22 February 2019

Dear Shareholders

Enclosed is a notice of a General Meeting of Factor Therapeutics' ("Factor") shareholders to be held at 10.30 am, Wednesday 27 March 2019. This meeting serves as both the Annual General Meeting and to satisfy a notice received under s249D of the Corporations Act from two new corporate shareholders in Factor, Pura Vida Energy NL ("Pura Vida") and Freshero Pty Ltd ("Freshero") (the "Requisitioners") to hold a General Meeting.

The General Meeting has been requested to propose removing three of Factor's current Directors – Cherrell Hirst (the Chairman); Tim Hughes and John Michailidis (both non-executive Directors) – and to replace them with two new Directors – Bruce Lane and David Sanders, both of whom are currently Directors of Pura Vida (refer to the Requisitioned Resolutions 5, 6, 7, 8 and 9 in the Notice of Meeting).

Both Pura Vida and Freshero have been shareholders of your Company for less than a month, holding 3.84% and 2.88% respectively at 15 February 2019. Voting for and passing of the Requisitioned Resolutions will deliver control of Factor's Board to the representatives of Pura Vida, a small oil and gas explorer based in Western Australia.

The Requisitioned Resolutions 5, 6, 7, 8 and 9 have NOT been endorsed by, and are NOT supported by, the Directors who have considered the Resolutions. Your Directors urge you to vote AGAINST these resolutions.

To assist shareholders in considering the Requisitioned Resolutions we have set out your Directors':

1. Plan for the Company's future direction;
2. Reasons for recommending you vote AGAINST the Requisitioned Resolutions; and
3. Response to factual inaccuracies in the Requisitioners' s249P Notice.

The Directors encourage you to read the Notice of Meeting carefully. If you have any questions please contact Melanie Farris, Company Secretary on 07 3334 3900 or by email at m.farris@factor-therapeutics.com.

1. Plan for the Company's future direction

The negative outcome of the Phase 2 clinical trial places Factor at a critical juncture. The Board has clearly defined that the most appropriate future path for the Company – one which offers the potential to return value to all shareholders – is to acquire a new asset in the biotechnology/life sciences sector and to develop that asset to commercial success.

Your current Directors have a clear purpose and the necessary capabilities to identify and execute the Company's future plans; with a perspective, background and expertise that is highly relevant for this stage of Factor's journey.

The Board strongly believes the Requisitioners' proposal is not in the best interests of the Company and its shareholders as it seeks to remove three Directors – Cherrell Hirst, Tim Hughes and John Michailidis – who have made, and continue to make, significant contributions to the Board.

The current Board members of Factor have worked cooperatively and with a deep level of engagement throughout the period since the Company formulated its plans, to undertake the Phase 2 clinical trial, in 2015 and through the significant challenges of recent months. In a demonstration of our commitment to both capital preservation and working in the best interests of shareholders, your Directors have been working for no remuneration since the receipt of the very disappointing Phase 2 clinical trial results.

Tim Hughes and Cherrell Hirst saw the Company through the difficult days of 2015 when the Chairman and CEO stepped down: reassuring shareholders, significantly downsizing the Company, appointing Christian Behrenbruch as an Executive Director and, together with Chris and Taylor Collison, raising capital to undertake the Phase 2 trial.

The Board was expanded in late 2016 to include Dr Robert Ryan, for his significant expertise and experience in taking dermatology and wound care products to market and John Michailidis, with his experience and expert knowledge in the commercial aspects of taking products through development.

In 2017 your Board appointed Dr Rosalind Wilson as CEO, managed the transition away from the Executive Director model and played a very active role in overseeing the Phase 2 trial. In particular, the Board worked closely with management through the challenges encountered in recruiting the trial.

The Board's strategic focus for the Company throughout was on completing the Phase 2 trial whilst simultaneously undertaking cost-efficient work to build the foundation of a future pipeline in the event the trial was successful. The quantum of capital raised in 2016 was determined to fit that goal and in a tightly constrained environment the Board has very effectively managed the Company's available cash, including one five-month period when Directors' fees were reduced by 50%.

Since the very disappointing result of the Phase 2 trial was announced, your Directors have continued to work in this way, identifying and assessing opportunities to take the Company forward for the greatest benefit for shareholders, whilst taking no remuneration.

The Board has identified a high-potential biotechnology asset opportunity and negotiations are now at the point of detailed due diligence, a process for which the current Board is extremely well-suited.

Your Chairman, **Dr Cherrell Hirst** has a very long career as a medical practitioner and researcher before becoming a full-time non-executive Director. Her contribution to Factor has been through her clinical knowledge and her long and broad experience in corporate governance, predominately across the health and biotechnology sectors but also in education, aged care and insurance. Her considerable experience as Chair in various settings has enabled her to lead the Factor Board through the challenges of the last several years, ensuring that communications with shareholders are open, honest, frequent and able to be understood. Overcoming the immense disappointment of the trial results she, along with her fellow Directors, is now highly motivated to complete a corporate transaction with a well-diligenced opportunity which is intended to bring value to Factor shareholders.

Tim Hughes has extensive experience in corporate life as a senior executive and as a Director. He has over 35 years' experience as a senior executive in investment management, investment banking and finance. This includes thirteen years at Rothschild where he was a board director and executive committee member. His roles there included overseeing small and micro capitalisation equity investing. He was Chief Investment Officer for two major industry superannuation funds including managing investments in small and micro capitalisation equities and private equity. In addition he wrote a column on finance and economics for The Courier-Mail for 17 years. He has brought great value to Factor through his strategic thinking and deep understanding of commercially-oriented governance. His extensive experience in investment banking and finance provides a perspective that is highly complementary to the other Board members. His contributions to governance and Board culture are invaluable and Factor shareholders have benefitted continuously from that experience, including as chair of the Company's Audit & Risk Committee.

John Michailidis has a long and successful track record in Executive roles in large pharmaceutical companies as well small capitalisation biotechnology companies. His experience spans drug development and commercialisation in a number of therapeutic areas including oncology, biologics inflammation, autoimmunity and others in an array of geographical regions, including Europe, the USA, Asia and Australia. Factor was extremely fortunate to have John join the board in February 2017 as his skills complemented those of other Directors, particularly in the areas of product development and market launch. His significant experience in drug development combined with his commercial nouse provided a sound basis to the Board's discussions on almost every issue. He has chaired the Remuneration committee, bringing experience and sound judgement to a challenging area for any Board; especially in a cash-constrained environment dependent on shareholder funding.

More detail as to the specific track records of these three directors can be found in the Directors' profiles included in this Notice of Meeting.

2. Reasons for recommending you vote AGAINST the Requisitioned Resolutions

a) <u>Pura Vida will effectively obtain control of Factor without making an offer.</u>

The effect of voting for and passing of the Requisitioned Resolutions will be a Board comprising Mr Lane and Mr Sanders, representing Pura Vida's interests. The remaining Board member, Dr Christian Behrenbruch, has indicated to your Board that he intends to resign as a Director should the Requisitioners' motions be passed.

If the Requisitioned Resolutions are passed, the representatives of Pura Vida will be in control of the Board; and this will have been achieved through acquiring 40 million shares in Factor, less than a month ago, for the outlay of approximately $100,000.

In your Board's view, the Requisitioned Resolutions represent an opportunistic attempt by the Requisitioners to take control of Factor at the board level without making an offer and having paid any premium to shareholders to enable it do so, and at a time when the results of our efforts to restructure the Company are hopefully starting to come to fruition, as illustrated above and in our recent announcements to the market.

Your Board believes that if Pura Vida wishes to control Factor it should attempt to do so via an offer for the Company.

b) <u>No plan has been presented.</u>

The plan put forward by the Requisitioners in their s249P Members' Statement consists of:

> *"…further research and development spending must cease forthwith. In the meantime, the Company's precious cash reserves need to be preserved. We firmly believe that FTT needs new Board members with the right experience to guide the Company forward and to restore value for all shareholders."*
>
> *Source: Requisitioners' Statement (249P)*

As explained in Section 3, all material research and development spending has ceased and the Directors are very carefully husbanding the Company's cash resources. These efforts have extended to the Directors working for no fee since the announcement of the Phase 2 results in mid-November 2018.

The Requisitioners have not put forward any plans for your Company whatsoever and have made no attempt to articulate what the "right experience" entails.

Your Board can only conclude that Pura Vida and Freshero are opportunists that have no plans for your Company other than to obtain Board control without making an offer.

c) *<u>Pura Vida's independent auditor issued a qualified opinion and stated that there is material uncertainty related to Pura Vida's ability to continue as a going concern.</u>*

In Pura Vida's most recent Annual Report its Independent Auditor, BDO, made the following statements in their Independent Auditor's Report:

Basis for Qualified Opinion

As disclosed in note 17(a) to the financial statements, there is a dispute over the commencement date of Pura Vida's obligations under the Nkembe Production Sharing Contract (PSC), which has prevented Pura Vida progressing funding discussions to meet its obligations under the PSC and has therefore resulted in force majeure being claimed by the Company. The Company has stated that until such time as the dispute is resolved, it is not possible to quantify the likely commitment and/or payable (if any) under the PSC. As such management were unable to provide support as to its commitment or obligation under the PSC as at 30 June 2018 and we were unable to obtain sufficient appropriate audit evidence to determine whether any adjustments to the commitments or other payables note disclosure was necessary.

As disclosed in Note 8 and 17(a) to the financial statements an amount has been accrued based on the date on which the Nkembe PSC was signed (11 January 2013). In light of circumstances noted above, management were unable to provide support as to the accuracy of the obligation owing as at 30 June 2018. Consequently, we were unable to determine whether any adjustments might have been necessary in respect of the carrying amount of others payables as at 30 June 2018, and the elements making up the statements of profit or loss and other comprehensive income.

Material uncertainty related to going concern

We draw attention to Note 24(b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Source: Pura Vida Energy NL Annual Financial Report 2018

Whilst Pura Vida's Auditor has been unable to quantify the company's financial position in relation to the work commitments under the Nkembe PSC, Pura Vida did disclose in its 2017 Annual Report a commitment, payable within one year of A$21.5 million. In its 2018 Annual Report Pura Vida states it had spent US$1.4 million towards these work commitments and US$8.6 million of allowable costs. This commitment was reduced to nil in the 2018 Accounts; presumably because Pura Vida did not intend to expend the funds until its dispute was resolved.

d) Shareholders should carefully note the performance of Pura Vida.

Factor shareholders should be aware of the performance of Pura Vida.

Pura Vida trades on the ASX under the code PVD with a current market capitalisation of approximately $5.0 million. It is listed as an Australian-based African oil explorer. The company has an interest in the Nkembe block, offshore Gabon and the Ambilobe block, offshore Madagascar.

Pura Vida's board stated in its most recent Annual Report that its focus is to extract value from its existing oil and gas assets, seek new investment opportunities and significantly reduce costs.

The board consists of the Chairman, Bevan Tarratt; a part-time Executive Director, Nathan Lude; and non-executive Directors David Sanders and Bruce Lane.

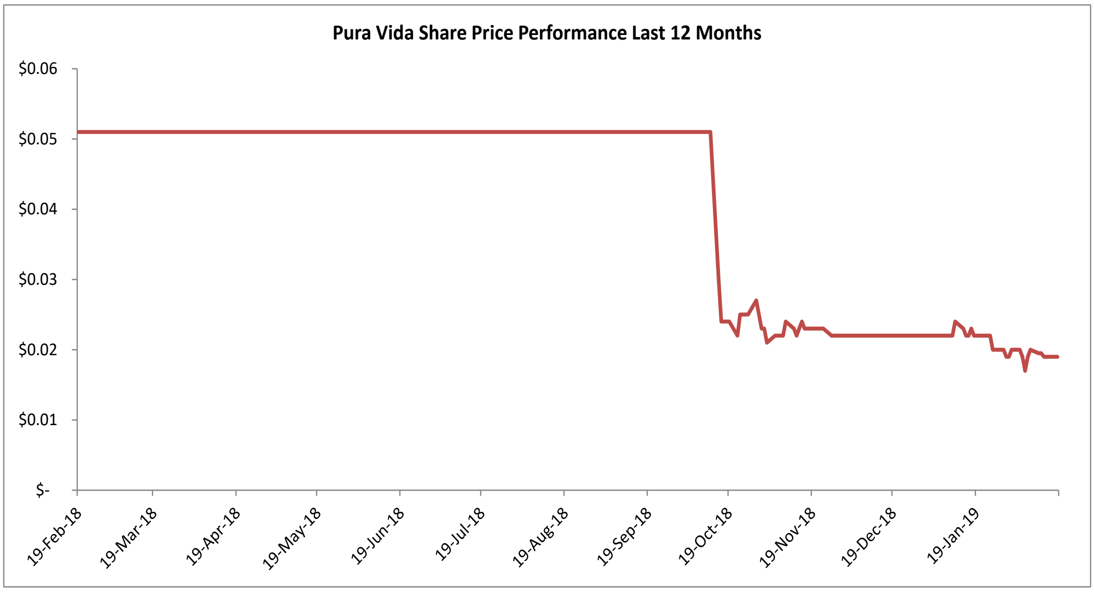
The company has no full-time employees. Pura Vida's last Chief Executive Officer resigned on 22 March 2017 and his role was assumed by the then Chairman, Simon Eley, on an interim basis. Simon Eley, who had responsibility for the day-to-day operations of Pura Vida, resigned on 24 May 2018.

None of the board members possess technical qualifications in oil and gas.

Share Price Performance

Shares in Pura Vida were suspended from trading on 2 February 2018 with the share price at $0.051 and only returned to trading on 15 October 2018 and opened at a share price of $0.035. The shares are currently trading at $0.019.

This represents a shareholder return of -62.7% since the shares were suspended and -45.7% from the opening price following release from suspension.



Financial Performance

As at 30 June 2018 Pura Vida had net assets of $4.9 million which included cash of $9.0 million (now $8.0 million) and other payables of US$2.9 million under the Nkembe PSC. As noted above this amount is listed as in dispute by Pura Vida and no amount is recorded under future capital commitments in relation to Nkembe. Future capital commitments in relation to their Ambilobe project are listed as $3.4 million.

Pura Vida recorded a loss of $3.0 million for the 2018 financial year and at 30 June 2018 had accumulated losses of $50.6 million.

Impact on Major Asset

On 24 January 2019 Pura Vida announced that the Gabonese Directorate General for Hydrocarbons ("DGH") had fully released Pura Vida of its interest in its main asset, the Nkembe PSC. The DGH assert that Pura Vida remains "contractually obligated to satisfy its outstanding technical and financial commitments…".

This contractual liability remains unquantified by Pura Vida.

Use of Cash

Pura Vida spends a large proportion of its cash on Director costs, administration and corporate costs rather than on exploration and evaluation.

		Calendar Year 2018					
		Quarterly (000s)					
		Mar	Jun	Sep	Dec		Total
Receipts from customers		$19	$22	-	-		$41
Payments for							
	exploration and evaluation	($44)	($84)	($295)	($101)		($524)
	development	-	-	-	-		-
	production	-	-	-	-		-
	staff costs	($120)	($126)	($91)	($115)		($452)
	administration and corporate costs	($226)	($178)	($206)	($155)		($765)
Interest received		$20	$24	$28	-		$72
Net cash from/(used in) operating activities		($351)	($342)	($564)	($371)		($1,628)

e) <u>Credentials of Proposed Directors</u>

Bruce Lane

Mr Lane has provided the following information on his professional experience in the s249P Members Statement:

> *"Mr Lane (BComm, Msc, GAICD) has held leadership roles with a number of ASX companies and significant blue-chip companies in Europe and Australasia. He has experience in a range of industries including resources, consumer & industrial products and venture capital. Mr Lane has successfully managed the acquisition of new assets for a number of ASX companies and numerous private and public capital raisings including initial public offerings, mergers and reverse takeovers.*
>
> *He is a director of both shareholders who have requested the general meeting.*
>
> *Source: Requisitioners' Statement (249P)*

Given the nature of Mr Lane's professional experience, the Directors requested on 15 February 2019 that he provide further details of the leadership roles and the identity of the significant blue chip companies in Europe and Australasia. At the time of writing we have not been provided with any additional details.

We have been unable to identify evidence of any experience in healthcare/life sciences and biotechnology; nor has Mr Lane provided any such evidence as at the date of this Notice of Meeting.

Mr Lane has no other Directorships of ASX listed companies. His only other ASX listed company Directorship in the last 3 years was Protean Energy Limited (ASX: POW). Mr Lane ceased to act as a Director for that company on 26 July 2016 when it was known as Protean Wave Energy Limited. Mr Lane was appointed to the Board on 6 May 2014 as Managing Director when the company was known as Stonehenge Metals Limited.

David Sanders

Mr Sanders has provided the following information on his professional experience in the s249P Members Statement:

> *"Mr Sanders (BJuris, LLB (Hons), BComm, Graduate Diploma of Applied Finance) has more than 20 years' experience in corporate law. He has advised numerous entitites, including ASX listed and private companies, on capital raisings, mergers and acquisitions, commercial transactions, and ASX and Corporations Act compliance. Mr Sanders has also been a non-executive director of a number of small capitalisation ASX listed companies over the past 10 years.*
>
> *He is a director of Pura Vida Energy NL, one of the shareholders who has requested the general meeting.*
>
> *Source: Requisitioners' Statement (249P)*

A search of public domain information has shown that Mr Sanders is Principal of Bennett + Co, a Western Australian law firm that provides legal services to Pura Vida. We have been unable to identify evidence of any experience in healthcare/life sciences and biotechnology; nor has Mr Sanders provided any such evidence as at the date of this Notice of Meeting.

A search of public records shows that, other than Pura Vida, Mr Sanders is currently a Director of the ASX listed companies Caeneus Minerals Limited (ASX: CAD), Force Commodities (ASX: 4CE) and Victory Mines (ASX: VIC) which has been suspended from trading since 11 September 2018.

f) Credentials of other Pura Vida Directors

Bevan Tarratt

Mr Tarratt has an accounting background and according to the Pura Vida 2018 Annual Financial Report "has extensive equity capital market experience with Paterson's Securities Limited".

A search of public records shows that, other than Pura Vida, he is currently a Director of the ASX listed companies Protean Energy Limited (ASX: POW), Fenix Resources (ASX: FEX) whose shares were suspended between 7 May 2018 and 30 November 2018 and Jacka Resources (ASX: JKA) which has been suspended from trading since 20 September 2018.

Nathan Lude

Mr Lude has experience in asset management, mining and the energy industry. He operates a boutique advisory firm, Advantage Management Pty Ltd.

A search of public records shows that, other than Pura Vida, he currently holds no other Directorships of ASX listed companies and the Pura Vida Annual Report indicates he has not held any for the last 3 years.

3. Response to the Requisitioners' s249P Notice

The Requisitioners have prepared a statement outlining their position (Annexure B in the Company's Notice of Meeting). The Board is concerned that this document contains some inaccurate information and also appears to reflect a limited understanding of the life sciences sector. We are therefore taking this opportunity to address a number of statements below (quoted, in boxed text):

> *"Prior to requesting a shareholder meeting we contacted the Company to request representation on the Board. Our request was rejected."*

The initial approach to the Company was in separate phone calls by two individuals (Nathan Lude and Bevan Tarratt – refer paragraph 2(f) above) to individual Directors (Christian Behrenbruch and Cherrell Hirst). Mr Lude and Mr Tarratt identified themselves as representatives of "unrelated parties" and claimed to collectively hold 200 million shares in the Company; they verbally requested Board representation on this basis alone.

Mr Lude approached Christian Behrenbruch by email on 23 January 2019 (after acquiring shares in Factor on 22 January 2019); and they subsequently spoke by telephone on 25 January 2019; and Cherrell Hirst was contacted by Mr Tarratt, also on 25 January 2019. During the phone call with Cherrell Hirst, Mr Tarratt conferenced in Mr Lude and a third individual, Tim Neesham.

With no substantial shareholder notice having been filed and with the share register on 24 January 2019 listing both PVD and Freshero as holding less than 5% of your Company, the request for board representation was declined.

In both conversations Dr Behrenbuch and Dr Hirst shared the Company's current status, emphasising that while the process of evaluating new opportunities was well advanced, the Board was very willing and open to receiving additional proposals for evaluation.

On 28 January 2019 Cherrell Hirst received an email from Mr Lude repeating the request for representation on the Board but again providing no evidence of any substantial shareholding. Dr Hirst subsequently replied with the same message as had been given in the telephone calls.

No concrete proposals for the Company's future were provided during these contacts and none have been received at the time of writing.

"…in our view the Board should be accountable for [the unsuccessful phase 2 study]…and should be refreshed."

"We firmly believe that…[Cherrell Hirst and John Michailidis]…are not the right people to lead your Company forward, nor do they appear to have any relevant experience to do so. Whilst Mr Hughes has extensive investment management and banking experience, again we do not believe his experience is relevant to the segment of the market that shareholders now find themselves in [a small capitalisation public company]."

The Board believes that its current composition is entirely appropriate for Factor at this critical point in the Company's journey. While the results of the Phase 2 clinical trial were extremely disappointing and not as we had hoped, the quality of the design and execution of the trial and the rigour with which the results were evaluated for decision-making are beyond question.

The Board has clearly defined that the most appropriate future path for the Company – one which offers the potential to return value to all shareholders – is to acquire a new asset in the biotechnology/life sciences sector. Ideally this asset will be undergoing, or close to commencing, human clinical trials.

The Board is currently evaluating what it believes is a high quality biotechnology asset and negotiations are now at the stage of technical due diligence. The skills and experience of the current Board are an excellent fit for this process, a fact acknowledged by the Requisitioners:

"The qualifications and experience of Dr Hirst and Mr Michailidis in the scientific and bio-medical fields are undeniable."

"…we were surprised…that the Board planned on spending over $2,000,000 in the current quarter, including $1,650,000 on research and development…Apparently at least part of this is the payment of 'contractual commitments' with respect to the failed trial, although your Board has not articulated what this means."

This statement suggests a lack of understanding of how life sciences research and development (R&D), including clinical trials, is conducted and paid for. A 2-to-3 month delay between completing clinical trial activity and subsequent flow-through of costs is typical for life sciences R&D activities, as progress payments are scheduled according to agreed milestones; and key milestones related to completing a study extend beyond the timepoint when study results first become available.

Therefore, regardless of the outcome of the Phase 2 trial, the Company had a contractual obligation to pay for work already done.

Apart from the relatively small expense involved in maintaining the Company's intellectual property portfolio, all discretionary R&D spending ceased upon receipt of the trial results: every activity that could have been ceased was terminated; all staff were given notice; and your Directors volunteered to cease receiving Board fees.

"…we are also concerned about the management of the Company's R&D tax rebate process…"

The Board closely monitors both cash flow and solvency and has consistently taken the view that it is crucial not to overstate any potential R&D tax incentive payment that may or may not be received. There is always a degree of uncertainty around receipt of these funds from the federal government's R&D Tax Incentive Scheme, as it is dependent upon rigorous assessment processes in the course of submitting its annual company tax return.

In Factor's case, the vast majority of R&D spend (and subsequent R&D tax incentive receipts) has been driven by the Phase 2 trial which was conducted in the United States and required the Company to obtain an Advanced Overseas Finding. This brought an added level of complexity and potential uncertainty around the final assessment of R&D activities that may be considered "eligible" to attract the tax incentive claim.

In the half year report for the six months to 30 June 2018 the Company noted that it had elected to take a conservative approach to its estimated R&D tax incentive claim, including a provision (of approximately $160,000) based solely on eligible Australian R&D activities. This was in contrast to previous years, where provisions reflected both Australian and overseas eligible R&D activities. This approach was taken in light of the complexities of the R&D tax incentive assessment process and the fact that the Company's Overseas Advanced Finding for the Phase 2 clinical trial was approaching the end of its 3-year term.

In the Appendix 4C for the quarter to December 2018 the Company estimated potential receipt of approximately $1.2 million through the R&D tax incentive scheme. Subsequently, on completion of the Company's annual tax return, the finalised figure of approximately $2.5 million was received from the Company's external advisors and, recognising a significant difference, the Company acted immediately to update the market. It is important to note that this significant increase in the claim was made after a rigorous assessment by the Company's expert external advisors and was not something that was known to the Company until those expert advisors had made their assessment.

It is also worth noting that the early closure of the Phase 2 trial brought a number of costs forward, increasing the spend on eligible R&D in 2018.

"…further research and development spending must cease forthwith…the Company's…cash reserves need to be preserved."

All discretionary R&D spending ceased with the release of the Phase 2 trial results with the exception of a very modest provision (in the range of $10,000 - $25,000 per month) of R&D expenditure to preserve the value of our existing intellectual property portfolio. The Board fully agrees that the Company's cash must be preserved and has worked diligently to do so, including waiving Directors' fees.

It is important to note that no provision has been made for costs associated with the s249D notice received from the Requisitioners.

In conclusion, the Board strongly believes the Requisitioners' proposal is not in the best interests of Factor's shareholders. Your current Directors have a clear future plan for the Company. Coupled with their commitment, engagement and highly relevant skillset, this Board is extremely well-suited to guide this stage of Factor's journey.