adherium


# Annual Report

for the year ended 30 June 2019

Adherium Limited • ABN 24 605 352 510

# Company Overview

Adherium (ASX:ADR) is a global leader in digital health technologies which address sub-optimal medication use in chronic diseases. Our Hailie™ solution (formerly known as Smartinhaler™ solution) is the world's most clinically supported asthma and COPD medication adherence solution, leading to improved health outcomes for patients with chronic respiratory disease.

Adherium has the broadest range of "smart" devices for respiratory medications globally. The Bluetooth® enabled Hailie™ sensors wrap around a patient's existing inhalers and automatically send usage data to their smartphone. Using the Hailie™ app enables patients, caregivers and healthcare professionals to track medication adherence, set daily reminders, and discover insights into their medication usage.

# Table of Contents

# Chairman's Report

Dear Shareholders

Adherium, a company with 17 years of experience in adherence technologies, continues to be uniquely positioned to address the global respiratory digital health opportunity. The US remains a key target market, where our digital health technology has broad coverage of asthma and COPD medicines at an estimated 80% of the market. With our commercial partners, we also understand the opportunity across the globe as we work on market access and reimbursement in other geographies including the UK, Japan and China.

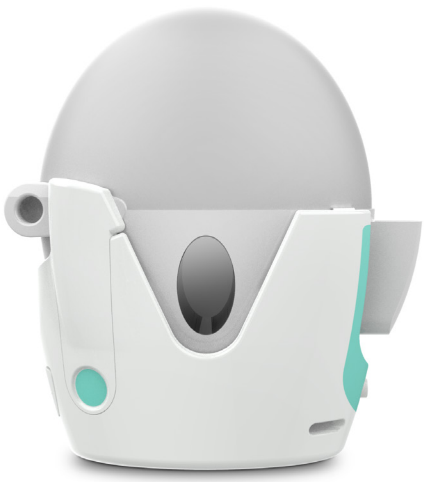
Globally, healthcare systems are undergoing unprecedented strain, driven by aging populations, pollution, and a rise in chronic diseases that are pushing healthcare costs ever higher. Simply put, healthcare systems have to do more for less. As exemplified by the US, and being explored in other markets, there is a move from the traditional "fee-for-service" healthcare reimbursement model to one based on value-based pricing. This change requires the remote patient monitoring technology that Adherium has today, the Hailie™ solution. Examples of this recent shift are new US remote patient monitoring codes established in January 2019, which can provide a reimbursement to healthcare providers of up to US$115 per patient per month. This provides an ethical and financial incentive for adoption of digital health technologies such as Adherium's Hailie™. These market drivers strongly align with our current value proposition and future roadmap, which we are now fully positioned to take advantage of.

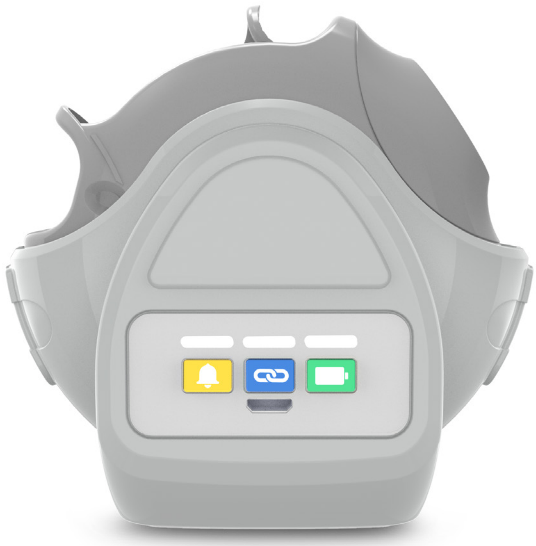
In order to take advantage of market changes and deliver on the value potential Adherium can bring, in December 2018 the Adherium Board took measures to restructure the company in order to accelerate global deployment and commercial success. This was in light of the growing acknowledgment by payers globally of the value digital health brings, most notably in the US. I am pleased that significant progress has been made toward commercial growth while delivering current operations and commercial obligations with an organization headcount that has remained consistent since.

We continue to extend our Hailie™ sensor market coverage. Earlier this year, the U.S. Food and Drug Administration (FDA) granted 510(k) clearance for over-the-counter (OTC) sales of our Hailie™ sensors for asthma and COPD inhalers using Advair® and Flovent® in the Diskus® format (known as Seretide® and Flixotide® Accuhaler® outside of the US), and Spiriva® in the Handihaler® format. In addition, we have successfully completed FDA and ISO 13485 audits with no significant findings arising.

As previously noted, our Hailie™ mobile patient app and physician platform have been completely reconcepted, with our strategic partner Arthur D. Little (ADL) and their Digital Practice. Adherium's platform is now globally scalable and adopts standards which make integration with customer platforms easier. Our approach to flexible integration has been met with positive feedback in comparison to our competitors in the field.

*U.S. Food and Drug Administration (FDA) granted 510(k) clearance for over-the-counter (OTC) sales of our Hailie™ sensors for asthma and COPD inhalers using Advair® and Flovent® in the Diskus® format (known as Seretide® and Flixotide® Accuhaler® outside of the US), and Spiriva® in the Handihaler® format.*





*The US remains a key target market, where our digital health technology has broad coverage of asthma and COPD medicines at an estimated 80% of the market.*

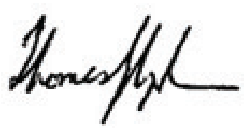
To take advantage of new mechanisms in the US, Adherium has partnered with Summatix, an emerging Class II regulated digital health platform, to take advantage of proprietary features related to digital health data monetization, compliance and reimbursement models. We see our collaboration with Summatix as being an important differentiator with our commercial partners in the US and we are excited to be working on the US opportunity together.

In "rest-of-world" Adherium is also now taking advantage of changes to digital health reimbursement. We have completed our investigation of software readiness in China, which requires specialist knowledge in order to manage differences in infrastructure and data requirements, as well as to understand differences in local market customer experience. We are in the process of obtaining sensor device marketing access in China, where Adherium is assisted by the Free Trade Agreement between China and New Zealand, as well as our Asia based manufacturing partner which also has local sites in China. In addition, we are exploring software readiness and integration options in Japan, and health system reimbursement for our Hailie™ solution in the UK.

We are excited by our recent initiatives in the US, with several emerging commercial collaborations, where we are collectively working through reimbursement. With our emerging partners, we believe there is significant and growing value in the Adherium business. Adherium's closest competitor, Propeller Health, was acquired earlier this year by ResMed for $220 million. With our customers and partners, we can see a route over the next 12-18 months to realising the value in our business, especially when taking into account new reimbursement incentives, our R&D roadmap and the emerging commercial partnerships which are now starting to take shape.

My personal thanks to Jeremy Curnock Cook as interim Managing Director and Dr Bill Hunter as Executive Director for supporting the business development for no additional remuneration, and to all the Board in foregoing 50% of their director fee cash payments. Thank you also to the Adherium team, who whilst now operating with a smaller number, have continued to deliver the pace of progress required to reposition the company for commercial growth.

I would also like to thank our shareholders who have continued to support Adherium over the last year, including those who participated in the recent $1.8 million convertible note facility, and I welcome the new investors in that facility and new shareholders through the year to the Adherium opportunity.



**Thomas Lynch**
Non-executive Chairman

# Directors' Report

The Directors present their report on the consolidated entity **(the Group)**, consisting of Adherium Limited **(the Company or Adherium)** and the entities it controlled at the end of, or during, the year ended 30 June 2019, together with the independent auditor's report thereon.

## Directors

The Directors of the Company at any time during the year and until the date of this report are:

**Mr Thomas Lynch, BSc, FCA.** Age 63.
Independent Non-Executive Chairman
*Appointed as a Director and Chairman on 1 September 2016.*

Mr Lynch has extensive capital markets experience in the internationalisation of the healthcare sector. Until recently he was chair of Icon plc, one of the world's largest clinical research organisations having served on its board for 22 years. Mr Lynch is currently a Chairperson at several notable organisations, including Evofem Holdings, Evofem, Dublin Academic Medical Centre, Sigmoid Pharma, Molecular Medicine Ireland and the Queen's University of Belfast Foundation. Mr Lynch also serves as a non-executive director of GW Pharma plc, a biotechnology company listed on NASDAQ and AIM. In a pro-bono capacity, Mr Lynch serves as chair of the Ireland East Hospital Group, the largest hospital group in Ireland. Mr Lynch has also served in a range of roles at Elan Corporation plc and Amarin Corporation plc. Throughout his career, Mr Lynch has been involved in the listing of a number of companies on the NASDAQ market and brings significant international capital markets experience to Adherium. Mr Lynch has held no other Australian public company directorships in the last three years.

**Mr Jeremy Curnock Cook, MA.** Age 70.
Executive Director
*Appointed as a Director on incorporation of Adherium Limited on 17 April 2015.*

Mr Curnock Cook was formerly head of the life science private equity team at Rothschild Asset Management in the UK and an active investor in the Australian life science sector. At Rothschild, Mr Curnock Cook was responsible for the launch of the first dedicated biotechnology fund for the Australian market. Over his 40-year career, Mr Curnock Cook has specialised in creating value in emerging biotech enterprises, through active participation with management. He has served on over 40 boards in various roles, including chair of private and public biotechnology companies listed on NASDAQ, LSE, TSX and ASX. Mr Curnock Cook received his MA in Natural Sciences from Trinity College in Dublin, Ireland. He is currently Managing Director of BioScience Managers (manager of a major shareholder in Adherium), Chairperson of Avena Therapeutics and AmpliPhi Biosciences and sits on the board of Avita Medical, Rex Bionics Pty and acts as an alternative director for Sea Dragon Ltd. Mr Curnock Cook was previously a director of Bioxyne Limited and Phylogica Limited. He has held no other Australian public company directorships in the last three years.

**Dr William Hunter, MD.** Age 56.
Executive Director
*Appointed as a Director on 17 December 2015.*

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 Drug-Eluting 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 Cardiome Pharma Corp (NASDAQ: CRME), a Director of Rex Bionics, Co-Founder of Canary Medical and is 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.

**Mr Bruce McHarrie, B.Com, FCA, GAICD.** Age 61.
Independent Non-Executive Director
*Appointed as a Director on 20 July 2015.*

Mr McHarrie is currently an independent director and consultant with over 20 years' experience in the health and life sciences sectors. He was formerly with Telethon Kids Institute in Perth, Western Australia, for 15 years, where his roles included Chief Financial Officer, Director of Operations and Director of Strategic Projects. Prior to joining Telethon Kids, Mr McHarrie was a Senior Manager at Deloitte in London before moving to Rothschild Asset Management as Assistant Director of the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology and healthcare companies. Outside his role at Adherium, he is currently an advisor to BioScience Managers (manager of a major shareholder in Adherium), a director at AusCann (Australasian Medical Cannabis) and an independent consultant. Mr McHarrie is a Fellow of the Institute of Chartered Accountants Australia and New Zealand. He holds a Bachelor of Commerce from the University of Western Australia and is a graduate member of the Australian Institute of Company Directors. Until recently, Mr McHarrie served as a non-executive director and chairman on the board of ASX listed company, Phylogica Limited. Mr McHarrie has held no other Australian public company directorships in the last three years.

As noted, as an advisor to BioScience Managers, Mr McHarrie has an association with a significant shareholder of the Company. The board of directors is of the opinion that this does not compromise Mr McHarrie's independence as to the best of the board's knowledge he is not involved in decision making by BioScience Managers and the value of the advisory services provided is not material.

**Professor John Mills, AO, SB, MD, FACP, FIDSA, FRACP.** Age 79.
Independent Non-Executive Director
*Appointed as a Director on 20 July 2015.*

Professor Mills is an internationally-regarded physician, scientist and biotechnology businessman. He was recruited from the US to Melbourne 25 years ago as the managing director of the Burnet Institute of Medical Research and Public Health. Since then Professor Mills has been managing director of an ASX-listed company, Narhex Life Sciences, chairman of another ASX-listed company, AMRAD Corp., executive chairman of a Swedish biotechnology company, Cavidi AB and non-executive director of a further ASX listed company, Phosphagenics Corp. Ltd. Thirteen years ago he co-founded a boutique anatomic pathology practice, TissuPath Specialist Pathology. Before taking his current position as Director of R&D at TissuPath, he served as Managing Director for three years. He is also a former investment committee member at an Australian venture capital firm, GBS Venture Partners. Professor Mills is an honours graduate of the University of Chicago and Harvard Medical School, and is a Fellow of both the US and Australian Colleges of Physicians. His expertise is in infectious diseases and pulmonary diseases. He maintains a clinical practice at The Alfred Hospital in Melbourne. Professor Mills has held no other Australian public company directorships in the last three years.

**Mr Bryan Mogridge BSc, ONZM, FNZIOD.** Age 73.
Independent Non-Executive Director
*Appointed as a Director on 20 July 2015.*

Mr Mogridge has been a successful public company director for over 30 years. He has been CEO of two listed companies and has a background in science, manufacturing, investment and technology. His business philosophy is to be invested where he is involved and grow value for all shareholders. Mr Mogridge is currently Chairperson of BUPA ANZ, Thinxstra and SeaDragon Limited, and a director of Mainfreight and Clearspan. Until recently he was also Chairperson of Rakon Ltd. He also recently joined as a director of Auckland Regional Amenities Funding Board. Mr Mogridge also has significant involvement in philanthropy, chairing one of New Zealand's most successful charities (The Starship Foundation) for 20 years, helping to transform sick children's lives through New Zealand's national children's hospital "The Starship". Mr Mogridge is currently a Trustee for The Starship Foundation. He has held no other Australian public company directorships in the last three years.

**Mr Arik Anderson, BSc** was an Executive Director until his resignation on 1 February 2019.

## Joint Company Secretaries

**Mr Rob Turnbull, B.Com, CA.** Age 52.
General Manager and Joint Company Secretary
*Appointed 21 August 2015.*

Mr Turnbull has over 25 years' corporate experience, starting his career with PricewaterhouseCoopers where he worked in Auckland, Toronto, and London; and has almost 20 years' experience with technology and life-sciences companies. Mr Turnbull has also been Chief Financial Officer for an ASX-listed biotech company undertaking multiple international studies ranging from preclinical to clinical Phase 3, and with operations in the United States, Australia and New Zealand. In addition to capital markets financing and compliance, treasury, tax, financial reporting, commercial contract negotiations and general management, he has been involved in M&A activity to acquire and develop specific technologies. Mr Turnbull graduated from Auckland University with a Bachelor of Commerce, and is a Chartered Accountant and member of Chartered Accountants Australia and New Zealand.

**Mr Mark Licciardo, B.Bus (Acc), GradDip CSP, FCSA, FCIS, FAICD.** Age 55.
Joint Company Secretary
*Appointed 10 May 2016.*

Mr Licciardo is Managing Director of Mertons Corporate Services Pty Ltd (Mertons) which provides company secretarial and corporate governance consulting services to ASX listed and unlisted public and private companies. Prior to establishing Mertons, Mr Licciardo was Company Secretary of the Transurban Group (2004-07) and Australian Foundation Investment Company Limited, Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited (1997-2004). Mr Licciardo has also had an extensive commercial banking career with the Commonwealth Bank and State Bank Victoria. Mr Licciardo is a former Chairman of Governance Institute of Australia (GIA) (formerly the Chartered Secretaries Australia) in Victoria, a fellow of both GIA and the Australian Institute of Company Directors (AICD), former Chairman of Melbourne Fringe Limited and a director of ASX listed Frontier Digital Ventures and several unlisted public and private companies.

## Directors' Meetings

The number of meetings of Directors (including meetings of committees of directors) held during the period and the number of meetings attended by each Director was as follows:

| | Directors' Meetings | | Audit & Risk Committee Meetings | | Nomination & Remuneration Committee Meetings | |
|---|---|---|---|---|---|---|
| | **Meetings eligible to attend** | **Meetings attended** | **Meetings eligible to attend** | **Meetings attended** | **Meetings eligible to attend** | **Meetings attended** |
| T Lynch | 17 | 14 | - | - | 2 | 1 |
| A Anderson | 7 | 7 | - | 4* | - | - |
| J Curnock Cook | 17 | 16 | - | - | 2 | 2 |
| W Hunter | 17 | 10 | - | - | - | - |
| B McHarrie | 17 | 17 | 6 | 6 | - | - |
| J Mills | 17 | 8 | 6 | 3 | 2 | 2 |
| B Mogridge | 17 | 16 | 6 | 6 | 2 | 2 |

**In attendance ex-officio.*

## Committees of the Board

The Company has established the following committees of the board, with membership in the year to 30 June 2019 as noted:

| Committee | Membership |
|---|---|
| Audit & Risk | Bruce McHarrie (Chair), Non-Executive Director<br>John Mills, Non-Executive Director<br>Bryan Mogridge, Non-Executive Director |
| Nomination & Remuneration | Bryan Mogridge (Chair), Non-Executive Director<br>Jeremy Curnock Cook, Executive Director<br>Thomas Lynch, Non-Executive Director<br>John Mills, Non-Executive Director |

*The committees' Charters are available on the Company's website.*

## Principal Activities

During the year, the principal continuing activity of the Group was the development, manufacture and supply of its Hailie™ (formerly Smartinhaler™) digital health technologies which address sub-optimal medication use and improve health outcomes in chronic disease.

## Results and Dividends

The net loss after tax of the Group for the year ended 30 June 2019 was $11,794,000.

No dividends were paid, declared or recommended during the year ended 30 June 2019.

## Review of Operations

The second half of fiscal 2019 has been about refocussing the Adherium business in order to scale commercially. In early December 2018 the Board announced a reorganization to create a smaller, simpler, more dynamic operational structure, and from it has developed discrete programs with partners in line with scaling commercially. This reshaping of the business saw the discontinuation of a number of non-core activities, including the "direct-to-consumer" offering. The focus is now on overseeing development of enterprise solutions and supporting our current and new customers' growth with Hailie™ (formerly Smartinhaler™) sensors and related software.

Adherium's Hailie™ mobile patient app and physician platform has now been completely reconcepted, with strategic partner Arthur D. Little (ADL) and their Digital Practice. The ADL team have led the ground-up development of the next generation Hailie™ platform using a leading and globally scalable architecture model. This architecture leverages cloud-first, horizontally scalable and serverless design and is constructed using a microservices architecture with platform-agnostic languages. The Company believes the platform fully meets health regulatory compliance needs (including ISO 13485, HIPPA, GDR). Further, integration with customer platforms extending commercial deployment opportunities has now been made easier as the reconcepted platform is interoperable and meets emerging HL7/FHIR standards (enabling integration with EHR and other healthcare platforms) and can be easily "white-labelled" for customer-branding.

Importantly, the new architecture will enable Adherium to quickly enter markets that have stringent data protection regulation, by ensuring that data stays in the geographical boundaries as per regulatory requirements.

Revenue to 30 June 2019 was $2,779,000, compared with $5,867,000 in fiscal 2018. The reduction was due largely to a significant level of innovative product design and engineering service revenue of $4,049,000 in the prior year, compared with $1,280,000 in the current period. In addition, while sensor sale volume increased from 27,000 in the prior year to 28,000 in fiscal 2019, revenue declined from $1,818,000 to $1,499,000 due largely to promotional pricing as part of Adherium's direct-to-consumer channel launch in calendar 2018. This promotional pricing also impacted gross margin on sensor sales.

Research and development activities for the year ended 30 June 2019 amounted to $5,120,000 compared with $4,447,000 in the prior year. The increase was predominantly associated with the above-noted re-architecture of the Hailie™ mobile patient app and physician platform, but activities also included:

- Multiple clearances by the US FDA for "over-the-counter" (OTC) sales in the US. These included Adherium's Hailie™ range of sensors for use with GSK's Advair® Diskus®, Flovent Diskus®, Flixotide Accuhaler®, and Seretide Accuhaler®, Boehringer Ingelheim's Spiriva® Handihaler®, and AstraZeneca's Bevespi® medication. These clearances from the US FDA add to Adherium's existing range of OTC cleared sensors and increase coverage to an estimated 80% of US asthma and COPD medications.
- Successful completion of US FDA and ISO 13485:2016 audits, with no significant findings arising.
- Continuing development of Hailie™ sensors, most recently to incorporate advanced diagnostic capabilities.

Sales and marketing costs were $3,028,000 in the year to 30 June 2019, compared with $3,687,000 in the prior year. The first half of fiscal 2019 predominantly related to the US focussed direct-to-consumer channel activities, and in the second half attention has been focussed on programmes with payers and providers in the US as well as territory pharmaceutical marketing companies. The rollout of our Hailie™ technology continues to gather pace through commercial deployments based on our new platform with customers around the world. Adherium is also supporting new clinical trials in Europe, expected to launch in the second half of calendar 2019.

Administration expenses reduced from $5,412,000 in 2018 to $4,345,000 in 2019 as a result of the reorganisation and the resultant reduction in corporate staff and rationalisation of overhead. Non-cash costs included asset depreciation and amortisation expense of $413,000 (2018: $310,000), and fixed asset write-offs associated with office closures in the re-organisation of $270,000 (2018: nil).

Adherium ended fiscal 2019 with cash of $763,000. Subsequent to year end, the Company completed negotiations for a secured funding facility with major shareholders and new investors, receiving commitments for $1.8 million, and the ASX provided a waiver enabling participation by certain related parties. The terms of the funding and the ASX waiver were announced to the market on 22 August 2019, and can be found on the Company's website at www.adherium.com.

## Significant Changes in the State of Affairs

As noted, the Board undertook a reorganisation during the year to create a smaller, simpler, more dynamic operational structure. There have otherwise been no significant changes in the state of affairs of the Group during the financial year ended 30 June 2019.

## Events since the end of the Financial Year

Subsequent to the balance sheet date, Adherium received subscription commitments from existing shareholders and new investors for $1.8 million of secured debt notes (2019 Notes) to be issued by the Company. The 2019 Notes contain terms for their conversion into ordinary shares and options over ordinary shares which are subject to approval by shareholders at the next general meeting. Until conversion, the 2019 Notes are secured by charges over the assets of the Company and its wholly owned New Zealand subsidiary.

There are no other matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs in future years.

## Likely Developments and Expected Results

Commentary on the Group's strategic direction and plan is set out in the Chairman's Report on pages 2 to 4.

## Environmental Regulation

The Group's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

## Directors' Interests

The relevant interest of each Director in shares and options over shares in the Company as notified by the Directors to the ASX in accordance with section 205G of the Corporations Act 2001 as at 30 June 2019 is:

| Director | Ordinary Shares | Options over Ordinary Shares |
|---|---|---|
| T Lynch | 1,000,000 | - |
| J Curnock Cook | 380,000 | - |
| W Hunter | 800,000 | - |
| B McHarrie | 464,853 | - |
| J Mills | 396,000 | - |
| B Mogridge | 9,856,105 * | - |

** relevant interest includes 7,813,023 ordinary shares held in the Director's capacity as trustee of the Company's Employee Share Plan.*

## Indemnification and Insurance of Directors and Officers

The Company has entered into deeds of access, insurance and indemnity with each director and officer which contain rights of access to certain books and records of the Group for a period of seven years after the director or officer ceases to hold office. This seven-year period can be extended where certain proceedings or investigations commence before the seven-year period expires.

In respect of the indemnity of the directors and officers, the Company is required, pursuant to the constitution, to indemnify all directors and officers, past and present, against all liabilities allowed under law. Under the deed of access, insurance and indemnity, the Company indemnifies parties against all liabilities to another person that may arise from their position as a director or an officer of the Company or its subsidiaries to the extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

In respect of insurance being obtained on behalf of the directors and officers, the Company may arrange and maintain directors' and officers' insurance for its directors and officers to the extent permitted by law. Under the deed of access, insurance and indemnity, the Company must obtain such insurance during each director's and officer's period of office and for a period of seven years after a director or an officer ceases to hold office. This seven-year period can be extended where certain proceedings or investigations commence before the seven-year period expires.

Disclosure of the insurance premiums and the nature of liabilities covered by such insurance are prohibited by the relevant contracts of insurance.

## Shares Under Option

**Unissued shares**
As at the date of this report, unissued ordinary shares of the Company under option comprised:

| Exercise price | Total Number of Options | Vested Options | Expiry Date |
|---|---|---|---|
| $0.075268 | 416,654 | 416,654 | 31 March 2020 |
| $0.134039 | 173,238 | 173,238 | 31 March 2020 |
| $0.134039 | 217,214 | 217,214 | 30 November 2020 |
| $0.134039 | 542,952 | 542,952 | 16 December 2020 |
| $0.134039 | 1,039,428 | 1,039,428 | 1 January 2021 |
| $0.134039 | 259,857 | 259,857 | 24 March 2021 |
| $0.134039 | 173,238 | 173,238 | 31 March 2022 |
| Outstanding at 30 June 2019 | 2,822,581 | 2,822,581 | |

The options over unissued ordinary shares do not entitle the holder to participate in any share issue of the Company or any entity in the Group.

No options were granted to the Directors of the Company or other key management personnel of the Group in the year to 30 June 2019.

Details of fully paid ordinary shares issued on exercise of options in the year to 30 June 2019 are contained in the accompanying consolidated financial statements.

## Proceedings on behalf of the Company

There are no legal or other proceedings being made on behalf of the Company or against the Company as at the date of this report.

## Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The fees paid to PricewaterhouseCoopers for other services set out in note 6 of the Group's financial statements for the year ended 30 June 2019 related to independent assurance services provided pursuant to the Group's claims for reimbursement under governmental research and development grant programmes. The directors are satisfied that the provision of these services during the year by the auditor did not impair the auditors' independence as the amounts paid were not significant and the services provided were assurance related.

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 in relation to the audit for the financial year is provided with this report.

## Corporate Governance Statement

The board of Directors of Adherium Limited is responsible for corporate governance. The board has prepared the Corporate Governance Statement (CGS) in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the CGS may be made available on the Company's website.

Accordingly, a copy of the Company's CGS is available on the Adherium website at www.adherium.com under the Investors/Corporate Governance/Governance Documents section.

# Remuneration Report (Audited)

The Directors present the Group's 2019 remuneration report which sets out the remuneration information for the Company's Non-Executive Directors, Executive Director and other key management personnel of the Group.

The report contains the following sections:

(a) Details of key management personnel disclosed in this report
(b) Remuneration governance
(c) Executive remuneration policy and framework
(d) Relationship between remuneration and Group performance
(e) Non-Executive director remuneration policy
(f) Details of remuneration of key management personnel
(g) Service agreements
(h) Details of share and option based compensation
(i) Equity instruments held by key management personnel
(j) Other transactions with key management personnel

### (a) Details of key management personnel disclosed in this report

The following persons acted as key management personnel of the Company and the Group during the year ended 30 June 2019.

*(i) Non-Executive and Executive Directors*

- Thomas Lynch — Non-Executive Chairman (appointed 1 September 2016)
- Jeremy Curnock Cook — Executive Director (appointed on incorporation 17 April 2015)
- William Hunter — Executive Director (appointed 17 December 2015)
- Bruce McHarrie — Non-Executive Director (appointed 20 July 2015)
- John Mills — Non-Executive Director (appointed 20 July 2015)
- Bryan Mogridge — Non-Executive Director (appointed 20 July 2015)
- Arik Anderson — Executive Director (appointed 29 November 2017; resigned 1 February 2019) and Group CEO (appointed 9 June 2017; ended 11 January 2019)

*(ii) Other key management personnel*

- Rob Turnbull — Joint Company Secretary (appointed 21 August 2015) and General Manager (VP Finance & Business Services until 13 December 2018)
- Mark Licciardo — Joint Company Secretary (appointed 10 May 2016)
- David Allinson — Chief Financial Officer (appointed 22 May 2018; ended 31 December 2018)

*(iii) Changes since the end of the reporting period*

In the period after 30 June 2019 and up to the date of this report there have been no changes in key management personnel.

### (b) Remuneration Governance

The Nomination and Remuneration Committee is a committee of the board. Its responsibilities include assisting the board in ensuring that the Company:

- has coherent remuneration policies and practices which are observed and which enable it to attract and retain executives and directors who will create value for shareholders;
- fairly and responsibly rewards executives having regard to the performance of the Company, the performance of the executive and the general pay environment;
- provides disclosure in relation to the Company's remuneration policies to enable investors to understand the costs and benefits of those policies and the link between remuneration paid to directors and key executives and corporate performance; and
- complies with the provisions of the ASX Listing Rules and the Corporations Act.

The primary purpose of the Nomination and Remuneration Committee is to support and advise the board in fulfilling its responsibilities to shareholders in ensuring that the board is appropriately remunerated, structured and comprised of individuals who are best able to discharge the responsibilities of directors by:

- assessing the size, composition, diversity and skills required by the board to enable it to fulfil its responsibilities to shareholders, having regard to the Company's current and proposed scope of activities;
- assessing the extent to which the required knowledge, experience and skills are represented on the board;
- establishing processes for the identification of suitable candidates for appointment to the board;
- overseeing succession planning for the board and the Chief Executive Officer;
- establishing processes for the review of the performance of individual directors and the board as a whole;
- assessing the terms of appointment and remuneration arrangements for non-executive directors; and
- assessment and reporting to the board in relation to:
    - executive remuneration policy;
    - the remuneration of executive directors;
    - the remuneration of persons reporting directly to the Chief Executive Officer, and as appropriate, other executive directors;
    - diversity plans, measurable diversity objectives and ensuring equality in remuneration across gender aligned, where relevant, with the ASX Corporate Governance Guidelines;
    - the Company's recruitment, retention and termination policies and procedures;
    - superannuation arrangements; and
    - all equity-based plans.

**(c) Executive remuneration policy and framework**

*Remuneration policy*
The policy for determining the nature and amount of remuneration of key management personnel is agreed by the board of directors as a whole on advice from the Nomination and Remuneration Committee. The board obtains professional advice where necessary to ensure that the Group attracts and retains talented and motivated directors and employees who can enhance the performance of the Group through their contributions and leadership. The Nomination and Remuneration Committee makes specific recommendations on the remuneration package and other terms of employment for the CEO having regard to his or her performance, relevant comparative information, and if appropriate, independent expert advice.

For key management personnel, the Group provides a remuneration package that incorporates both cash-based remuneration and, if appropriate, share-based remuneration. The contracts for service between the Group and key management personnel are on a continuing basis, the terms of which are to align executive performance-based remuneration with Group objectives.

The Nomination and Remuneration Committee is also responsible for making recommendations to the board in relation to the terms of any issue of equity-based remuneration to employees, as part of their individual package, or a wider staff incentive and retention scheme, and for ensuring that any such issue is made in accordance with the ASX Listing Rules.

*Executive pay*
The executive pay and reward framework has three components:

- base pay and benefits, including legislative superannuation;
- short-term performance incentives; and
- long-term incentives through participation in the Adherium Employee Share Plans.

A combination of some or all of these components comprises an executive's total remuneration.

*Base pay*
Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure that executive remuneration is competitive with the market.
There are no guaranteed base pay increases included in any executives' contracts.

*Short-term incentives (STI)*
Executives have a target STI opportunity depending on the accountabilities of the role and impact on the organisation. The STI is a cash-based incentive which forms part of the executive's total compensation, representing between 0% and 50% of base salary. Each year, the Nomination and Remuneration Committee in conjunction with the CEO, will consider the appropriate targets and key performance indicators (KPIs) of each executive to link the STI plan and the level of payout if targets are met. This will include setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI. The targets and KPIs selected are chosen to align executive performance with the Group's annual business objectives set by the board and encompassing business development, research & development, and cash management.

The STI achievement is calculated and paid annually. The Nomination and Remuneration Committee in conjunction with the CEO assesses the extent to which targets and KPIs have been achieved at a Company and individual performance level to determine the STI to be paid. Measurement of achievement of the business objectives does not involve comparison with factors external to the Company.

*Long-term incentives (LTI)*
Long-term incentives are provided to certain employees via the Adherium Employee Share Plans (the Plans), one of which is operated for New Zealand resident participants and the other for participants resident elsewhere.

The board has the discretion to offer and issue to eligible employees including directors:

- ordinary shares in the Company issued at an issue price determined by the board. To date all shares have been issued at the Company's initial public offering price of A$0.50 per share;
- limited recourse loans where some or all of the issue price of the share awards are funded by way of a loan from the Company.

The Plans are designed to focus directors, executives and staff on delivering long-term shareholder returns.

Share awards issued under the Plans generally vest in three equal tranches over three years of continuing employment. If the vesting condition is not met, the related share award is forfeited and loan cancelled such that the participant receives no benefit from unvested shares where the related loan is not repaid.

Participation in the Plans is at the board's discretion and staff do not have a contractual right to participate in the Plans.

**(d) Relationship between remuneration and Group performance**

The Group is presently in a business growth phase, as it undertakes continued product development, and seeks relevant regulatory approvals for its technologies and market penetration for its products, and this is the focus of executives and the board. During this phase expenditures continue to exceed revenues, and in the year ended 30 June 2019 the Group incurred a loss after tax of $11,794,000 (6.8 cent loss per share). In the year to 30 June 2019 the Company's shares traded between 2.2 and 12.0 cents per share. Given the stage of the Group's commercial development, the board does not utilise earnings per share as a performance measure and does not presently include the Company's share price as a measure of executive performance.

No dividends were paid, declared or recommended during the period ended 30 June 2019.

**(e) Non-Executive Director remuneration policy**

On appointment to the board, Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

Non-Executive Directors receive a fee which is inclusive of fees for chairing or participating on board committees. They do not receive performance-based pay. Non-Executive Directors' fees and payments are reviewed annually by the board. The Non-Executive Chairman's fees are determined independently of the fees of Non-Executive Directors based on comparative roles in the external market. Non-Executive Chairman and Director fees were approved at the 2016 Annual General Meeting at $100,000 per annum for the Non-Executive Chairman (previously $80,000 per annum) and $50,000 for each Non-Executive Director (previously $40,000 per annum). Legislative superannuation contributions are also paid where applicable.

A Non-Executive Director may be paid fees or other amounts as the board determines where a Director performs services outside the scope of the ordinary duties of a Director. The Company may reimburse Non-Executive Directors for their expenses properly incurred as a Director or in the course of office.

### (f) Details of remuneration of key management personnel

| Remuneration for the year ended 30 June 2019 | Short Term Benefits | | | Post-Employment Benefits |
|---|---|---|---|---|
| | Salaries & Fees $ | Cash Bonus $ | Insurance & Other $ | Superannuation $ |
| **Directors' remuneration** | | | | |
| Thomas Lynch | 100,000 | - | - | - |
| Jeremy Curnock Cook | 50,000 | - | - | - |
| William Hunter | 50,000 | - | - | - |
| Bruce McHarrie | 50,000 | - | - | 3,760 |
| John Mills | 50,000 | - | - | 3,760 |
| Bryan Mogridge | 50,000 | - | - | - |
| **Sub-total Directors** | **350,000** | **-** | **-** | **7,520** |
| **Executives' remuneration** | | | | |
| Arik Anderson[1] | 398,896 | 199,373 | 96,279 | - |
| David Allinson[2] | 219,934 | 18,988 | 1,175 | - |
| Garth Sutherland[3] | 295,455 | 80,414 | - | 12,713 |
| Mark Licciardo[4] | 24,420[4] | - | - | - |
| Rob Turnbull | 231,721 | 55,045 | - | 8,603 |
| **Sub-total executives** | **1,170,426** | **353,820** | **97,454** | **21,316** |
| **Total key management personnel** | **1,520,426** | **353,820** | **97,454** | **28,836** |

1. Arik Anderson's employment as Chief Executive Officer ended on 11 January 2019.
2. David Allinson's employment as Chief Financial Officer ended on 31 December 2018.
3. Garth Sutherland's employment as Founder ended on 17 March 2019.
4. A company of which Mr Licciardo is a director received these fees from the Company for company secretarial and corporate governance consulting services.

| Remuneration for the year ended 30 June 2018 | Short Term Benefits | | | Post Employment Benefits |
|---|---|---|---|---|
| | Salaries & Fees $ | Cash Bonus $ | Insurance & Other $ | Superannuation $ |
| **Directors' remuneration** | | | | |
| Thomas Lynch | 100,000 | - | - | - |
| Jeremy Curnock Cook | 50,000 | - | - | - |
| William Hunter | 50,000 | - | - | - |
| Bruce McHarrie | 50,000 | - | - | 4,750 |
| John Mills | 50,000 | - | - | 4,750 |
| Bryan Mogridge | 50,000 | - | - | - |
| **Sub-total Directors** | **350,000** | **-** | **-** | **9,500** |
| **Executives' remuneration** | | | | |
| Arik Anderson | 515,903 | 128,976 | 31,331 | - |
| David Allinson[1] | 42,992 | - | - | - |
| Garth Sutherland | 259,017 | 161,785 | - | 16,865 |
| Mark Licciardo[2] | 43,372 | - | - | - |
| Rob Turnbull | 212,721 | 41,421 | - | 7,601 |
| Ross Bradding[3] | 37,621 | 41,383 | - | 2,370 |
| Timothy Marcotte[4] | 172,501 | - | 19,454 | - |
| **Sub-total executives** | **1,284,127** | **373,565** | **50,785** | **26,836** |
| **Total key management personnel** | **1,634,127** | **373,565** | **50,785** | **36,336** |

1. David Allinson was appointed Chief Financial Officer on 22 May 2018.
2. A company of which Mr Licciardo is a director received the fees from the Company for company secretarial and corporate governance consulting services.
3. Ross Bradding resigned as Chief Operating Officer on 31 August 2017. The value of Share-Based Payments represents the reversal related to the cancellation on resignation of Loan Funded Shares previously awarded under the Employee Share Plan.

| | Share-based Payments | | Performance | |
|---|---|---|---|---|
| Severance $ | Value of Options/ Loan Funded Shares[5] $ | Total $ | Performance Related Remuneration $ | Fixed Remuneration $ |
| - | 5,323 | 105,323 | 5% | 95% |
| - | 2,661 | 52,661 | 5% | 95% |
| - | 2,661 | 52,661 | 5% | 95% |
| - | 2,661 | 56,421 | 5% | 95% |
| - | 2,661 | 56,421 | 5% | 95% |
| - | 2,681 | 52,661 | 5% | 95% |
| **-** | **18,628** | **376,148** | | |
| 296,996 | (7,810)[6] | 983,734 | 19% | 81% |
| - | (492)[6] | 239,605 | 8% | 92% |
| 138,809 | (47,797)[6] | 479,594 | 7% | 93% |
| - | - | 24,420 | - | 100% |
| - | 4,636 | 300,005 | 20% | 80% |
| **435,805** | **(51,463)** | **2,027,358** | | |
| **435,805** | **(32,835)** | **2,403,506** | | |

5. The fair values of options and Loan Funded Shares are calculated at the date of grant using a Black-Scholes pricing model and allocated to each reporting period in accordance with vesting. The values noted represent the portion of the fair value of the options or loan funded shares allocated to the reporting period.
6. The negative value of Share-Based Payments represents the reversal related to the cancellation on resignation of Loan Funded Shares previously awarded under the Employee Share Plan.

| Share-based Payments | | Performance | |
|---|---|---|---|
| Value of Options/ Loan Funded Shares[5] $ | Total $ | Performance Related Remuneration $ | Fixed Remuneration $ |
| 12,375 | 112,375 | 11% | 89% |
| 6,188 | 56,188 | 11% | 89% |
| 6,188 | 56,188 | 11% | 89% |
| 6,188 | 60,938 | 10% | 90% |
| 6,188 | 60,938 | 10% | 90% |
| 6,188 | 56,188 | 11% | 89% |
| **43,315** | **402,815** | | |
| 7,810 | 684,020 | 20% | 80% |
| 492 | 43,484 | 1% | 99% |
| 24,069 | 461,736 | 40% | 60% |
| - | 43,372 | - | 100% |
| 12,241 | 273,984 | 20% | 80% |
| (21,652) | 59,722 | 33% | 67% |
| - | 191,955 | - | 100% |
| **22,960** | **1,758,273** | | |
| **66,275** | **2,161,088** | | |

4. Timothy Marcotte was appointed Chief Financial Offer 11 September 2017 and resigned 31 January 2018.
5. The fair values of options and Loan Funded Shares are calculated at the date of grant using a Black-Scholes pricing model and allocated to each reporting period in accordance with vesting. The values noted represent the portion of the fair value of the options or loan funded shares allocated to the reporting period.

### (g) Service agreements

***Joint Company Secretary - Mr Mark Licciardo***
Mr Licciardo currently provides company secretarial and corporate governance services under a service arrangement between the Company and Merton Corporate Services Pty Ltd, a company associated with Mr Licciardo. The current arrangement has no predetermined termination date, with each party having the right to terminate the arrangement by giving ninety days' notice in writing to the other party.

***Other key management personnel of the Group***
Remuneration and other terms of employment for other key management personnel of the Group are formalised in employment agreements which specify the components of remuneration, benefits and notice periods. Participation in the STI and LTI plans is subject to the board's discretion. Other major provisions of the agreements relating to remuneration are set out below:

| Name | Term of Agreement | Notice Period | Base Salary [2] | Termination Payments [3] |
|---|---|---|---|---|
| Rob Turnbull, (VP Finance & Business Services until 13 December 2018) | No fixed term | 2 months [1] | NZ$241,500 | 2 months |

1. The notice period applies without cause equally to either party unless otherwise stated.
2. Base salaries quoted are annual as at 30 June 2019; they are reviewed annually by the Nomination and Remuneration Committee.
3. Base salary payable if the Group terminates employees with notice, and without cause (e.g. for reasons other than unsatisfactory performance).

### (h) Details of share and option based compensation

*Options over ordinary shares of the Company*
All options over ordinary shares issued by the Company are exercisable on a one-for-one basis, and any shares issued on exercise are fully paid and rank pari passu with existing ordinary shares.

No options over ordinary shares were exercised during the period to 30 June 2019 and to the date of this report.

*Loan funded Employee Share Plan*
The board has established the loan funded Adherium Employee Share Plans (Plans).

All awards under the Plans vest one third annually over three years of continued employment from the grant date. After vesting the participant may take title to the shares by repaying to the Company the proportion of the loan related to those shares.

The fair value of the awards of loan funded shares are calculated at the date of grant using a Black-Scholes pricing model, which are being allocated over the vesting periods as share based compensation.

There were no offers of allocations under the Plans to key management personnel during the year ended 30 June 2019.

### (i) Equity instruments held by key management personnel

*Shareholdings*

The numbers of ordinary shares in the Company held during the year to 30 June 2019 by each director and other key management personnel of the Group, including their personally related parties, are set out below:

| Name | Balance at the start of the year | Purchases | Other changes during the period | Balance at the end of the year |
|---|---|---|---|---|
| Thomas Lynch | 1,000,000 | - | - | 1,000,000 |
| Jeremy Curnock Cook | 380,000 | - | - | 380,000 |
| William Hunter | 800,000 | - | - | 800,000 |
| Bruce McHarrie | 464,853 | - | - | 464,853 |
| John Mills | 396,000 | - | - | 396,000 |
| Bryan Mogridge | 9,856,105 | - | - | 9,856,105[1] |
| Arik Anderson | 1,500,000 | - | (1,500,000)[2] | - |
| David Allinson | 600,000 | - | (600,000)[2] | - |
| Garth Sutherland | 12,388,769 | - | (521,367)[2] | 11,867,402[3] |
| Mark Licciardo | - | - | - | - |
| Rob Turnbull[1] | 559,645 | - | - | 559,645 |

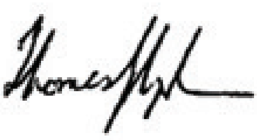
1. Ordinary shares held jointly with the General Manager in their capacity as trustees of the Company's Employee Share Plan. At 30 June 2019 7,813,023 ordinary shares were held in this capacity.
2. Cancellation at employment end of loan funded shares previously awarded under the Company's Employee Share Plan.
3. Holding as at date employment ended.

### (j) Other transactions with key management personnel

Transactions with directors or other key personnel are set out in note 17 of the accompanying Group financial statements for the year ended 30 June 2019.

End of audited Remuneration Report.

This report is made in accordance with a resolution of the directors.



**Thomas Lynch**
**Non-Executive Chairman**

Melbourne

27 September 2019

# Auditor's Independence Declaration

## *Auditor's Independence Declaration*

As lead auditor for the audit of Adherium Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adherium Limited and the entities it controlled during the period.

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
27 September 2019

***PricewaterhouseCoopers, ABN 52 780 433 757***
*One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

*Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124*
*T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au*

# Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

# Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

| | Notes | June 2019 $000 | June 2018 $000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| Sales | 5 | 2,779 | 5,867 |
| Cost of sales | | (1,133) | (1,099) |
| **Gross profit** | | 1,646 | 4,768 |
| Grants income | 5 | 279 | 503 |
| Manufacturing support | | (1,293) | (1,364) |
| Research and development costs | | (5,120) | (4,447) |
| Sales and marketing costs | | (3,028) | (3,687) |
| Administrative expenses | | (4,345) | (5,412) |
| **Operating loss** | | (11,861) | (9,639) |
| Interest income | 5 | 71 | 301 |
| Interest expense | | (4) | - |
| **Finance income (cost) - net** | | 67 | 301 |
| **Loss before income tax** | | (11,794) | (9,338) |
| Income tax expense | 7 | - | - |
| **Loss for the period attributable to equity holders** | | (11,794) | (9,338) |
| **Other comprehensive income**<br>Items that may be reclassified subsequently to profit or loss when certain conditions are met: Foreign exchange differences on translation of foreign operation | | (99) | (615) |
| **Other comprehensive income for the period, net of tax** | | (99) | (615) |
| **Total comprehensive loss for the period** | | (11,893) | (9,953) |
| **Total comprehensive loss attributable to:**<br>Equity holders of Adherium Limited | | (11,893) | (9,953) |
| **Basic and diluted loss per share** | 8 | (6.8) cents | (5.4) cents |

*The accompanying notes form part of the financial statements.*

# Consolidated Statement of Financial Position as at 30 June 2019

| | Notes | June 2019 $000 | June 2018 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | *9* | 763 | 12,118 |
| Short term cash investments | | - | 427 |
| Trade and other receivables | *10* | 436 | 1,205 |
| Inventories | *11* | 417 | 509 |
| Prepayments | | 156 | 281 |
| **Total current assets** | | 1,772 | 14,540 |
| **Non-current assets** | | | |
| Property, plant and equipment | *12* | 380 | 515 |
| Intangible assets | *13* | 92 | 266 |
| **Total assets** | | 2,244 | 15,321 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *14* | 1,375 | 2,511 |
| Income received in advance | | 39 | - |
| **Total current liabilities** | | 1,414 | 2,511 |
| **EQUITY** | | | |
| Share capital | *15* | 74,349 | 74,349 |
| Accumulated deficit | | (46,952) | (35,158) |
| Other reserves | | (26,567) | (26,381) |
| **Total equity** | | 830 | 12,810 |
| **Total liabilities & equity** | | 2,244 | 15,321 |

*The accompanying notes form part of the financial statements.*

# Consolidated Statement of Changes in Equity for the year ended 30 June 2019

| | Share Capital $000 | Accumulated Deficit $000 | Share & Option Compensation Reserve $000 | Foreign Currency Translation Reserve $000 | Merger Reserve $000 | Total Equity $000 |
|---|---|---|---|---|---|---|
| **Equity as at 1 July 2017** | 74,278 | (25,820) | 1,110 | 672 | (27,535) | 22,705 |
| Loss for the period | - | (9,338) | - | - | - | (9,338) |
| Other comprehensive income | - | - | - | (615) | - | (615) |
| Total comprehensive loss | - | (9,338) | - | (615) | - | (9,953) |
| *Transactions with owners:* | | | | | | |
| Shares issued on option exercise | 71 | - | - | - | - | 71 |
| Share and option grants for services | - | - | (13) | - | - | (13) |
| **Equity as at 30 June 2018** | 74,349 | (35,158) | 1,097 | 57 | (27,535) | 12,810 |
| Loss for the period | - | (11,794) | - | - | - | (11,794) |
| Other comprehensive income | - | - | - | (99) | - | (99) |
| Total comprehensive loss | - | (11,794) | - | (99) | - | (11,893) |
| *Transactions with owners:* | | | | | | |
| Share and option grants for services | - | - | (87) | - | - | (87) |
| **Equity as at 30 June 2019** | 74,349 | (46,952) | 1,010 | (42) | (27,535) | 830 |

*The accompanying notes form part of the financial statements.*

# Consolidated Statement of Cash Flows for the year ended 30 June 2019

| | Notes | June 2019 $000 | June 2018 $000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Receipts from customers | | 3,526 | 5,363 |
| Receipts from grants | | 337 | 570 |
| Interest received | | 84 | 299 |
| Resident withholding tax refunded (paid) | | 2 | 15 |
| Payments to employees | | (7,555) | (8,014) |
| Payments to suppliers | | (8,201) | (8,057) |
| **Net cash provided from (used in) operating activities** | | (11,807) | (9,824) |
| **Cash flows from investing activities:** | | | |
| Short term cash investments maturing (deposited) | | 436 | (408) |
| Purchase of property, plant and equipment | | (325) | (325) |
| Purchase of software | | - | (169) |
| **Net cash used in investing activities** | | 111 | (902) |
| **Cash flows from financing activities:** | | | |
| Proceeds from the exercise of options | *15* | - | 71 |
| **Net cash provided from financing activities** | | - | 71 |
| Net increase (decrease) in cash | | (11,696) | (10,655) |
| Cash at the beginning of the year | | 12,118 | 22,779 |
| Effect of exchange rate changes on cash balances | | 341 | (6) |
| **Cash at the end of the year** | *9* | 763 | 12,118 |
| **Reconciliation with loss after income tax:** | | | |
| Loss after income tax | | (11,794) | (9,338) |
| *Non-cash items requiring adjustment:* | | | |
| Depreciation of property, plant and equipment | *12* | 263 | 212 |
| Amortisation of intangible assets | *13* | 150 | 98 |
| Fixed assets (gain) loss on disposal | | 270 | - |
| Share and option compensation expense | | (88) | (13) |
| Foreign exchange (gain) | | (510) | (633) |
| *Changes in working capital:* | | | |
| Trade and other receivables | | 952 | (582) |
| Inventories | | 114 | 185 |
| Trade and other payables | | (1,203) | 251 |
| Income received in advance | | 39 | (4) |
| **Net cash provided from (used in) operating activities** | | (11,807) | (9,824) |

*The accompanying notes form part of the financial statements.*

# Notes to the financial statements for the year ended 30 June 2019

## 1. General Information

Adherium Limited (the Company or Adherium) is a company domiciled in Australia. The address of the Company's registered office is Collins Square, Tower Four, Level 18, 727 Collins Street, Melbourne, VIC 3008. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities). The Group is a for-profit entity and primarily develops, manufactures and supplies digital health technologies which address sub-optimal medication use and improve health outcomes in chronic disease.

The separate financial statements of the parent entity, Adherium Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The consolidated financial statements were authorised for issue by the Board on 27 September 2019.

## 2. Basis of Preparation

This general purpose consolidated financial report for the twelve months ended 30 June 2019 has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The consolidated financial statements have been prepared on a going concern basis, meaning the Group has the intention to continue its business for the foreseeable future.

As of June 30, 2019, the Group had net cash of $763,000 (2018: $12,118,000) and recorded a loss before tax of $11,794,000 (2018: 9,338,000) and operating cash outflows of $11,807,000 (2018: $9,824,000) for the year then ended. Subsequent to year end the Group has raised $1,800,000 from the issuance of secured debt notes that are due for repayment on 31 January 2020 if not converted beforehand.

The Directors have approved cash flow forecasts. These forecasts indicate in order for the Group to meet its operating requirements for the 12 months from the date of authorisation of these financial statements, the Group must raise additional capital or alternative funding. The cash flow forecast indicates this additional funding would be required by the end of calendar 2019.

The Directors considered the achievability of the assumptions underlying the forecast, and as with any forecast, there are uncertainties within the assumptions required to meet the Group's expectations. Whether the Group can raise additional capital or alternative funding until the group is supported by cash flows from operations represents a material uncertainty that casts significant doubt over the Group's ability to continue as a going concern and therefore whether it will be able to realise its assets and discharge its liabilities in the normal course of business. Despite this uncertainty, the Directors are of the view that the company will be successful in raising additional capital or alternative funding and accordingly have adopted the going concern basis for the preparation of this financial report.

***(a) Compliance with International Financial Reporting Standards***
These consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

***(b) Historical cost convention***
These financial statements have been prepared under the historical cost convention as modified by certain policies below.

***(c) Functional and presentation currency***
These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

***(d) Critical accounting estimates***
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(i) Impairment of non-current assets*
The Company reviews annually whether any property, plant and equipment have suffered any impairment in accordance with the accounting policy stated in note 3.10. In making this assessment, the extent of the likely future use of these assets is required to be estimated in determining if their value is impaired at the balance sheet date. The Company evaluates indicators of impairment, including expected future demand for devices, in relation to each type of asset at the balance sheet date.

*(ii) Recognition of deferred tax assets*
As at 30 June 2019, the Company has not recognised as an asset tax losses which could be offset against future taxable profits. These tax losses would only be recognised to the extent that it is expected that there will be future taxable profits and such losses will be available in the future (after shareholder continuity tests) to offset those future taxable profits. The Company has considered its future expected profitability and shareholder continuity and has concluded that sufficient certainty does not yet exist to recognise these tax losses as an asset.

***(e) Rounding of amounts***
The Company has applied the relief available to it under ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191. Accordingly, amounts in the consolidated financial statements and Directors' Report have been rounded to the nearest $1,000.

## 3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### *3.1 Principles of consolidation:*
The consolidated financial statements incorporate all of the assets, liabilities and results of Adherium Limited and all subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. A list of the subsidiaries is provided in note 20. All intercompany transactions are eliminated. The assets and liabilities of Group companies whose functional currency is not Australian dollars are translated into Australian dollars at the period-end exchange rate. The revenue and expenses of these companies are translated into Australian dollars at rates approximating those at the dates of the transactions. Exchange differences arising on this translation are recognised in the foreign currency translation reserve. On disposal or partial disposal of an entity, the related exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

### *3.2 Segment Reporting*
The Company has considered the requirements for segmental reporting as set out in AASB 8: *Operating Segments*. The standard requires that operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer. The Company has determined that one segment exists for the Company's Hailie™ (formerly known as Smartinhaler™) business.

### *3.3 Foreign currency translation*

***(a) Transactions and balances***
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

***(b) Group Companies***
The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency is translated as follows:

- Assets and liabilities are translated at period end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

### *3.4 Revenue recognition*
Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and taxes. The Company recognises revenue when specific criteria have been met for each of the Company's activities,as described below. Amounts received from customers in accordance with contractual sales terms before these revenue recognition criteria are met are deferred and recorded as Income Received in Advance until such time as the criteria for recognition as revenue are met.

*(a) Sales of devices*
The Company manufactures and sells a range of inhaled medication monitoring devices and related equipment. Sales of products are recognised when they have been delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied. No element of financing is deemed present as the sales are made with a credit term of 30-60 days.

*(b) Grants*
Grants received for research and development are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

*(c) Interest income*
Interest income is recognised on a time-proportion basis using the effective interest method.

### *3.5 Research and development*
Research costs include direct and directly attributable overhead expenses for product invention and design. Research costs are expensed as incurred.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, development expenditure is recognised as a development asset within Intangible Assets when:

- a product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the existence of a market for the product or process can be demonstrated and the Company intends to produce and market the product or process;
- adequate resources exist, or their availability can be reasonably demonstrated to complete the project and market the product or process.

In such cases the asset is amortised from the commencement of commercial production of the product to which it relates on a straight-line basis over the years of expected benefit. Research and development costs are otherwise expensed as incurred.

### *3.6 Employee benefits*

*(a) Wages, salaries and annual leave*
Liabilities for wages and salaries, bonuses and annual leave expected to be settled within 12 months of the reporting date are recognised in accrued liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

*(b) Share-based payments*
The Company operates equity-settled share and option plans and awards certain employees, directors and consultants shares and options, from time to time, on a discretionary basis. The fair value of the services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share and option compensation reserve over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest and become exercisable. It recognises the impact of the revision of original estimates, if any, in the Statement of Comprehensive Income, and a corresponding adjustment to equity over the remaining vesting period.

### 3.7 Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 3.8 Income Tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in directly in equity. In this case, the tax is also recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company generated taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### 3.9 Goods and Services Tax (GST)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

### 3.10 Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount of an asset is considered impaired when its recoverable amount is less than its carrying value. In that event, a loss is recognised in the the Statement of Profit & Loss and Other Income based on the amount by which the carrying amount exceeds the recoverable amount.

### 3.11 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 3.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

### 3.13 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 3.14 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairments recognised. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation is determined principally using the diminishing value method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Manufacturing tooling equipment | 4 years |
| Computer equipment | 2 years |
| Office furniture, fixtures & fittings | 4 years |

### 3.15 Intangible assets

***(a) Intellectual property***

Costs in relation to protection and maintenance of intellectual property are expensed as incurred.

Acquired patents, trademarks and licences have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost over the anticipated useful lives, which are aligned with the unexpired patent term or agreement over trademarks and licences.

**(b) *Acquired software***

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (two to three years).

**3.16 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**3.17 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are deferred until the issue of the shares or options, and then shown in equity as a deduction, net of tax, from the proceeds.

**3.18 Financial assets**

***(a)*** Financial assets recognised in the Statement of Financial Position include cash and cash equivalents, and trade and other receivables. The Company believes that the amounts reported for financial assets approximate fair value.

**(b) *Financial assets: Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the Statement of Financial Position. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

**3.19 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

**3.20 Comparative Information**

Where necessary, certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

**3.21 Adoption of new and revised accounting standards**

*AASB 9 Financial instruments*

In the current year, the Group has applied AASB 9 Financial Instruments and related amending Statements which is effective for periods beginning on or after 1 January 2018. AASB 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces all previous versions of AASB 9 and completes the project to replace IAS 39 that relates to the classification and measurement of financial instruments. AASB 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no material changes to classification and measurement. AASB 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The transition provisions of AASB 9 allow an entity not to restate comparatives, however there was no material impact on adoption of this standard.

*AASB 15 Revenue from contracts with customers*

In the current year, the Group has applied AASB 15 Revenue and Contracts with Customers which is effective for periods beginning on or after 1 January 2018. AASB 15 sets out a five step model for revenue recognition with the core principle being for entities the recognise revenue to depict the transfer of goods or services to customers in a way that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. There was no material impact on adoption of this standard and no adjustment made to current or prior periods.

**3.22 New Accounting Standards for application in future periods**

The following standards have been issued but are not yet effective and have not yet been adopted:

*AASB 16 Leases*
AASB 16 replaces the AASB 117 Leases. Under AASB 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under AASB 117, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). AASB 16 will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. The Company will apply this standard from 1 July 2019 but it will not have a material impact on the company.

There are no other standards, amendments, or interpretations to existing standards that have been issued and yet to be adopted by the Company that are likely to have a material impact on the financial statements.

## 4. Segment Information

The chief operating decision maker is the Chief Executive Officer, who reviews financial information for the Company as a whole. The information reviewed is prepared in the same format as included in the financial statements. The Company has therefore determined that one reportable segment exists for the Company's Hailie™ business.

### (a) Geographic segment information

The Company operates predominantly from New Zealand, with some manufacturing also undertaken by suppliers in Asia at which the Company locates equipment and tools:

| Domicile of non-current assets | June 2019 $000 | June 2018 $000 |
|---|---|---|
| New Zealand and Australia | 235 | 386 |
| South-East Asian Countries | 173 | 123 |
| Other Countries | 64 | 272 |
| | 472 | 781 |

The Company sells its products and services domestically and internationally. Revenues by customer region of domicile are:

| Location of customer sales | June 2019 $000 | June 2018 $000 |
|---|---|---|
| New Zealand and Australia | 2 | 109 |
| Europe | 2,753 | 5,708 |
| North America | 14 | 50 |
| Asia | 10 | - |
| | 2,779 | 5,867 |

### b) Major customers

Revenues are derived from major external customers as follows:

| Major customers | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Customer A group entities | 2,704 | 5,621 |
| Customer B group entities | - | 11 |

## 5. Revenue

| Income from continuing operations: | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Sensor sales and monitoring services | 1,499 | 1,818 |
| New product design and engineering services | 1,280 | 4,049 |
| Grant income | 279 | 503 |
| Interest income | 71 | 301 |
| | 3,129 | 6,671 |

## 6. Expenses

| Loss before income tax includes the following specific expenses: | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Fees paid to PricewaterhouseCoopers for: | | |
| Audit of the financial statements | 88 | 87 |
| Interim report review | 40 | - |
| Fees paid to related pratices of PricewaterhouseCoopers: | | |
| - Fees in respect of grant review and interim report review | 12 | 54 |
| Total fees to PricewaterhouseCoopers | 140 | 141 |
| Depreciation and amortisation | 413 | 310 |
| Directors' remuneration | | |
| - Fees | 358 | 360 |
| - Share based compensation | 19 | 43 |
| Total Directors' remuneration | 377 | 403 |
| Employee benefits expense | | |
| - Wages and salaries | 6,036 | 8,315 |
| - Share based compensation | (106) | (56) |
| Total employee benefits expense | 5,930 | 8,259 |
| Foreign exchange (gain) loss | (510) | (633) |
| Operating lease costs | 422 | 465 |

## 7. Income tax

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Current tax | - | - |
| Deferred tax | - | - |
| **Income tax expense** | - | - |
| *Numerical reconciliation of income tax expense to prima facie tax payable (receivable):* | | |
| Loss before income tax | (11,794) | (9,338) |
| Tax calculated at domestic tax rates | (3,771) | (3,076) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | 24 | (10) |
| Under (over) provision in prior year | 222 | (25) |
| Deferred tax assets not recognised (note 16) | 3,525 | 3,111 |
| **Income tax expense** | - | - |

The weighted average applicable tax rate was 32% (2018: 33%).

### 8. Earnings per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For all periods presented, the Company's potentially dilutive ordinary share equivalents (being the Options set out in note 15 have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Profit (loss) after income tax attributable to equity holders | (11,794) | (9,338) |
| Weighted average shares outstanding (basic) | 173,896,088 | 173,440,493 |
| Weighted average shares outstanding (diluted) | 173,896,088 | 173,440,493 |
| **Basic and diluted loss per share** | (6.8) cents | (5.4) cents |

### 9. Cash and cash equivalents

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Cash at bank and on hand | 145 | 400 |
| Deposits at call | 618 | 11,718 |
| | 763 | 12,118 |

### 10. Trade and other receivables

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Trade receivables and accruals | 287 | 975 |
| Grant income accrued | 72 | 117 |
| GST and other taxes receivable | 34 | 72 |
| Security deposits | 43 | 41 |
| | 436 | 1,205 |

### 11. Inventories

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Raw materials and components | 194 | 218 |
| Finished goods | 223 | 291 |
| | 417 | 509 |

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to $977,000 (2018: $956,000).

## 12. Property, plant and equipment

| | Manufacturing Equipment $000 | Computer Equipment $000 | Fixtures & Fittings $000 | Office Equipment $000 | Total $000 |
|---|---|---|---|---|---|
| **As at 1 July 2017** | | | | | |
| Cost | 499 | 174 | 188 | 34 | 895 |
| Accumulated depreciation | (355) | (90) | (23) | (10) | (478) |
| **Net book value** | 144 | 84 | 165 | 24 | 417 |
| **Movements in the year ended 30 June 2018** | | | | | |
| Opening net book value | 144 | 84 | 165 | 24 | 417 |
| Additions | 129 | 64 | 127 | 9 | 329 |
| Disposals | - | (3) | - | (1) | (4) |
| Depreciation | (115) | (62) | (29) | (6) | (212) |
| Foreign currency translation | (6) | (4) | (6) | 1 | (15) |
| **Closing net book value** | 152 | 79 | 257 | 27 | 515 |
| **As at 30 June 2018** | | | | | |
| Cost | 608 | 217 | 307 | 43 | 1,175 |
| Accumulated depreciation | (456) | (138) | (50) | (16) | (660) |
| **Net book value** | 152 | 79 | 257 | 27 | 515 |
| **Movements in the year ended 30 June 2019** | | | | | |
| Opening net book value | 152 | 79 | 257 | 27 | 515 |
| Additions | 189 | 29 | 51 | 100 | 369 |
| Disposals | (7) | (12) | (188) | (22) | (229) |
| Depreciation | (133) | (49) | (74) | (35) | (291) |
| Foreign currency translation | 5 | - | 10 | 1 | 16 |
| **Closing net book value** | 206 | 47 | 56 | 71 | 380 |
| **As at 30 June 2019** | | | | | |
| Cost | 809 | 248 | 182 | 122 | 1,361 |
| Accumulated depreciation | (603) | (201) | (126) | (51) | (981) |
| **Net book value** | 206 | 47 | 56 | 71 | 380 |

## 13. Intangible assets

| | Software $000 | Total $000 |
|---|---|---|
| **As at 1 July 2017** | | |
| Cost | 313 | 313 |
| Accumulated amortisation | (48) | (48) |
| **Net book value** | 265 | 265 |
| **Movements in the year ended 30 June 2018** | | |
| Opening net book value | 265 | 265 |
| Additions | | |
| - External costs | 111 | 111 |
| Disposals | (2) | (2) |
| Amortisation | (98) | (98) |
| Foreign currency translation | (10) | (10) |
| **Closing net book value** | 266 | 266 |
| **As at 30 June 2018** | | |
| Cost | 421 | 421 |
| Accumulated amortisation | (155) | (155) |
| **Net book value** | 266 | 266 |
| **Movements in the year ended 30 June 2019** | | |
| Opening net book value | 266 | 266 |
| Additions | | |
| - External costs | - | - |
| Disposals | (34) | (34) |
| Amortisation | (150) | (150) |
| Foreign currency translation | 10 | 10 |
| **Closing net book value** | 92 | 92 |
| **As at 30 June 2019** | | |
| Cost | 388 | 388 |
| Accumulated amortisation | (296) | (296) |
| **Net book value** | 92 | 92 |

## 14. Trade and other payables

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Trade payables | 914 | 877 |
| Accruals | 93 | 211 |
| Employee benefits | 368 | 1,423 |
| | 1,375 | 2,511 |

## 15. Share capital

| | Ordinary Shares | $000 |
|---|---|---|
| **Share capital as at 1 July 2017** | 171,849,192 | 74,278 |
| Shares issued in employee share plans | 3,032,072 | - |
| Cancellation of shares issued in employee share plan | (1,554,329) | - |
| Shares issued on option exercise | 946,997 | 71 |
| **Share capital as at 30 June 2018** | 174,273,932 | 74,349 |
| Cancellation of share plan shares | (7,258,581) | - |
| **Share capital as at 30 June 2019** | 167,015,351 | 74,349 |

**(a) Ordinary Shares**
The ordinary shares have no par value and all ordinary shares are fully paid-up and rank equally as to dividends and liquidation, with one vote attached to each fully paid ordinary share.

**(b) Employee incentive plans**
*Adherium Employee Share Option Plan (Adherium ESOP)*
Prior to the Company's initial public offering and listing it operated an option plan for employees. No further issue of options under the Adherium ESOP are contemplated.

| Exercise price range $0.075268 – 0.134039 | Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Life (years) | Exercisable | Weighted Average Exercise Price | Weighted Average Share Price at Exercise |
|---|---|---|---|---|---|---|
| **Outstanding at 1 July 2017** | 4,395,401 | $ 0.1083 | 2.8 | 4,395,401 | $ 0.1083 | |
| Granted | - | $ - | | | | |
| Exercised | (946,997) | $ 0.0752 | | | | $ 0.16 |
| Lapsed | - | $ - | | | | |
| **Outstanding at 30 June 2018** | 3,448,404 | $ 0.1163 | 2.1 | 3,448,404 | $ 0.1163 | |
| Granted | - | $ - | | | | |
| Exercised | - | $ - | | | | |
| Lapsed | (625,823) | $ 0.0752 | | | | |
| **Outstanding at 30 June 2019** | 2,822,581 | $ 0.1254 | 1.4 | 2,822,581 | $ 0.1254 | |

There were no options granted in the year ended 30 June 2019 (2018: nil). The Company has no legal or constructive obligation to repurchase or settle the options in cash.

*Adherium Employee Share Plans (Adherium ESP)*
The Company operates employee share plans for employees, directors and consultants within the Group. Participants are invited by the Board of Directors and those who accept an offer of ESP shares are provided with an interest free loan from the Company to finance the whole of the purchase of the ESP shares they were invited to apply for (ESP Loan). The ESP Loans are provided to participants on a non-recourse basis and upon vesting must be repaid in order to remove trading restrictions on vested ESP shares. The term of the ESP Loan is five years, however participants may forfeit their ESP shares if they do not repay the ESP Loan or leave the Company. Awards typically vest one third annually over a three-year period, and are subject to restriction until vesting conditions are met.

There were no new awards under the Adherium ESP during fiscal 2019. The assessed weighted average fair value at grant date of the awards made during the 2018 financial period is 1.3 cents per ESP share awarded. The awards were priced using a Black-Scholes option pricing model that takes into account the exercise price, the term of the award, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the award.

The following awards have been made and are on issue under the Adherium ESP:

| Grant date | Shares granted | Issue price | Vested as at 30 June 2019 | Restricted as at 30 June 2019 | Share price at grant date |
|---|---|---|---|---|---|
| 16 May 2016 | 2,569,609 | $0.50 | 2,569,609 | - | $0.50 |
| 8 November 2016 | 2,100,000 | $0.50 | 1,400,000 | 700,000 | $0.35 |
| 23 December 2016 | 243,628 | $0.50 | 162,418 | 81,210 | $0.26 |
| 8 November 2017 | 173,277 | $0.50 | 115,518 | 57,759 | $0.08 |

## 16. Deferred Income Tax

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Movements | | |
| Deferred tax asset (liability) at the beginning of the year | - | - |
| Credited (charged) to the income statement (note 7) | 3,525 | 3,111 |
| Change in unrecognised deferred tax assets | (3,525) | (3,111) |
| Deferred tax asset (liability) at the end of the year | - | - |

The movement in deferred income tax assets and liabilities during the period is as follows:

| | Deferred tax assets (liabilities) | | | |
|---|---|---|---|---|
| | Provisions and accruals $000 | Intangible assets $000 | Tax losses $000 | Total $000 |
| **As at 1 July 2017** | - | - | - | - |
| Credited (charged) to the income statement | (19) | 82 | 3,048 | 3,111 |
| Effect of exchange rate changes | (4) | (8) | (15) | (27) |
| Change in unrecognised deferred tax assets | 23 | (74) | (3,033) | (3,084) |
| **As at 30 June 2018** | - | - | - | - |
| Credited (charged) to the income statement | (32) | (6) | 3,563 | 3,525 |
| Effect of exchange rate changes | 3 | 10 | 365 | 378 |
| Change in unrecognised deferred tax assets | 29 | (4) | (3,928) | (3,903) |
| **As at 30 June 2019** | - | - | - | - |

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable, or to the extent that they can be set off against deferred income tax liabilities. The Company did not recognise deferred income tax assets of $11,812,000 (2018: $7,884,000) in respect of losses amounting to $38,016,000 (2018: $25,850,000) that can be carried forward against future taxable income. The Company also did not recognise further deferred income tax assets of $380,000 (2018: $405,000) in respect of other timing differences amounting to $1,351,000 (2018: $1,441,000).

## 17. Related party transactions

### (a) Key management and personnel

The key management personnel include the directors of the Company, the CEO, and senior executives responsible for the planning, directing and controlling of the Group's activities. Compensation for this group was as follows:

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| **Directors** | | |
| - fees and other legislated superannuation | 358 | 360 |
| - share and option compensation | 19 | 43 |
| **CEO and management** | | |
| - short-term benefits | 959 | 1,780 |
| - post-employment benefit contributions | 21 | 27 |
| - share based compensation | 44 | 23 |
| | 1,401 | 2,233 |

Key management personnel and their associates subscribed for share capital in the Company as follows:

| | June 2019 Ordinary Shares | June 2019 $000 | June 2018 Ordinary Shares | June 2018 $000 |
|---|---|---|---|---|
| Shares issued on exercise of options | - | - | 519,714 | 39 |
| | - | - | 519,714 | 39 |

**(b) Related parties**
Transactions with related parties are on normal commercial terms and on conditions no more favourable than those available to other suppliers.

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Alecia Anderson Design | | |
| - Office design consultancy for office refurbishment | 11 | 25 |

## 18. Financial instruments and risk management

### (a) Categories of financial instruments

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| ***Financial assets*** | | |
| Loans and receivables classification: | | |
| Cash and cash equivalents | 763 | 12,118 |
| Short term investments | - | 427 |
| Trade and other receivables | 359 | 1,092 |
| **Total financial assets** | 1,122 | 13,637 |
| ***Financial liabilities*** | | |
| ***Measured at amortised cost:*** | | |
| Trade and other payables | 1,375 | 2,511 |
| Convertible notes – liability component | - | - |
| ***Measured at fair value:*** | | |
| Convertible notes – embedded conversion derivative | - | - |
| **Total financial liabilities** | 1,375 | 2,511 |

### (b) Risk management
The Company is subject to a number of financial risks which arise as a result of its activities.

***Foreign exchange risk***
During the normal course of business the Company enters into contracts with overseas customers or suppliers or consultants that are denominated in foreign currency. As a result of these transactions there is exposure to fluctuations in foreign exchange rates.

The Company does not utilise derivative financial instruments. It operates a policy of holding cash and cash equivalents in the currency of near-term estimated future supplier payments, however it does not designate formal hedges and as such remains unhedged against foreign currency fluctuations. A foreign exchange gain of $510,000 is included in results for the period ended 30 June 2019 (2018: $633,000 gain).

The carrying amounts of foreign currency denominated assets and liabilities are as follows:

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| ***Assets*** | | |
| New Zealand Dollars | 1,016 | 8,817 |
| US dollars | 1,080 | 1,756 |
| UK pound | 40 | 200 |
| European euros | - | 1 |
| ***Liabilities*** | | |
| New Zealand Dollars | 303 | 1,052 |
| US dollars | 769 | 1,019 |
| UK pound | 14 | 117 |
| European euros | - | 40 |
| Hong Kong dollars | 28 | 5 |
| Japanese Yen | 0 | 1 |

The following table details the Company's sensitivity to a 10% increase and decrease in each of the currencies noted against the Australian dollar as at the reporting date.

| *Decrease (increase) in loss after income tax* | June 2019 $000 | June 2018 $000 |
|---|---|---|
| *10% strengthening of Australian dollar against:* | | |
| New Zealand Dollars | 584 | 256 |
| US dollars | 381 | 349 |
| UK pound | 22 | 40 |
| Hong Kong dollars | 3 | 1 |
| Japanese Yen | - | - |
| *10% weakening of Australian dollar against:* | | |
| New Zealand Dollars | (713) | (313) |
| US dollars | (465) | (426) |
| UK pound | (27) | (49) |
| Hong Kong dollars | (3) | (1) |
| Japanese Yen | - | - |

***Cash flow and fair value interest rate risk***
The Company is exposed to interest rate risk as it holds cash and cash equivalents (refer note 9).

Trade and other receivables and payables do not bear interest and are not interest rate sensitive.

The Company's interest bearing financial assets bear interest at deposit rates for up to 90 days and accordingly any change in interest rates would have an immaterial effect on reported loss after tax.

***Credit risk***
The Company incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The credit risk on financial assets of the Company, which have been recognised in the statement of financial position, is the carrying amount, net of any allowance for doubtful debts.

The Company does not require any collateral or security to support transactions with financial institutions or customers. The counterparties used for banking activities are financial institutions with an A-2 credit rating (2018: AA-) and the Company assesses the credit quality of customers by taking into account their financial position, past experience and other factors. The credit quality of trade receivables can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| **Counterparties with external credit rating:** | | |
| • AA- | 260 | 934 |
| **Counterparties without external credit rating:** | | |
| • existing customers (more than 6 months) with no defaults in the past | 27 | 41 |
| **Total trade receivables** | 287 | 975 |

The Company is exposed to a concentration of credit risk as 91% of accounts receivable are with one counterparty (2018: 96%). The customer has an external credit rating of A-2.

***Liquidity risk***
The table below shows the Company's non-derivative financial liabilities by relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 3 months $000 | Between 3 months and 1 year $000 |
|---|---|---|
| **As at 30 June 2019** | | |
| Trade and other payables | 1,375 | - |
| **As at 30 June 2018** | | |
| Trade and other payables | 2,511 | - |

***Capital risk***
The Company manages its capital to ensure that it is able to continue as a going concern. The capital structure of the Company consists of cash and cash equivalents, and equity comprising issued capital, reserves and accumulated deficit.

***Fair value estimation***
Financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The Convertible Notes converted to shares in the Company immediately prior to its listing on the ASX in August 2015.

**19. Parent entity information**

The following details information related to the legal parent, Adherium Limited as at 30 June 2019. During the year ended 30 June 2019 Adherium Limited recognised an impairment on the carrying value of its investments in and loans to subsidiaries to record those at the Group carrying value. This resulted in an impairment charge of $5,748,000 (2018: $48,146,000 impairment) The information presented here has been prepared using consistent accounting policies as presented in Note 1.

| | Parent June 2019 $000 | Parent June 2018 $000 |
|---|---|---|
| **Statement of Financial Position** | | |
| Current assets | 107 | 10,643 |
| Non-current assets | 4,080 | 10,117 |
| **Total assets** | 4,187 | 20,760 |
| Current liabilities | 300 | 251 |
| Non-current liabilities | - | - |
| **Total liabilities** | 300 | 251 |
| **Net assets** | 3,887 | 20,509 |
| Contributed equity | 74,349 | 74,349 |
| Accumulated deficit | (71,057) | (54,523) |
| Reserves | 595 | 683 |
| **Total equity** | 3,887 | 20,509 |
| **Statement of Profit and Loss and Comprehensive Income** | | |
| Loss after tax | (16,534) | (49,846) |
| **Total comprehensive loss** | (16,534) | (49,846) |

### 20. Interests in controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 3:

| Name of Entity | Status | Country of incorporation | Percentage owned | |
|---|---|---|---|---|
| | | | June 2019 | June 2018 |
| Adherium (NZ) Limited | Operating | New Zealand | 100% | 100% |
| Adherium North America, Inc. | Operating | United States | 100% | 100% |
| Adherium Europe Ltd | Operating | United Kingdom | 100% | 100% |
| Nexus6 Limited | Dormant shell | New Zealand | 100% | 100% |

### 21. Contingencies and commitments

The Company had no contingencies or commitments to purchase any property, plant or equipment at 30 June 2019 (2018: nil).

The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements.

| | June 2019 $000 | June 2018 $000 |
|---|---|---|
| Not later than one year | 74 | 364 |
| Later than one year and not later than five years | - | 572 |
| Later than five years | - | - |
| | 74 | 936 |

### 22. Events occurring after balance date

Subsequent to the balance sheet date, Adherium received subscription commitments from existing shareholders and new investors for $1.8 million of secured debt notes (2019 Notes) to be issued by the Company. The 2019 Notes contain terms for their conversion into ordinary shares and options over ordinary shares which are subject to approval by shareholders at the next general meeting. Until conversion, the 2019 Notes are secured by charges over the assets of the Company and its wholly owned New Zealand subsidiary.

There are no other events occurring after the balance sheet date which require disclosure or adjustment in the financial statements.

# Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 20 to 40 in accordance with the Corporations Act 2001:

(a) comply with Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
(b) as stated in note 2, the consolidated financial statements also comply with International Financial Reporting Standards; and
(c) give a true and fair view of the financial position of the consolidated entity as at 30 June 2019 and of its performance for the financial year ended on that date.

In the Directors' opinion there are reasonable grounds to believe that Adherium Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and Chief Financial Officer to the Directors in accordance with sections 295A of the Corporations Act 2001 for the year ended 30 June 2019.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the board.

**Thomas Lynch**
**Non-Executive Chairman**

Melbourne
27 September 2019

# Independent auditor's report

To the members of Adherium Limited

## Report on the audit of the financial report

### Our opinion

In our opinion:

The accompanying financial report of Adherium Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***What we have audited***

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***PricewaterhouseCoopers, ABN 52 780 433 757***
*One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

*Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124*
*T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au*

### *Independence*

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

## *Material uncertainty related to going concern*

We draw attention to Note 2 of the Basis of Preparation within the financial report, which indicates the Group incurred a net loss of $11,794,000 (2018: $9,338,000) and operating cash outflows of $11,807,000 (2018: $ 9,824,000) for the year ended 30 June 2019. As at 30 June 2019 the net cash balance was $763,000.

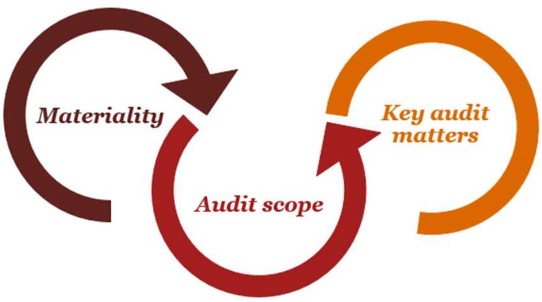
As a result, the Group is dependent on raising additional capital or alternative funding, until it is supported by cash flows from operations.

These conditions along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our report is not modified in respect of this matter.

## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.




| *Materiality* | *Audit scope* | *Key audit matters* |
|---|---|---|
| • For the purpose of our audit we used overall Group materiality of $0.6 million, which represents approximately 5% of the Group's losses before tax.<br>• We applied this threshold, together with qualitative | • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. | • Amongst other relevant topics, we communicated the following key audit matter to the Audit and Risk Committee:<br>  • Revenue recognition |

considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

- We chose Group loss before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

- This is further described in the *Key audit matters* section of our report, except for the matter which is described in the *Material uncertainty related to going concern* section.

## *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

In addition to the matters described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| ***Revenue recognition***<br>*Refer to note 5 ($2,779,000)*<br><br>During the year the Group has applied AASB 15 *Revenue for Contracts with Customers* (AASB 15) as disclosed in Note 3.21.<br><br>Revenue recognition was a key audit matter due to:<br><br>• the complexity involved in applying AASB 15 for the first time<br>• the significance of revenue to understanding the financial results for users of the financial report | We performed the following procedures, amongst others:<br>• Developed an understanding of and evaluated the operating effectiveness of relevant key revenue internal controls.<br>• Assessed whether the Group's new accounting policies were in accordance with the requirements of AASB 15.<br>• For a sample of contracts for each material revenue stream we:<br>  • Developed an understanding of the key terms of the arrangement including parties, term dates, background of agreement, performance obligations and payments to be made.<br>  • Considered the Group's identification of performance obligations and allocation of selling prices to the performance obligations. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| | • Considered whether the transaction price was properly allocated using the standalone selling price.<br>• Evaluated the adequacy of the disclosures made in note 4 and 5 in light of the requirements of Australian Accounting Standards. |

## *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

pwc

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

## *Report on the remuneration report*

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 11 to 17 of the directors’ report for the year ended 30 June 2019.

In our opinion, the remuneration report of Adherium Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
27 September 2019

# Australian Securities Exchange Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The shareholder information set out below was applicable as at 31 August 2019.

## (a) Distribution of equity securities

***Ordinary share capital***
As at 31 August 2019 there were 174,031,986 ASX quoted ordinary shares held by 616 shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

| Range (size of holding) | Number of Ordinary Shares | Holders |
|---|---|---|
| 1 - 1,000 | 8,075 | 25 |
| 1,001 - 5,000 | 306,758 | 90 |
| 5,001 - 10,000 | 816,768 | 96 |
| 10,001 - 100,000 | 11,662,894 | 280 |
| 100,001 and over | 161,237,491 | 125 |
| Total | 174,031,986 | 616 |

There were 257 shareholders holding less than a marketable parcel of ordinary shares at a price of $0.0270, totalling 1,768,721 ordinary shares.

***Unquoted options over ordinary shares***
As at 31 August 2019 there were 2,822,581 options over ordinary shares held by 9 holders.

## b) Twenty largest holders of quoted equity securities as at 31 August 2019

| | Ordinary Shares | |
|---|---|---|
| **Shareholders** | **Number** | **%** |
| One Funds Management Limited <Asia Pacific Health Fund II A/C> | 25,217,915 | 14.49 |
| HSBC Custody Nominees (Australia) Limited | 22,106,654 | 12.70 |
| K One W One Ltd | 10,990,860 | 6.32 |
| Adherium ESP Trustee Limited | 10,303,149 | 5.92 |
| HSBC Custody Nominees (Australia) Limited - A/C 2 | 9,352,786 | 5.37 |
| Mr Garth Sutherland | 9,174,885 | 5.27 |
| Citicorp Nominees Pty Limited | 6,197,552 | 3.56 |
| JMID Pty Ltd <Jam Family A/C> | 6,000,000 | 3.45 |
| NZVIF Investments Limited | 4,483,383 | 2.58 |
| Road Response Australia Pty Ltd <Ara Unit A/C> | 4,385,440 | 2.52 |
| JMID Pty Ltd <Jam Superfund A/C> | 4,000,000 | 2.30 |
| Mr Daniel Blackwood Ritchie | 2,614,454 | 1.50 |
| National Nominees Limited <DB A/C> | 2,604,884 | 1.50 |
| Chag Pty Ltd | 2,550,000 | 1.47 |
| Peter Smith Superannuation Management Pty Ltd <Peter Smith Family SF A/C> | 2,297,169 | 1.32 |
| Bennamon Pty Ltd | 2,168,000 | 1.25 |
| Mr James Robert Levien | 1,400,000 | 0.80 |
| Mogridge & Associates Ltd | 1,394,289 | 0.80 |
| Mr Carlsen Wilson Henry Marks + Mrs Edwina Mary Marks | 1,150,000 | 0.66 |
| Ross Alan Sutherland + Valerie Mary Sutherland + Garth Campbell Sutherland | 1,072,517 | 0.62 |
| Total top 20 holders of fully paid ordinary shares | 129,463,937 | 74.39 |

## (c) Substantial shareholders

In accordance with ASX Listing Rule 4.10.4, a listing of substantial holding notices provided to the Company and released to the ASX are included below:

| Substantial shareholders | Notification Date | Ordinary Shares Held |
|---|---|---|
| One Funds Management Limited <Asia Pacific Health Fund II A/C> | 28/07/2016 | 25,217,915 |
| FIL Limited | 13/02/2019 | 12,400,096 |
| Mr Garth Sutherland | 01/08/2016 | 12,388,769 |
| K One W One Ltd | 26/07/2016 | 10,990,860 |
| I.G. Investment Management, Ltd and associates | 01/09/2015 | 9,535,000 |
| JMID Pty Ltd | 07/06/2019 | 8,997,000 |
| AstraZeneca PLC and its related bodies | 26/08/2015 | 8,079,720 |
| | | 87,609,360 |

## (d) Voting Rights

On a show of hands, every shareholder present in person or by proxy holding stapled securities in the Company shall have one vote and upon a poll each stapled security shall have one vote.

# Corporate Information

## ASX code: ADR

## Directors

Mr Thomas Lynch (Chair)
Mr Jeremy Curnock Cook
Dr William Hunter
Mr Bruce McHarrie
Prof John Mills
Mr Bryan Mogridge

## Joint Company Secretaries

Mr Rob Turnbull
Mr Mark Licciardo

## Registered Office

Collins Square, Tower 4
Level 18, 727 Collins St
Melbourne VIC 3000, Australia
+61 3 86575540

## NZ Office

**(Prinicipal Administrative Office)**

Level 11, 16 Kingston Street
Auckland 1010, New Zealand
+64 9 307 2771

## Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067, Australia

## Solicitors

K&L Gates
Level 25 South Tower
525 Collins Street
Melbourne VIC 3000, Australia

## Auditors

PricewaterhouseCoopers
One International Towers, Watermans Quay,
Barangaroo NSW 2000, Australia

## Website

www.adherium.com
www.hailie.com

## Shareholder Enquiries

**1300 850 505 (+61 3 9415 4000)**

Shareholders requiring clarification of holdings, or requesting changes of name or address should contact Computershare Investor Services directly on the above number. Shareholders wishing to create an online account with Computershare should visit https://www.investorcentre.com www.adherium.com