

COMPUMEDICS LIMITED
ACN 006 854 897

NOTICE OF ANNUAL GENERAL MEETING
AND
EXPLANATORY MEMORANDUM

Date of Meeting
30 October 2014

Time of Meeting
10.30 am

Place of Meeting
30-40 Flockhart Street, Abbotsford Victoria 3067

COMPUMEDICS LIMITED
ACN 006 854 897

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is given that the Annual General Meeting of Compumedics Limited (ACN 006 854 897) ("**the Company**") will be held at 30-40 Flockhart Street, Abbotsford Victoria 3067 Australia on Thursday 30th October 2014 at 10.30 am.

The accompanying Explanatory Memorandum ("Explanatory Memorandum") provides additional information relating to the matters to be considered at the Annual General Meeting and forms part of this Notice of Annual General Meeting ("Notice"). Certain terms and abbreviations used in this Notice and the Explanatory Memorandum have defined meanings, which are explained in the Explanatory Memorandum.

Business

1. Re-election of director

Mr Alan Anderson who retires by rotation offers himself for re-election as a Director of the Company.

2. Financial Statements and Reports

To receive and consider the financial report of the Company and the reports of the Directors and the Company's auditor for the year ended 30 June 2014.

3. Adoption of Remuneration Report

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

"That the section of the report of the Directors entitled "Remuneration Report" dealing with the remuneration of the Company's Key Management Personnel be adopted".

Notes

(1) Under s 250R(3) of the Corporations Act, the vote on this item is advisory only and does not bind the Directors or the Company.

(2) Key Management Personnel whose remuneration details are contained in the Remuneration Report (and their closely related parties) are restricted from voting on this resolution under s 250R(4) of the Corporations Act.

4. Adoption and implementation of the Medical Innovation Long-Term Performance Plan and issue of shares to Dr David Burton under that Plan

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

(a) "That the terms of the Medical Innovation Long-Term Performance Plan ("MI LTPP") be approved."

(b) "That pursuant to the MI LTPP, Dr David Burton, a Director of the Company, or his nominee, be allocated 8% of the shares in Compumedics Medical Innovation Pty Ltd, a wholly owned subsidiary of Compumedics Limited".

BY ORDER OF THE BOARD

David Lawson
30 September 2014

VOTING AND PROXIES

Eligibility

You will be eligible to vote at the meeting if you are registered as a holder of shares of the Company at 5 pm Melbourne time on 28 October 2014.

Appointing a proxy

If you are entitled to attend and vote at the meeting, you can appoint a proxy to attend and vote on your behalf. A proxy need not be a Shareholder of the Company and may be an individual or a body corporate.

If you are a Shareholder, and you are unable or do not wish to attend and vote at the meeting, and you wish to appoint a proxy, please complete and return the enclosed proxy form. If you are entitled to cast two or more votes, you may appoint two proxies and specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify a proportion or number, each proxy may exercise half of the votes. If you require a second proxy form, please contact the Registry on 1300 554 474.

Lodging your proxy form

You can lodge your proxy form by:

- Mailing it to the Registry at Locked Bag A14, Sydney South NSW 1235
- Faxing it to the Registry on (02) 9287 0309 or to + 61 2 9287 0309 (from outside Australia)
- Hand delivering it to the Registry at Level 12 680 George Street, Sydney NSW 2000
- Lodging your proxy online at www.linkmarketservices.com.au in accordance with the instructions given there (you will be taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website).

Your completed proxy form (and any necessary supporting documentation) must be received by the Registry no later than 10.30am on 28 October 2014.

If the proxy form is signed by an attorney, the original power of attorney under which the proxy form was signed (or a certified copy) must also be received by the Company by 10.30am on 28 October 2014 unless it has been previously provided to the Company. If the proxy is signed under power of attorney, the signatory must also declare that they have had no notice of revocation of the power of attorney.

If you appoint a proxy, you may still attend the meeting. However, if you vote on a resolution your proxy is not entitled to also vote on that resolution.

Voting at the meeting

At the meeting, on a show of hands each Shareholder present may cast one vote. For these purposes a Shareholder being 'present' includes a person present as a proxy, attorney or body corporate representative.

Please note that the Chairman of the meeting intends to vote undirected proxies in favour of all resolutions.

EXPLANATORY MEMORANDUM

Defined Terms

The following terms, which are used in this Notice (including this Explanatory Memorandum), have the meanings set out below:

‘ASX’ means Australian Stock Exchange Limited ABN 98 008 624 691;

‘Board’ means the board of directors of the Company;

“CMI” means Compumedics Medical Innovation Pty Ltd ACN 006 970 921;

‘Company’ means Compumedics Limited ACN 006 854 897;

‘Corporations Act’ means the Corporations Act (Cth) 2001;

‘Key Management Personnel’ or ‘KMP’ are the Directors of the Company and those other persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Remuneration Report section of the Directors’ Report identifies the relevant persons for the year ended 30 June 2014;

‘Listing Rules’ means the Listing Rules of the ASX;

‘Shareholder’ means a person who is registered as a holder of shares of the Company and

“Shareholders” means all the holders of shares of the Company.

Item 1:

Election of Director

Mr Alan Anderson who retires by rotation offers himself for re-election as a Director of the Company.

Mr Anderson, 58, is a leading American attorney in the areas of commercial litigation, intellectual property and computer law. He has represented the Company for all legal matters in the USA since late 1998. Mr Anderson completed his Bachelor of Arts with Honours (Political Science) at Coe College. He also holds a Master of Business Administration with Distinction, a Doctor in Law with Honours from Cornell University, and a Certificate in International Business and Commercial Law from the McGeorge School of Law (University of the Pacific).

Item 2:

Financial Statements and Reports

During this item there will be an opportunity for Shareholders at the meeting to ask questions and comment on the Director’s Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2014. No resolution will be required to be passed on this matter.

Item 3:

Adoption of Remuneration Report

The Corporations Act requires that the section of the Directors’ report relating to director and executive remuneration (the “Remuneration Report”) be put to a vote of Shareholders for its adoption. The vote is advisory only and does not bind the directors of the Company.

The Remuneration Report can be found at pages 6 to 12 of the Financial Statements in the Company’s 2014 Annual Report. Following consideration of the Remuneration Report, Shareholders will be given a reasonable opportunity to ask questions or comment on the Remuneration Report.

A vote must not be cast (in any capacity) on Resolution 3 by or on behalf of a member of Compumedics Limited's Key Management Personnel ("KMP"), details of whose remuneration are included in the Remuneration Report, or their closely related parties, whether as a shareholder or as a proxy. However, a vote may be cast on Resolution 3 by a KMP, or a closely related party of a KMP, if:

- the vote is cast as a proxy;
- appointed by writing that specifies how the proxy is to vote on Resolution 3; and
- the vote is not cast on behalf of a KMP or a closely related party of a KMP.

If the Chairman of the meeting is appointed as your proxy, you are expressly authorising the Chairman of the meeting to exercise your proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

Item 4

Adoption and implementation of the Medical Innovation Long-Term Performance Plan ("MI LTPP") and issue of shares to Dr David Burton under that Plan:

In accordance with the Listing Rules and the Corporations Act, Shareholders are asked to approve the implementation of the MI LTPP and the issue of 8% of the shares in Compumedics Medical Innovation Pty Ltd ACN 006 970 921 ("CMI"), a wholly owned subsidiary of the Company, to Dr David Burton or his nominee.

The information relating to this Item is intended to meet the legal requirements imposed on the Company to provide sufficient information to Shareholders to allow them to properly consider and make informed decisions on Resolutions 4(a) and 4(b) for all relevant purposes.

Regulatory requirements

The Board considers that Shareholder approval under Chapter 2E of the Corporations Act (related party benefits) is not required because the CMI shares proposed to be issued to Dr Burton or his nominee are part of Dr Burton's reasonable remuneration and therefore fall within an exception to the requirements for Shareholder approval in Chapter 2E. However, Shareholder approval is sought for the purposes of section 260C of the Corporations Act (exemption for approved employee share schemes in relation to financial assistance given by a company for acquiring shares in the company).

The Board has received advice that shareholder approval is not required under Rule 10 of the Listing Rules.

MI LTPP

The Board originally proposed the MI LTPP in 2005 after extensive consultation with appropriate third-party experts regarding the suitability and appropriateness of the MI LTPP as an effective reward mechanism for the long-term development and commercialisation of intellectual property by the Company.

The MI LTPP was deemed appropriate at that time and disclosed in the Company's 2005 Annual Report as part of the Remuneration Report. Shareholders of the Company approved the Remuneration Report at the 2005 Annual General Meeting. Since then, the MI LTPP has remained in place and has been disclosed and described in the Remuneration Report in each and every subsequent reporting period (including the 2014 Annual Report). Details of the MI LTPP are described below.

The MI LTPP was established to provide an incentive for the head of the Medical Innovations Division ("Division Head") of the Company. The Division Head has been and currently is the Executive Chairman, Dr David Burton.

The rationale of the MI LTPP is to reward the Division Head where commercial projects are established that satisfy all of the following 3 criteria ("the Criteria"):

1. The commercial project is based on innovative, novel and patentable intellectual property or technology;
2. The intellectual property is supplementary to, but consistent with, the ongoing businesses of the Company; and
3. There is significant risk attached to the development of the intellectual property or technology and the commercialisation thereof.

Where the Remuneration Committee considers that the Criteria are satisfied, a commercial project will be eligible for inclusion under the MI-LTPP.

Parameters of the MI LTPP include that the Division Head will be entitled to an 8% equity in any subsidiary entities of the Company that develop projects that meet the Criteria. The 8% equity entitlement was designed to provide an incentive to the Division Head to create intellectual property and projects of value to the Company and to only deliver value to the Division Head where value is also created for the Company

Medical Innovations Division and Compumedics Medical Innovation Pty Ltd

To date, the Medical Innovations Division has operated within the Company and not in a subsidiary or subsidiaries as contemplated under the MI LTPP.

Over recent years, the following projects ("Approved Projects") have been established which, in the opinion of the Remuneration Committee and the Board, satisfy the Criteria:

- Sleep Treatment
- In-depth Anaesthesia
- Sleep Services and mobile health
- Driver Vigilance
- Stroke treatment services

CMI was established in 1988 but has been dormant since that time. Accordingly, its only asset is its paid up capital of 184 ordinary shares. It is currently a wholly owned subsidiary of the Company.

Remuneration Committee review of MI LTPP

The Remuneration Committee undertook a review of the MI LTPP during the financial year ended 30 June 2014 to ensure its ongoing relevance and appropriateness. As part of this review the Remuneration Committee sought expert third party advice from appropriate human resource and taxation experts.

Following this review and consideration of the advice obtained, the Remuneration Committee recommended to the Board that:

- (a) the intellectual property associated with the Approved Projects be transferred to CMI; and
- (b) 8% of the equity of CMI be issued to Dr Burton or his nominee pursuant to the MI LTPP.

Part of the basis of this recommendation was to ensure clarity of ownership of the appropriate legal entity carrying out the long-term development work and to ensure any future value derived by such activities are taxed appropriately, including in accordance with the concessional capital gains tax provisions. Under the concessional provisions of the capital gains tax provisions, shares in an entity must have been held for at least twelve months to take advantage of the concessional rates of capital gains tax.

In reaching its recommendation, the Remuneration Committee also took account of the market value of the intellectual property to be transferred to CMI prior to the proposed issue of the shares to Dr Burton or his nominee. As noted in further detail below, a valuation from an independent valuer indicated that the market value of the intellectual property to be transferred was \$482,000 (with a valuation range of

\$458,000 to \$530,000) meaning that, assuming no discount was applied, the shares proposed to be issued to Dr Burton would have an approximate market value of \$38,560.

Independent valuation

As noted above, as part of the implementation of the MI LTPP, it is proposed to transfer to CMI the intellectual property related to the following items:

- SomniLink® SPAP® Sleep Treatment
- ON-LINE -eHeathMEDICS
- Anaesthesia & associated non-linear dynamical brain analysis
- Driver Vigilance

The Remuneration Committee obtained an independent valuation (from Hayes Knight Corporate Pty Ltd) which provided an opinion as to the market value of the relevant intellectual property. The report:

- (a) noted that the only technology which involved a currently commercialised and marketable product was SomniLink® SPAP® Sleep Treatment but this product was not sold in any commercial volumes;
- (b) indicated that the other intellectual property had not moved substantially beyond the concept stage; and
- (c) gave a market value to the intellectual property of \$482,000 (with a valuation range of \$458,000 to \$530,000).

In addition to this valuation, the Remuneration Committee also considered that the issue of shares in CMI to Dr Burton or his nominee, when combined with his other remuneration, constituted fair and reasonable remuneration for Dr Burton and properly reflected Dr Burton's contribution to the Company.

Cost to the Company

The cost to the Company of the issue of 8% of the shares in CMI is estimated to be 8% of the market value of CMI on the assumption that the intellectual property identified above is transferred to CMI immediately prior to the share issue. Based on the market value of the intellectual property proposed to be transferred to CMI, it is estimated that the shares to be issued to Dr Burton or his nominee will have an approximate market value of \$38,560.

The Company has also received advice that, in addition to the benefit provided, fringe benefits tax will be payable by the Company at the rate of 47% of the value of the benefit provided.

Assuming this to be correct, the cost to the Company of issuing the shares in CMI to Dr Burton is estimated to total \$56,683.

Board recommendation

The Board other than Dr Burton recommends Shareholders approve the MI LTPP and the issuing of an 8% equity interest in CMI to Dr Burton or his nominee.