8)	11 Feb 2022	The Company announced it had completed the first production run of the next generation Hailie® sensors with physiological parameters for monitoring asthma and Chronic Obstructive Pulmonary Disease (COPD) medication use.
(9)	22 Apr 2022	Adherium announced it had significantly strengthened its international commercial leadership team with the appointment of Mr Francis White as vice president of global business development based in the United Kingdom.
(10)	28 Apr 2022	The Company announced the release of the latest Hailie® platform integration tools comprised of an advanced rest application programming interface and a new, updated software development kit to improve connection with partner and customer patient management systems. The Company stated that both tools represent important software milestone achievements on Adherium’s product development roadmap.
(11)	14 Jun 2022	Adherium announced it signed its first United Kingdom distribution agreement with Helicon Health Ltd to sell the Hailie® sensor range and cloud data services.
(12)	20 Jul 2022	Adherium announced it signed a distribution agreement for US patient monitoring with Perigon Health 360 to sell the Hailie® platform, including its new, next generation sensors.
(13)	25 Jul 2022	The Company announced that it has received US FDA 510(k) clearance to market application connecting GlaxoSmithKline’s Ellipta® inhaler users with Adherium’s new, next generation Hailie® sensor with physiological parameters for monitoring asthma and COPD medication use.
(14)	25 Aug 2022	Adherium announced submission to the US FDA of its 510(k) clearance to market application, which connects Teva ProAir® and Teva Albuterol Sulphate HFA metered dose inhalers with its new, next-generation Hailie® sensor with physiological parameters such as respiratory flow rate in litres per minute for remote monitoring of patients with asthma and COPD.
(15)	31 Aug 2022	The Company released its preliminary financial report for FY22. Adherium reported revenue of \$529k, an increase of 32% compared to FY21 and net loss for the period of \$11.2m compared to losses of \$15.0m in FY21.
(16)	9 Sep 2022	Adherium announced a partnership agreement with Dulcian Health to deploy the Hailie® platform enabling doctors and medical groups in the US to access reimbursement for remote monitoring of patients prescribed asthma and COPD medications.
(17)	13 Sep 2022	Adherium announced a platform partnership with CareCentra Inc. to improve COPD and asthma care by creating a disease management suite. CareCentra will integrate Adherium’s Hailie® platform, including the new, next generation US FDA cleared digital sensors capturing physiological data and technique parameters into their Artificial Intelligence Driven Behaviour Shaping platform, MyMoBeMap™.
(18)	16 Sep 2022	Announcement of the terms of Tranches 1, 2 and 3 of the Placement

Ref	Date	Announcement details
(19)	21 Sep 2022	Adherium announced the Notice of EGM to be held on 21 October 2022 seeking shareholder approval for a number of resolutions including the ratification of the issue of Tranche 1 Shares, shareholder approval for Tranche 2 Shares and Options (as well as Tranche 1 Options), and the SPP.
(20)	21 Oct 2022	Adherium announced the results of the EGM, confirming shareholder approval was obtained for all resolutions including the ratification of Tranche 1 Shares, and shareholder approval for Tranche 2 Shares and Options (and Tranche 1 Options), and the SPP by way of the issue of a future SPP Prospectus.

Table 10: Summary of ASX Announcements

- 5.28 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 \$15.0m and \$10.0m for FY21 and FY22, 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 audited financial statements as at 30 June 2022.

- 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 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 30 June 2022 and adjusted for the terms of the Proposed Transaction.
- 6.20 As the approval of the Proposed Transaction will result in the increase in Trudell's interest in the Company from 19.9% to 22.4% (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 audited statement of financial position as at 30 June 2022.
- 7.3 We have also had regard to research and development expenses incurred by the Company over the last three financial years in our assessment of the Fair Value of an Adherium Share. We consider the expenses incurred from FY20 to FY22 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 30-Jun-22 Audited \$'000	Note	Adjustments \$'000	Assessed Value Prior to the Proposed Transaction \$'000
Current assets				
Cash and cash equivalents	5,283	7.6	12,738	18,021
Trade and other receivables	1,593		-	1,593
Inventories	1,071		-	1,071
Prepayments	272		-	272
Total current assets	8,219		12,738	20,957
Non-current assets				
Property, plant and equipment	227		-	227
Intangible assets	1	7.7	15,307	15,308
Right-of-use assets	86		-	86
Total non-current assets	314		15,307	15,621
Total assets	8,533		28,045	36,578
Current liabilities				
Trade and other payables	1,697		-	1,697
Income received in advance	1,214		-	1,214
Lease liabilities	42		-	42
Potential dilutionary impact of options	-	7.8	2,202	2,202
Total current liabilities	2,953		2,202	5,155
Non-current liabilities				
Lease liabilities	43		-	43
Total liabilities	2,996		2,202	5,198
Net assets	5,537		25,843	31,380
Number of Shares on issue ('000)	2,227,696		2,547,500	4,775,196
Assessed Fair Value per Share (controlling basis)	\$0.0025			\$0.0066

RSM analysis

Table 11: 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 30 June 2022.
- 7.6 We have adjusted Adherium's cash and cash equivalents balance as at 30 June 2022 for the:
- the issue of the Tranche 1 Shares which raised \$1.7m through the issue of 334,154,330 Shares at \$0.005 per Share; and
 - the further issue of the Tranche 2 Shares scheduled on 28 October 2022 which will raise \$11.2m through the issue of 2,213,345,670 Shares at \$0.005 per Share.
- 7.7 We have also adjusted intangible assets by \$15.3m 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 FY20, FY21 and FY22. Management considers that the \$15.3m in expenditure has been attributed to overall development of the current Hailie® ecosystem. Accordingly, we have adjusted intangible assets for an additional \$15.3m 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 119,696,026 unlisted share options on issue, as well as 1,273,750,000 Options due to be issued on 28 October 2022 under Tranches 1 and 2 of the Placement, exercisable at \$0.01 per Option and expiring on 31 March 2024. 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 \$0.0066.
- 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 16 September 2022. 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 16 September 2022. 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	0.008	0.008	1	216,990	1,736	0.0080	0.01%
10 days	0.007	0.009	4	3,116,350	23,073	0.0074	0.14%
30 days	0.007	0.010	11	14,958,590	123,507	0.0083	0.67%
60 days	0.007	0.011	29	33,005,450	304,478	0.0092	1.49%
90 days	0.007	0.011	41	42,851,460	381,471	0.0089	1.94%
120 days	0.007	0.011	59	60,950,860	527,538	0.0087	2.76%
180 days	0.007	0.012	93	108,966,650	997,549	0.0092	4.93%

Source: Capital IQ and RSM analysis

Table 12: Traded volume of Adherium Shares prior to 16 September 2022

7.14 We note the following:

- 1.49% of Adherium's weighted outstanding Shares were traded in the 30-day trading period prior to the announcement of the Proposed Transaction;
- Adherium's VWAP was \$0.0080 and \$0.0074 for the 5 and 10-day trading period, respectively, and subsequently was in the range of \$0.0083 to \$0.0092 for the 30 to 180-day trading period;
- the bid/ask spread is often used to measure efficiency. For the 180-day period, the closing bid/ask spread of Adherium averaged 12.6% 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 0.194%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 to be \$0.0080 to \$0.0090.

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.

¹ Equity market data for the quarter ended 30 September 2022 – ASIC

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 conducted a study on 605 takeovers and schemes of arrangements involving companies listed on ASX over the 15.5 years ended 31 December 2020 ("RSM Control Premium Study 2021"). In determining the control premium, RSM compared the offer price to the closing trading price of the target company 20, 5 and 2 trading days pre the date of the announcement of the offer. Where the consideration included shares in the acquiring company, RSM used the closing share price of the acquiring company on the day prior to the date of the offer.

	Number of transactions	20 days pre	5 days pre	2 days pre
Average control premium (all industries)	605	34.7%	29.2%	27.1%

Source: RSM Control Premium Study 2021

Table 13: 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)	\$0.0080	\$0.0090	\$0.0085
Control premium	25.0%	30.0%	27.5%
Value of a Share (controlling basis)	\$0.0100	\$0.0117	\$0.0108

Source: RSM analysis

Table 14: Assessed Fair Value of an Adherium Share – Quoted Price of Listed Securities

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 11	\$0.0066	\$0.0066	\$0.0066
Quoted price of listed securities - secondary method	Table 14	\$0.0100	\$0.0117	\$0.0108

Source: RSM analysis

Table 15: 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 Fair Value assessed under the quoted price of listed securities methodology may not be reflective of the Fair Value of an Adherium Share.
- 7.23 We also note that the Company's Share price post the announcement of the Proposed Transaction has fallen to circa \$0.005, consistent with the share price associated with the capital raisings undertaken to date under the terms of the Placement, as well as contemplated under the SPP.

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	18,021	7.26	763	18,783
Trade and other receivables	1,593		-	1,593
Inventories	1,071		-	1,071
Prepayments	272		-	272
Total current assets	20,957		763	21,719
Non-current assets				
Property, plant and equipment	227		-	227
Intangible assets	15,308		-	15,308
Right-of-use assets	86		-	86
Total non-current assets	15,621		-	15,621
Total assets	36,578		763	37,340
Current liabilities				
Trade and other payables	1,697		-	1,697
Income received in advance	1,214		-	1,214
Lease liabilities	42		-	42
Potential dilutionary impact of options	2,202	7.27	126	2,328
Total current liabilities	5,155		126	5,281
Non-current liabilities				
Lease liabilities	43		-	43
Total non-current liabilities	43		-	43
Total liabilities	5,198		126	5,324
Net assets	31,380		637	32,017
Number of Shares on issue ('000)	4,775,196		152,500	4,927,696
Assessed Fair Value per Share (controlling basis)				\$0.0065
RSM analysis	-			

Table 16: Assessed Fair Value of an Adherium Share immediately after the Proposed Transaction (controlling basis)

7.25 The assessment of the Fair Value of an Adherium Share immediately after the Proposed Transaction is also based on the pro forma balance sheet of the Company as at 30 June 2022, adjusted for:

- the issue/future issue of the Tranche 1 and 2 Shares;
- increase in intangible assets to include \$15.3m in development expenses; and
- the potential dilutionary impact of the options currently on issue, as well as the Options due to be issued on 28 October 2022 under Tranches 1 and 2 of the Placement.

7.26 In our assessment of the Fair Value of an Adherium Share immediately after the Proposed Transaction, we have further adjusted for the issue of the Tranche 3 Shares as contemplated under the Proposed Transaction, comprising the issue of 152,500,000 Shares to raise \$0.76m.

7.27 We have also adjusted for the potential dilutionary impact of the Tranche 3 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 Tranche 3 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 \$0.0065.

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 16	\$0.0065	\$0.0065	\$0.0065
Discount for minority interest	7.31	-23.1%	-20.0%	-21.6%
Value per Share (non-controlling interest)		\$0.0050	\$0.0052	\$0.0051

RSM analysis

Table 17: 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 increase in Trudell's interest in the Company from 19.9% to 22.4% (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.

7.31 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 \$0.0050 to \$0.0052, with a preferred value of \$0.0051.

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 11	\$0.0066	\$0.0066	\$0.0066
Fair Value per Share immediately after the Proposed Transaction (non-controlling basis)	Table 17	\$0.0050	\$0.0052	\$0.0051

Source: RSM analysis

Table 18: Valuation Summary

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

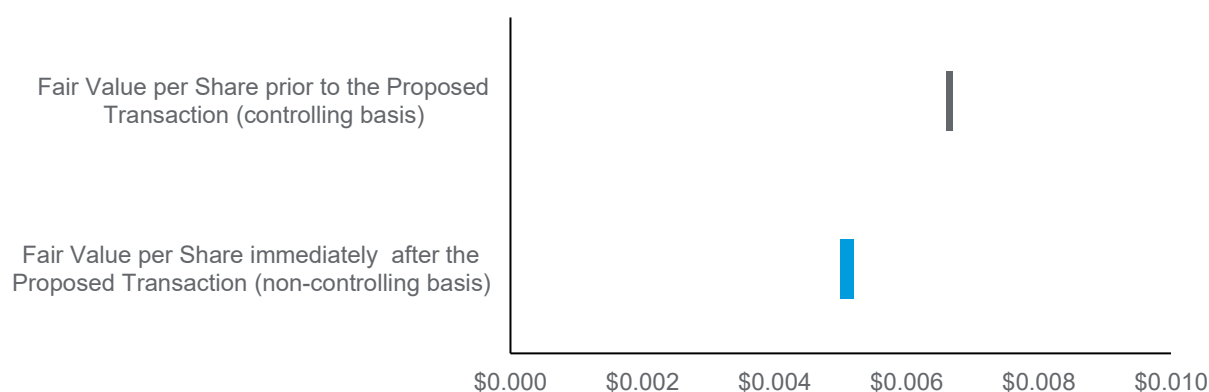


Chart 3: Valuation summary graphical representation

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 Resolution 6 is not approved, Adherium will not be able to issue the Tranche 3 Shares and Options, and the Company will not receive \$0.76m in funding or the potential of additional funding should the Trudell Options be exercised.
- 9.3 For FY22, Adherium disclosed net losses before tax of \$10.0 million and operating cash outflows of \$9.6m.
- 9.4 The audited financial statements for FY22 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 We note that the Company has recently raised approximately \$12.7m (before costs), with the funds to be raised from the Proposed Transaction forming the final Tranche 3 of the Placement. However, given Adherium's significant cash burn, approval of the Proposed Transaction would provide additional working capital, in addition to the above funds, which will further fund Adherium's research and development projects and commercial activities.
- 9.6 Adherium's current operations are dependent upon the Company continuing to raise sufficient capital to provide long-term funding for existing research and development projects, as well as the commercial roll out of developed technology. If the Proposed Transaction does not proceed, it is likely that Adherium will need to undertake a further capital raising at an earlier date than if the Proposed Transaction does proceed.

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 24 October 2022.

	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
<i>Calendar days prior to 16 September 2022</i>							
10 days	0.007	0.009	4	3,116,350	23,073	0.0074	0.14%
30 days	0.007	0.010	11	14,958,590	123,507	0.0083	0.67%
60 days	0.007	0.011	29	33,005,450	304,478	0.0092	1.49%
90 days	0.007	0.011	41	42,851,460	381,471	0.0089	1.94%
<i>Calendar days from 16 September 2022</i>							
39 days	0.004	0.007	17	20,877,170	113,658	0.0054	0.84%

Source: Capital IQ and RSM analysis

Table 19: Adherium VWAP after the announcement of the Proposed Transaction

- 9.8 Adherium's VWAP of \$0.0054 post the announcement of the Proposed Transaction was lower than the 10, 30, 60 and 90-day VWAP of \$0.0074, \$0.0083, \$0.0092 and \$0.0089, respectively.
- 9.9 We consider that the market has on the whole, reacted unfavourably to the announcement of the Proposed Transaction. However, we consider the decline in the VWAP has been influenced by the announcement of the Company's planned capital raising activities, including the approval of the Placement.

Advantages of approving the Proposed Transaction

9.10 The advantages of approving the Proposed Transaction are:

Advantage	Details
Additional capital raised	The approval of the Proposed Transaction will provide an additional \$0.76m in funding (in addition to the \$12.7m raised (before costs) under Tranches 1 and 2 of the Placement) and would enable the Company to continue to fund and maintain momentum in its US commercial activities, including recruitment and partner/customer development.
Potential for future additional funding from Trudell	The Company may receive future additional funding from Trudell in the event that Trudell elects to exercise some or all of the Trudell Options.
Share register balance	The Company currently has one other shareholder with a shareholding in excess of 20% (BMTF). Having another significant non-associated shareholder (Trudell) may provide balance to the influence exerted by BMTF on the strategic direction of Adherium.
Proposed Transaction is priced at the same value as Tranches 1 and 2 of the Placement	The Proposed Transaction is priced at the same value as Tranches 1 and 2 under the Placement (with Trudell participating in Tranche 2), as well as a proposed SPP for which shareholder approval was obtained at an extraordinary general meeting held on 21 October 2022.

Table 20: Advantages of the Proposed Transaction

Disadvantages of approving the Proposed Transaction

9.11 The disadvantages of the Proposed Transaction are:

Disadvantage	Details
The Proposed Transaction is not fair	As set out above, 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.
Trudell will hold a significant interest in the Company	Trudell will hold a 22.4% interest in the Company immediately after the completion of Proposed Transaction. Accordingly, we consider that Trudell will have significant influence on the strategic direction of the Company as compared to Non-Associated Shareholders (with portfolio interests in the Company)
Dilution of Shareholders interest	Non-Associated Shareholders' interests will be diluted from 80.1% to 77.6% immediately following the approval of the Proposed Transaction, and further diluted to 72.5% in the event that all Trudell Options are exercised (and assuming no other share issues or other options exercised including share and options issues contemplated by the SPP).

Table 21: Disadvantages of the Proposed Transaction

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 their individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD

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

A CLIFFORD
Director

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

G YATES
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 Andrew Clifford and Mr Glyn Yates are directors of RSM Corporate Australia Pty Ltd. Both Mr Clifford and Mr Yates 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, Andrew Clifford, Glyn Yates, 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 \$22,500, 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 Annual General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of Annual 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 years ended 30 June 2020, 30 June 2021, 30 June 2022;
- Share and options register of Adherium as at 6 October 2022 and 9 September 2022;
- 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
2020 Notes	Company issued secured convertible notes during the year ended 30 June 2021
2019 Notes	Company issued secured convertible notes during the year ended 30 June 2020
\$ or \$	Australian dollar
AFCA	Australian Financial Complaints Authority
AGM	Annual General Meeting
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
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
EGM	Extraordinary General Meeting
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
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
Notice	The Notice of Annual General Meeting and Explanatory Memorandum accompanying this IER
Options	Attaching Options to be issued under the terms of the Placement
Placement	The Company's planned capital raising activities, including the approval of the \$13.5m secured capital raising commitments from new and existing institutional and sophisticated investors first announced on 16 September 2022
Proposed Transaction	Resolution 6 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

Term or Abbreviation	Definition
SPP	The Share Purchase Plan offer to be made to shareholders and participating directors under a prospectus ("SPP Prospectus") for which shareholder approval was obtained at the Company's EGM held on 21 October 2022
Trudell Options	Options held by Trudell both pre the Proposed Transaction, as well as immediately after the Proposed Transaction
Tranche 1	The issue of 334,154,330 new ordinary Shares at \$0.005 per share to raise \$1.7m as well as the issue of Options, with 1 Option for every 2 new Shares issued on 26 September 2022, exercisable at \$0.01 per Option and expiring 31 March 2022
Tranche 2	The proposed issue of 2,213,345,670 new ordinary Shares at \$0.005 per share to raise \$11.1m as well as the issue of Options, with 1 Option for every 2 new Shares issued, exercisable at \$0.01 per Option and expiring 31 March 2022
Tranche 3	The proposed issue of 152,500,000 new ordinary Shares at \$0.005 per share to raise \$763k as well as the issue of Options, with 1 Option for every 2 new Shares issued, exercisable at \$0.01 per Option and expiring 31 March 2022
VWAP	Volume weighted average share price

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

Existing Unlisted Options

The Company has 119,696,026 unlisted options on issue, as well as 1,273,750,000 Options in the process of being issued, under Tranches 1 and 2 of the Placement.

If the Proposed Transaction is approved, a further 76,250,000 Options will be issued to Trudell under Tranche 3 of the Placement.

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						Tranche 1 & 2	Tranche 3
Number of options	25,000,000	25,000,000	25,000,000	17,176,559	27,519,467	1,273,750,000	76,250,000
Valuation date	24-Oct-22	24-Oct-22	24-Oct-22	24-Oct-22	24-Oct-22	24-Oct-22	24-Oct-22
Expiry date	7-May-23	7-May-23	7-May-23	14-Apr-27	29-Jan-27	31-Mar-24	31-Mar-24
Exercise price	\$0.0200	\$0.0300	\$0.0400	\$0.0400	\$0.0219	\$0.0100	\$0.0100
Initial share price	\$0.0055	\$0.0055	\$0.0055	\$0.0055	\$0.0055	\$0.0055	\$0.0055
Maximum option life in years	0.58	0.58	0.58	4.50	4.33	1.50	1.50
Assessed volatility	100%	100%	100%	100%	100%	100%	100%
Risk free rate	0.318%	0.318%	0.318%	3.645%	3.645%	3.360%	3.360%
Dividend yield	0%	0%	0%	0%	0%	0%	0%
Vesting condition	Vested	Vested	Vested	Vested	Vested	Vested	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 \$0.0055, 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 \$0.0070 (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 \$0.0054 to \$0.0056, with a preferred value of \$0.0055.

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 24 October 2022 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 – we have assumed all Options issued under the Placement have full vested based on the terms of the Placement.

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 (\$)
Unlisted	25,000,000	\$0.0200	\$0.000143	\$3,567
Unlisted	25,000,000	\$0.0300	\$0.000043	\$1,066
Unlisted	25,000,000	\$0.0400	\$0.000016	\$392
Unlisted	17,176,559	\$0.0400	\$0.001918	\$32,950
Unlisted	27,519,467	\$0.0219	\$0.002269	\$62,453
Total	119,696,026			\$100,430
Tranche 1 and 2 (unlisted)	1,273,750,000	\$0.010	\$0.001650	\$2,101,435
Total dilutionary impact prior to the Proposed Transaction	1,393,446,026			\$2,201,865
Tranche 3 (unlisted)	76,250,000	\$0.010	\$0.001650	\$125,797
Total dilutionary impact post the Proposed Transaction	1,469,696,026			\$2,327,663

E. INDUSTRY OVERVIEW

The Company's operations are aligned to the growth in the US digital health market (and globally), as well as the smart inhalers market and the respiratory device market, with its target market primarily comprising the US and Europe.

Digital Health Market²

Digital health (also called eHealth) is an umbrella term for all healthcare-related applications, technologies and delivery systems that have been utilised to support improvements in patients' wellbeing and healthcare. Pre the onset of the COVID-19 pandemic, Research and Markets estimated the global digital health market would reach circa US\$500 billion by 2025, citing an ageing population as a major driver. In the US, Statista expects the digital health market to reach circa US\$156 billion by 2024 due to the increasing prevalence of chronic diseases with an ageing population, continuing integration/convergence of current technologies, new digital health entrants and more supportive regulatory/reimbursement initiatives. MST Access noted that the estimates for the digital health market pre-COVID-19 may be understated given the impact of the pandemic on telehealth and remote patient monitoring to date.

MST Access also considered that the new Remote Therapeutic Monitoring (RPM) Codes, effective 1 January 2022 finalised by the Centers for Medicare and Medicaid Services (CMS), together with the Remote Physiological Monitoring codes released in 2019 represent a significant improvement in reimbursement for providers of telehealth services in the US whereby healthcare providers will be directly financially incentivised to adopt RPM, thereby providing a strategic advantage for the adoption of Adherium's Hailie® solution.

North America Smart Inhalers Market to 2027³

Smart inhaler devices are connected digitally, enabling patients to get advice from their healthcare providers remotely. The North America smart inhalers market is expected to reach US\$474 million in 2027 from US\$36 million in 2022. The market is estimated to grow with a compound annual growth rate of 67.5% from 2022-2027.

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. Asthma is a non-communicable disease characterised by frequent breathlessness and wheezing attacks that vary from person to person in severity and frequency. Similarly, the prevalence of COPD in North America has increased. COPD is a progressive, fatal lung disease that leads to breathlessness, which then exacerbates predisposition and causes serious illness in later stages.

Major primary and secondary sources for smart inhalers include GlaxoSmithKline plc, Adherium Limited, Vectura Group plc, Cohero Health, Boehringer Ingelheim GmbH, AstraZenca plc, Teva Pharmaceuticals, Properlir Health and OPKO Health Inc.

North American Respiratory Device Market 2022 - 2028⁴

The US respiratory device market was circa US\$7.3 billion in 2022 and is anticipated to grow at a compound annual growth rate of approximately 8.8% to US\$12.1 billion during the period 2022-2028. 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.

² MST Access and Management, August 2022

³ Market Data Forecast – North American Smart Inhalers Market to 2027, January 2022

⁴ Research and Markets – North American Respiratory Care Devices Market Forecast, August 2022

Infectious respiratory diseases are creating a rising burden on the healthcare system across North America. The diseases can be induced due to several factors associated with immune deficiency. The severity of contagious respiratory diseases ranges from mild to severe. tuberculosis, COVID-19, influenza, diphtheria, measles, pneumonia, pertussis, and respiratory syncytial virus are a few examples of infectious respiratory diseases. The increasing cases of tuberculosis propel the usage of respiratory care devices and drive the market growth.

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 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.

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RSM Australia Pty Ltd is a member of the RSM network and trades as RSM.
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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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Adherium Limited Annual General Meeting

The Adherium Limited Annual General Meeting will be held on Wednesday, 30 November 2022 at 3:00pm (AEDT). You are encouraged to participate in the meeting using the following options:



MAKE YOUR VOTE COUNT

To lodge a proxy, access the Notice of Meeting and other meeting documentation visit www.investorvote.com.au and use the below information:



Control Number: 131953
SRN/HIN: I9999999999
PIN: 99999

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

For your proxy appointment to be effective it must be received by 3:00pm (AEDT) on Monday, 28 November 2022.



ATTENDING THE MEETING IN PERSON

The meeting will be held at:
Offices of K & L Gates, Level 25, Rialto South Tower, 525 Collins Street, Melbourne, VIC 3000

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.



Adherium Limited
ABN 24 605 352 510

ADR

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

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 **3:00pm (AEDT) on Monday, 28 November 2022.**

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.

PARTICIPATING IN THE MEETING

Corporate Representative

If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com/au and select "Printable Forms".

Lodge your Proxy Form:

XX

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: 131953
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.

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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 Annual General Meeting of Adherium Limited to be held at Offices of K & L Gates, Level 25, Rialto South Tower, 525 Collins Street, Melbourne, VIC 3000 on Wednesday, 30 November 2022 at 3:00pm (AEDT) 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 Resolution 1 (except where I/we have indicated a different voting intention in step 2) even though Resolution 1 is 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 Resolution 1 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
Resolution 1	Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-Election of William Hunter as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Election of Mr Lou Panaccio as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval of additional 10% Placement Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Amendment to the Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Issue of 152,500,000 Shares and 76,250,000 Options to Trudell Medical Limited	<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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Computershare

