adherium

Annual Report

for the year ended 30 June 2020

Adherium Limited • ABN 24 605 352 510

Company Overview

Adherium is a provider of digital health solutions and a global leader in connected respiratory medical devices, with more than 170,000 sold globally. The company develops, manufactures and supplies a broad range of connected medical devices for respiratory medications for patients, pharmaceutical companies, healthcare providers and contract research organisations. Adherium's Hailie® solution is designed to achieve better adherence for patients and provide visibility to parents and caregivers. It does this by tracking medication use and reminding the user when it is time to take doses, and by providing physicians access to usage history to better understand patients' patterns in their asthma and COPD. These tools ultimately enable people who live with asthma or COPD to more easily manage their condition alongside their physician.

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Chairman's Report

I am pleased to be able to provide the Chairman's statement for Adherium and comment on the opportunity for the business and the progress made in the last twelve months. Having known Adherium for over five years and worked extensively in the respiratory and medical device space there are three primary reasons why I believe that Adherium has strong prospects for the future:

- the newly introduced US reimbursement framework for remote patient monitoring;
- the development of a focused, credible and relevant business strategy; and
- the appointment of a strong, experienced and well qualified management team to lead the execution of strategy and operational management of the business.

Game Change in Environment and Opportunity

The unmet need for better assessment and management of adherence in the respiratory field remains as critical today as ever. Approximately $34 billion is estimated to be spent in the USA on avoidable healthcare costs for uncontrolled COPD and asthma patients. Patients and carers struggle with poor inhalation technique aggravated by the range and complexity of different devices provided by pharmaceutical companies Adherium has its proven Hailie® technology designed to address these issues, and existing industry-leading clinical evidence of the impact of its use in reducing symptoms and as well as cost. This has been the case for a number of years. However, the recent introduction of reimbursement to physicians for remote patient monitoring (RPM) greatly increases the motivation for physicians to employ this technology.

Put simply, reimbursement for RPM is a game changer for the digital sensor medical device industry and creates enormous opportunity for Adherium. Adherium is moving quickly to establish a base for sustained, recurring revenue streams with business partners who have well-established direct physician, provider and patient models. Hailie® has the potential to be the the preferred respiratory inhalation monitoring system, enabling better clinical and financial outcomes for physicians, payers and patients with severe, uncontrolled asthma and COPD. Additionally, beyond adherence monitoring Adherium has the potential to leverage our respiratory channel partner and software technology platform by adding remote monitoring solutions for a range of respiratory diagnostics and devices, creating a portfolio of options for integrated patient assessment, data analysis and data aggregation. Further opportunities lie beyond this including the monetization of aggregated data across multiple sensor platforms and patient groups along with remote patient monitoring beyond the respiratory therapeutic area.

Prior to 2019 there were no direct financial incentives for physicians and health care providers to engage with patients with remote monitoring devices. However, since 2019 reimbursement codes have been introduced to pay physicians approximately $1,400 p/a for each patient utilising RPM devices such as those provided by Adherium. This, along with the COVID-19 pandemic, is helping to drive a profound change in patient and physician behaviour and provides the catalyst for the adoption of remote monitoring on an unprecedented scale. We are already seeing a number of companies accelerating their activities in this space including monitoring tools providers such as Livongo, and the addition of remote sensing capabilities by medical device providers such as Medtronic.

Focused Strategy

Adherium's strategy has also evolved significantly combining the learnings from the past with a credible, relevant and focused approach for the future. The strategy is clear.

1. To focus on the patient segment with the highest unmet medical need, i.e. severe asthma and COPD patients, who incur the largest economic cost to the healthcare systems. The use of electronic monitoring tools to assess these patients is now flagged as a recommended step in the GINA (Global Initiative for the treatment of asthma) and, with over 1.3 million severe asthma and COPD patients in the US, represents a very meaningful segment for the business.

2. To focus our go-to-market commercial approach through business partners who are established and already operate with respiratory physicians and patients and are thereby positioned to enable physician and provider access to the US reimbursement codes. This is being done with our commercial partners HGE Health and Trudell Medical's US Monaghan Medical commercial team.

   Adherium will continue to be open to collaborating with single pharma company sponsors but will not focus on this as its primary commercial go-to-market model. Adherium continues to work closely with AstraZeneca on a number of revenue-generating projects and is committed to mutually valuable focused collaboration going forwards.

3. To further differentiate our portfolio of devices and access the US remote monitoring codes through the simultaneous collection of physiological measures (airflow) alongside the existing monitoring of adherence. At the same time, Adherium is working with our technology partners Planet Innovation in

Melbourne, upgrading hardware and software functionality to simplify ease of use, data capture and reporting for customers and adding the new physiological measure related to the US reimbursement codes.

Given the high level of interest in the digital remote monitoring space competitiveness is an important consideration for Adherium. Adherium and its strategy is differentiated in its product offering (proven Hailie® technology combined with the development of an industry leading range of physiologically enabled devices in asthma and COPD), its commercial model partnering with channel partners rather than pharma sponsors and open approach to data reporting and portal use integrating with existing provider platforms as opposed to limiting usage to an Adherium provided data access approach and management tool alone. The combination of differentiation in product technology, business model and integrated customer solutions approach is compelling and competitive.

Adherium continues to partner with Summatix, a Class 2 regulated digital device platform, to take advantage of the emerging opportunities of its proprietary data related to data monetization. Adherium continues to see its collaboration with Summatix as an important further differentiator as we progress with our commercial partners and move beyond the commercial continuum of initial patient adoption and population monitoring.

The strategy being adopted by Adherium reflects key learnings in the business since the IPO. The previous strategy targeted all asthma patients including the mild to moderate patient group which appears to be an attractive proposition given the huge patient numbers. However, this approach did not target the patients where symptom control and economic burden are recognised to be the greatest problem. Adherium previously adopted a commercial model prioritising individual pharma company sponsorship. For physicians, patient compliance and competence of device use is a problem which impacts the efficacy of multiple devices and is typically not related to one single branded device. Adherium's technology solution, therefore, needs to be available across a wider range of inhalation devices enabling physicians to have a range of reliever and maintenance device sensors that may be used according to the patient's individual needs. Additionally, where we previously directly lead the commercialisation activities, our commercial investment is now focused in supporting our well-established in market partners, HGE Health and Trudell. The previous approach was attractive from the perspective of future margin generation but unattractive given the significant upfront financial cost and operational capability, scale and risk required.

Overall our strategy is well thought through in terms of phasing and scale-up of investment linked to key milestones, initially focused over the next two years. It can be considered in three phases. Phase 1 is the testing and adaptation of the operational components of the new US channel partnerships up to the end of CY Q1 2021. Following that, Phase 2, Adherium should start to see the initial scaling up of customer and commercial traction, through its channel partners. From the beginning of 2022, Phase 3, Adherium should have established and scaling revenue generation in the US and be in the position to start to extend its commercial focus outside the US.

Strengthening Leadership and Relevant Management Capability

As indicated in my introductory words the strengthening of the leadership team is the third important positive component to the positive outlook for Adherium going forwards. With Mike Motion as CEO (UK based), Anne Bell as CFO (Australia based), Geoff Feakes joining the team as CTO (Australia based), and Jane Lapon (Canada based) leading pricing and reimbursement Adherium now has a management team with over 100 years industry experience including in the respiratory, pharmaceutical, drug and device development, remote monitoring, digital and global commercial arenas. This represent a major step up in the leadership capability, strategy and sector relevance of the business alongside my own respiratory drug device experience and network and the broad commercial, technology and finance experience of the existing Board.

A key part of Adherium's activities this year has been to secure the necessary financing to support the business. This has been addressed with the successful refinancing and rights issue completed in January 2020 raising $5.4 million. This was followed by the investment of $5 million from the BioScience Managers Translation Fund 1 reflecting their mandate to invest in Australian innovative technology development activity. On behalf of the Board I would particularly like to thank all the investors who have participated in the funding of the business and all investors for their continued commitment to the business. I look forward to your on-going support as we seek additional funding in the future to execute on a path to profitability.

I would like to thank the Board and Jeremy Curnock Cook, Bryan Mogridge, Bill Hunter and Bruce McHarrie in particular, for their significant support in the operational restructuring and participation in the refinancing of the business in 2019. I would also like to give a formal note of thanks on behalf of the Board and all those associated with Adherium to my predecessor Thomas Lynch, who sadly passed away in April. In addition, I would like to thank all the Adherium team who despite the changes to the business and recent challenges presented by COVID-19 are highly motivated and engaged in supporting the new Adherium strategy implementation.

Conclusion

With the turnaround completed, lessons learned and a revised strategy and team in place, the business is making positive steps forward. Adherium is now well positioned to realise its unfulfilled promise. As well as providing US physicians with a financially attractive tool to improve patient management Adherium represents a compelling investment opportunity for investors given comparative valuations for many companies in the digital health technology field.

James Ward-Lilley
Non-executive Chairman

CEO's Report

Dear Shareholder

2020 has brought unprecedented challenges and change across many aspects of our lives – including a paradigm shift in the way in which medicine is practised and patients are managed by their doctors. In this respect, COVID-19 has worked as a positive driver for our business and I am pleased to report significant progress in advancing the new growth strategy we defined last year.

Our commercial strategy is focused initially on the USA and on leveraging Adherium's technology to address the high unmet need of patients with severe/difficult-to-treat asthma and chronic obstructive pulmonary disease (COPD) – patients who represent a preventable healthcare cost of US$34 billion. Recent changes to the US health payment structure work to our advantage, and we have made great strides in being able to capitalise on these, with two US respiratory specialist channel partners signed this year, and funding secured for a research and development collaboration that will significantly strengthen our position.

To reframe the reimbursement framework, in 2018, the Centers for Medicare & Medicaid Services (CMS) – the single largest payer for health care in the USA – announced criteria for the reimbursement of remote patient monitoring (RPM) and telehealth services. Adherium identified the opportunity this presented – by adding physiological data capture to existing technology, our sensors would provide "connected care" and a path to payment through the RPM Current Procedural Terminology (CPT) coding system for providers. The value to Adherium comes not only from the use of our technology, but also from the data generated from that usage, which has significant inherent value in its potential to inform more personalised treatment solutions and more effective healthcare spending.

From a clinical perspective, our primary focus is on solving the persistent medical problem of prescription non-adherence. Adherium's Hailie® sensor technology and cloud-based data platform have been shown in clinical trials to improve patient outcomes and reduce acute respiratory attacks by transforming the way in which patients with asthma and COPD follow their prescribed inhaled medication dosage and schedule. By using Adherium's systems, doctors also collect longitudinal medical data to help them better diagnose, manage, and treat patients. By improving medication adherence, Adherium increases the effectiveness of the medication regime, helping to enhance patients' quality of life while lowering the overall treatment cost.

This year, we set out clear pathways to demonstrate our value proposition to providers and payers in the US, focusing on commercial execution through the two major distribution channel partnerships announced in April:

1. **HGE Health** is a full-service remote COPD disease management specialist in the US. HGE contracts with insurance companies/payers to manage large COPD patient populations through its clinical call centres. Their digital platform and technology-enabled services, HGE Care, are supported by a nurse led clinical call centre – the "humanware" enabler for pulmonary and primary care physicians to remotely care for patients from anywhere in the US. They help patients use technology to better understand and manage changes in their COPD symptoms, confident that professional and personalised support is always available. We are now working to integrate Adherium's Hailie® technology into HGE Health's established telemedicine service to better assess, manage, and treat high-risk respiratory patients through a 100-patient pilot program in CYQ3/4 2020.

   For the pilot we are evaluating the combination of our Hailie® sensors to monitor patients' inhaled medication adherence and compliance, with the patients' use of the HGE Care app to self-report symptoms, and the call centre staff using an algorithm to review their symptom and medication use-data on a daily basis. If a trend towards exacerbation is identified, the call centre will intervene through a telephone consultation, and may also make a prescription review recommendation to the patient's physician. HGE reduces the frequency and severity of exacerbations and the number of ER admissions, which represent a very high cost burden and can incur insurance penalties. In the pilot through the enhanced HGE-Adherium service we believe patients will enjoy better care and outcomes, while providers and payers should see substantial cost benefits over baseline and historic savings.

2. **Monaghan Medical Corporation** is the specialist US respiratory device subsidiary of the Trudell Medical Group, a globally recognised leader in the manufacture and supply of innovative, high-quality, patient-oriented aerosol drug delivery devices and respiratory management solutions, Trudell is also a 13% shareholder in Adherium. We signed a head-of-terms sales and distribution agreement with Monaghan to leverage the access their salesforce has to the specialist asthma centres that manage the severe and difficult-to-treat asthmatics we target. Monaghan's dedicated

salesforce has an in-depth understanding of these patients and strong relationships with the physicians that we need to reach. The beauty of this partnership is that Monaghan benefits from a valuable incremental product offering and from data captured through our Hailie® system that will increase their insights into the patient population they specialise in – helping them stay at the forefront of innovative solutions for the physicians they sell to. In building the relationship and validating our business model, we are working closely with Monaghan over the next few quarters to train key accounts in the use of our technology establishing a network of expert centres to support early commercialisation.

These two channels allow Adherium to participate in the new reimbursement environment in US healthcare in distinct yet complimentary ways. The benefit for Adherium is that revenue is generated through multiple channels. In disease management customers are charged a per-patient, per-sensor, per-month fee, in addition to a proportion of any risk-share savings the insurance companies realise and in addition, once doctors gain access to the CPT code with our physiological data capture technology, we will levy a charge for services providing that access. Through our distributor channel we gain revenue from both sensor sales and the licensing of software and data access.

This brings me to another strategically critical relationship that was also signed in April this year – with Planet Innovation (PI), a Melbourne-based healthtech innovation and commercialisation company. We have struck a strategic device hardware and software development collaboration with them for our next-generation Hailie® technology. This will incorporate the physiological data capture functionality required to access the CPT reimbursement and will give physicians more and better quality information about patients and how well they are controlling their disease as well as an audit trail to support their claims for reimbursement.

By working with Planet Innovation, Adherium will gain the full benefit of the investment announced in May by the BioScience Managers Translation Fund 1 (BMTF1), which has invested $5 million in Adherium now, with an option (if exercised within 18 months of issue) to invest a further $5million. BMTF1 has a specific mandate to invest in Australian-based innovative healthcare technology, and so on the back of this investment and the Planet Innovation partnership, Adherium will base both its R&D and innovation capability in Melbourne. This investment, along with the $5.4 million rights issue completed earlier in the year, puts Adherium in a solid position to commercialise its business and support its software and hardware development programme in 2020.

In addition to these new partnerships, we continue to work closely with our long-term pharma partner AstraZeneca, with whom we are establishing a new commercial framework that will place a higher emphasis on the value of the data generated by our sensors in addition to the transactional revenue from sales. We continue to support several substantial clinical trials and innovative development work being funded by AstraZeneca.

We have significantly strengthened the leadership and management team bringing highly qualified and relevant experience to the business. Following a period working as CCO and COO, I took on the role of CEO in April, with Anne Bell also joining as CFO. Jane Lapon also joined the business, bringing significant experience to leading the pricing and market access activity. Most recently in August 2020, Geoff Feakes was appointed CTO and will be based in Melbourne to focus on the execution of our software and hardware development programme with Planet Innovation. In addition to the executive appointments James Ward-Lilley was appointed Chairman in April 2020, bringing a wealth of knowledge of the respiratory disease and devices market, having previously worked for AstraZeneca PLC and Vectura PLC.

Moving forward, between now and the end of 2022 we are working on a three-phase commercialisation plan:

1. Testing and proving of HGE and Trudell business and commercial operations models and Adherium sensor/software user experience with limited initial sensor sales (CY Q3, 2020 – Q1, 2021);
2. Scale up of HGE and Trudell activity with progressive revenue growth alongside introduction of first wave new sensors enabling physiological/peak flow measurement; Development completion and market launch of full range of physiologically enabled sensor and software in both COPD and Asthma (CY Q2, 2021 to Q4, 2021); and
3. Revenue scale-up through US partner activity with all major new sensors on market; Potential expanded scale up in EU/ROW territories; Potential next wave device development including nebuliser/integrated sensors (CY Q4 2021 into 2022)

We are all thoroughly energised by the opportunity in front of Adherium – in the US and ultimately in other major markets. I am confident that the mix of skill and experience on our board and management team, the partnerships we have established and the progress we have made in moving forward our strategy positions us very well for success.

Yours faithfully

Mike Motion
CEO and Executive Director

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 2020, 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 James Ward-Lilley, BA (Hons), MBA. Age 55.
Independent Non-Executive Chair
Appointed as a Director and Chairman 14 April 2020.

Mr Ward-Lilley had an extensive 28 year global pharmaceutical career at AstraZeneca before becoming Chief Executive Officer of Vectura Group PLC (the inhaled formulation and device development specialist) in September 2015.

At Vectura he was responsible for leading the business through a critical period including the successful merger with Skyepharma. James stepped down in June 2019 leaving Vectura as a growing, cash generative business with a strong balance sheet and positive pipeline momentum.

At AstraZeneca James had a number of increasingly senior roles including leading the business in China to become the number one pharmaceutical company in the market in 2008. He went on to become Regional Vice President for Central Eastern Europe and the Middle East and led AstraZeneca's investor relations team during the transition of Chair, CEO and strategy as Leif Johansson and Pascal Soriot joined the business.

Mr Ward-Lilley's last role at AstraZeneca was to lead the Respiratory, Inflammation & Autoimmunity franchise with responsibility for the revitalisation of one of AstraZeneca's three core therapeutic areas including the acquisitions of Almirall's respiratory business and Pearl Therapeutics. He was responsible for leading AstraZeneca's corporate device strategy in 2014/15 and was the key sponsor for AstraZeneca's initial investment in Adherium at the time of the IPO in 2015.

Mr Ward-Lilley is CCO for UK based Aerogen Group and a director for its subsidiary Aerogen Pharma Ltd. He has not held any other Australian public company directorships in the last three years.

Mike Motion, B.Sc (Hons). Age 58.
Chief Executive Officer and Executive Director
Appointed as a Director 24 April 2020.

Mr Motion has over 35 years' corporate experience in medical devices and pharmaceuticals starting his commercial career at Baxter Healthcare in 1984 working in manufacturing, sales and marketing and commercial leadership roles at UK, European and global levels. This was across a number of therapeutic areas including nutrition, infectious diseases and oncology.

Mr Motion joined Biocompatibles in 2005 to lead the commercialisation of its Interventional Oncology portfolio, setting up a direct sales force in the US and a global network of distributors in EMEA, APAC, China and Japan. After growing the business to about UK$40m per annum, Biocompatibles was acquired by BTG in 2011 for US$283m.

At BTG Mr Motion held senior leadership roles as General Manager for Interventional Oncology and Head of Digital Innovation, developing and executing BTG's digital health strategy in the therapeutic areas of oncology, anti-venom, vascular disease and respiratory. Latterly, he was Head of Varithena, the only NDA approved treatment for Chronic Venous Insufficiency, securing CPT coding and extensive payer coverage ahead of successful commercialisation in the US. Mike graduated in Aberdeen, Scotland with a BSc in Pharmacy.

Mr Motion has not held any other Australian public company directorships in the last three years.

Mr Jeremy Curnock Cook, MA. Age 71.
Independent Non-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 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 57.
Indpendent Non-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 Canary Medical Inc. and formerly Correvio Pharma Corp (NASDAQ: CORV). Dr Hunter is also a Director of Rex Bionics and an Industry Expert Advisor for BioScience Managers (manager of a major shareholder in Adherium). He has previously served as a director of Epirus Biopharmaceuticals (NASDAQ: EPRS) and Union Medtech. Dr Hunter completed his BSc from McGill University and a MSC and MD from the University of British Columbia. Dr Hunter served as a practising physician in British Columbia for five years. Dr Hunter held no other Australian public company directorships in the last three years.

Mr Bruce McHarrie, B.Com, FCA, GAICD. Age 62.
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. 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.

Mr Matt McNamara BSc (Hons), MBA, GAICD. Age 56.
Independent Non-Executive Director
Appointed 18 October 2019.

Mr McNamara is currently the Chief Investment Officer and director of Horizon 3 Biotech Pty Ltd. Mr McNamara has over 25 years' experience in the Healthcare & Medical Sciences sector. After initially being a Molecular Biology Research Assistant, he spent 11 years in sales & marketing and general management with Merck &Co. and Johnson and Johnson Medical Pty Ltd respectively. He was CEO of a Life Sciences Venture Capital Fund, SciCapital Pty Ltd. and from 2005 –2019 was CIO of BioScience Managers' healthcare funds. Mr McNamara is also a director of Avecho Biotechnology Limited (ASX: AVE).

Mr Bryan Mogridge BSc, ONZM, FNZIOD. Age 74.
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, Thinxtra 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.

Professor John Mills, AO, SB, MD, FACP, FIDSA, FRACP was an Independent Non-Executive Director until his resignation on 18 October 2019.

Mr Thomas Lynch, BSc, FCA was Adherium's Independent Non-Executive Chairman until his untimely death in April 2020.

Joint Company Secretaries

Mr Rob Turnbull, B.Com, CA. Age 53.
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 56.
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
J Ward-Lilley	4	4	-	-	-	-
M Motion	3	3	-	-	-	-
J Curnock Cook	16	15	2*	2*	1	1
W Hunter	16	13	-	-	-	-
B McHarrie	16	16	4	4	-	-
M McNamara	10	10	2	2	-	-
B Mogridge	16	13	4	4	1	1
T Lynch	11	7	-	-	1	1
J Mills	7	5	2	1	-	-

**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 2020 as noted:

Committee	Membership
Audit & Risk	Bruce McHarrie (Chair), Non-Executive Director Matt McNamara, Non-Executive Director (appointed 25 November 2019) Bryan Mogridge, Non-Executive Director John Mills, Non-Executive Director (until resignation 18 October 2019)
Nomination & Remuneration	Bryan Mogridge (Chair), Non-Executive Director Jeremy Curnock Cook, Non-Executive Director James Ward-Lilley, Non-Executive Director (appointed 17 June 2020) Thomas Lynch, Non-Executive Director (until directorship ceased 3 April 2020) John Mills, Non-Executive Director (until resignation 18 October 2019)

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 2020 was $11,397,000.

No dividends were paid, declared or recommended during the year ended 30 June 2020.

Review of Operations

Following the reorganisation in fiscal 2019 and the refocussing of the Adherium business in order to scale commercially, the 2020 year has been about taking those steps to implement the revised strategy to target reimbursement opportunities in the US within remote patient monitoring and telehealth services. These steps have included:

1. Building a new highly qualified management team which has seen the appointment during the year of James Ward-Lilley as Chairman, Mike Motion as CEO, Anne Bell as CFO, Geoff Feakes as CTO and Jane Lapon as Head of Pricing & Reimbursement;
2. Melbourne-based healthtech innovation and commercialisation company Planet Innovation has been retained as Adherium's strategic R&D partner. A number development work streams are now underway in both hardware and software to capture physiological measures in the Hailie® platform which will support access to reimbursement by physicians and providers; and
3. To support commercialisation initiatives funding was obtained through the issue of $2.9 million of Convertible Notes, and a $5.4 million Rights Issue to shareholders and new investors. Significant contributors to this funding included existing shareholders K One W One and Fidelity International, and new investors EGP Capital and Trudell Medical. In addition and most recently, a $5 million share placement to the BioScience Managers Translation Fund 1 has been completed.

Progress has already been made in entering the US disease management market in the US. Relationships have been established with strategic partners HGE Health, a full-service remote COPD disease management specialist in the US, and Monaghan Medical Corporation, the specialist US respiratory device subsidiary of the Trudell Medical Group, a globally recognised leader in the manufacture and supply of innovative, high-quality, patient-oriented aerosol drug delivery devices and respiratory management solutions. Programmes involving Adherium's Hailie® solution in a US-based COPD patient population have already commenced.

Revenue to 30 June 2020 was $2,218,000, compared with $2,779,000 in fiscal 2019. The reduction occurred across both sensors sales and engineering services on reduced customer orders, although per unit revenue on the 14,000 sensors delivered in 2020 was higher than in 2019 when 28,000 were sold, but included promotional pricing as part of Adherium's direct-to-consumer channel launch in calendar 2018. This promotional pricing also impacted gross margin in the previous year.

Research and development activities for the year ended 30 June 2020 amounted to $3,953,000 compared with $5,120,000 in the prior year. The reduction was predominantly associated with the significant re-architecture of the Hailie® mobile patient app and physician platform in the prior year. Current year activities have included:

- customer specific feature development and customisation in the Hailie® mobile patient app and platform to support notifications for remote patient monitoring by physicians;
- investigation of integrations with country specific health platforms in Europe and Asia;
- strategic sensor and software development work with Planet Innovation to enhance Adherium's leading device coverage position in both asthma and COPD with sensors and software developed to capture and integrate physiological data and enable physician monitoring and reimbursement activity in the US.

Sales and marketing costs were $1,766,000 in the year to 30 June 2020, compared with $3,028,000 in the prior year. This reduction was largely a result of a full year of the more focussed organisational structure in fiscal 2020 compared to fiscal 2019. Sales and marketing initiatives in the current year have been very focussed and targeted in the US resulting in the relationships with HGE Health and Monaghan Medical noted above.

Administrative expenses reduced from $4,345,000 in 2019 to $3,769,000 in 2020, again as a result of the full year impact of the reorganisation undertaken in the previous year and the resultant reduction in corporate staff and rationalisation of overhead. Non-cash costs included asset depreciation and amortisation expense of $335,000 (2019: $413,000), and fixed asset write-offs associated with further office rationalisation of $32,000 (2019: $270,000).

While cost reductions were achieved across all areas compared to the previous year, the loss for the year was not significantly reduced at $11,397,000 compared to $11,794,000 in 2019. This was due largely to the financing cost of $2,601,000 in the year to 30 June 2020 related to the Convertible Notes prior to their conversion into shares and options. This financing cost is a non-cash expense and arose under accounting treatments from recognising finance charges and fair value measurements on the debt and derivate elements respectively of the Convertible Notes.

Adherium ended the year to 30 June 2020 with cash of $4,584,000. In addition, subsequent to year end, and following approval by shareholders, the balance of $1.9 million of the $5 million investment commitment from BioScience Managers Translation Fund 1 was received.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the Group during the financial year ended 30 June 2020.

Events since the end of the Financial Year

In May 2020, the Company agreed a $5 million investment commitment from the BioScience Managers Translation Fund 1 (BMTF1). The first tranche of $3.1 million (104,261,036 ordinary shares) was received in June 2020.

Subsequent to the balance sheet date, shareholder approval was received to proceed with the balance of the investment and in August 2020 the Company received $1.9 million from BMTF1 and allotted a further 62,405,631 ordinary shares and 83,333,333 options with an exercise price of 6 cents for option and expiry date of 17 February 2022.

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 and CEO's Report on pages 2 to 5.

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 2020 is:

Director	Ordinary Shares	Options over Ordinary Shares
J Ward-Lilley	-	10,000,000
M Motion	600,000	10,000,000
J Curnock Cook	1,192,734	-
W Hunter	1,612,734	-
B McHarrie	1,277,587	-
M McNamara	123,038	-
B Mogridge	12,858,965 *	-

** relevant interest includes 10,003,149 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 options comprised:

Exercise price	Total Number of Options	Vested Options	Expiry Date
$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
$0.040000	3,000,000	3,000,000	7 August 2021
$0.060000	83,333,333	-	17 February 2022
$0.134039	173,238	173,238	31 March 2022
$0.021900	27,519,467	27,519,467	29 January 2027
$0.040000	20,000,000	-	14 April 2027
Outstanding at 27 August 2020	136,085,489	32,752,156	

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.

During the year ended 30 June 2020 and to the date of this report the following Directors of the Company or other key management personnel of the Group were granted options:

Director/KMP	Number of Options	Exercise Price	Expiry Date
J Ward-Lilley	10,000,000	$0.04	14 April 2027
M Motion	10,000,000	$0.04	14 April 2027
B Mogridge	1,500,000	$0.04	7 August 2021
W Hunter	1,500,000	$0.04	7 August 2021

Details of fully paid ordinary shares issued on exercise of options in the year to 30 June 2020 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 2020 related to advice in relation to employee incentive plan structures. The directors are satisfied that the provision of these services during the year by the auditor did not impair the auditors' independence.

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 fourth 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 section.

Remuneration Report (Audited)

The Directors present the Group's 2020 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 2020.

(i) Non-Executive and Executive Directors

- James Ward-Lilley — Non-Executive Chairman (appointed 14 April 2020)
- Mike Motion — Executive Director (appointed 24 April 2020) and Group CEO (appointed 24 April 2020, previously appointed CCO 22 November 2019, and COO from 14 April 2020)
- Jeremy Curnock Cook — Non-Executive Director (appointed on incorporation 17 April 2015)
- William Hunter — Non-Executive Director (appointed 17 December 2015)
- Bruce McHarrie — Non-Executive Director (appointed 20 July 2015)
- Bryan Mogridge — Non-Executive Director (appointed 20 July 2015)
- John Mills — Non-Executive Director (appointed 20 July 2015, resigned 18 October 2019)
- Thomas Lynch — Non-Executive Chairman (appointed 1 September 2016, ceased 3 April 2020)

(ii) Other key management personnel

- Anne Bell — Chief Financial Officer (appointed 20 April 2020)
- Rob Turnbull — Joint Company Secretary (appointed 21 August 2015) and General Manager
- Mark Licciardo — Joint Company Secretary (appointed 10 May 2016)
- Peter Stratford — Chief Executive Officer (appointed 22 November 2019, resigned 11 February 2020)

(iii) Changes since the end of the reporting period

In the period after 30 June 2020 and up to the date of this report Geoff Feakes was appointed Chief Technology Officer (3 August 2020). There have been no other 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 or option 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 and option 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 and equity based incentive which forms part of the executive's total compensation, representing between 0% and 150% 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 and Executive Share Option Plan (the Plans).

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, with 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; or
- options over ordinary shares in the Company with an exercise price determined by the board.

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

Share and option 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 or option award is forfeited and, where relevant, the 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 2020 the Group incurred a loss after tax of $11,397,000 (3.6 cent loss per share). In the year to 30 June 2020 the Company's shares traded between 1.1 and 6.4 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 2020.

(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 2020	Short Term Benefits			Post-Employment Benefits
	Salaries & Fees $	Bonus $	Insurance & Other $	Superannuation $
Directors' remuneration				
James Ward-Lilley	259,782[1]	-	-	-
Jeremy Curnock Cook	50,000	-	-	-
William Hunter	50,000	-	-	-
Bruce McHarrie	50,000	-	-	3,755
Matt McNamara	37,351	-	-	3,068
Bryan Mogridge	50,000	-	-	-
Thomas Lynch	75,000	-	-	-
John Mills	16,667	-	-	861
Sub-total Directors	**588,800**	**-**	-	**7,684**
Executives' remuneration				
Mike Motion[2]	385,349	35,418	-	4,250
Anne Bell[3]	52,514	10,503	-	4,989
Peter Stratford[4]	299,086	-	-	-
Mark Licciardo[5]	7,083	-	-	-
Rob Turnbull	229,030	57,241	-	6,871
Sub-total executives	**973,062**	**103,162**	**-**	**16,110**
Total key management personnel	**1,561,862**	**103,162**	**-**	**23,794**

1. Consulting fee for the period to 30 June 2020.
2. Mike Motion was appointed CCO 22 November 2019, COO 14 April 2020, and CEO 24 April 2020.
3. Anne Bell was appointed CFO on 20 April 2020.
4. Peter Stratford was appointed CEO 22 November 2019 and resigned from the role 11 February 2020.

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.

Severance $	Incentive Share-based Payments: Value of Options/ Loan Funded Shares[6] $	Total $	Performance Related Remuneration %	Fixed Remuneration %
-	20,958	280,740	7%	93%
-	621	50,621	1%	99%
-	621	50,621	1%	99%
-	621	54,376	1%	99%
-	-	40,419	-	100%
-	621	50,621	1%	99%
-	1,242	76,242	2%	98%
-	621	18,149	3%	97%
-	**25,305**	**621,789**		
-				
-	20,958	445,975	13%	87%
-	-	68,006	15%	85%
-	-	299,086	-	100%
-	-	7,083	-	100%
-	22,036	315,178	25%	75%
-	**42,994**	**1,135,328**		
-	**68,299**	**1,757,117**		

5. A company of which Mr Licciardo is a director received the fees from the Company for company secretarial and corporate governance consulting services.
6. 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.

Severance $	Incentive Share-based Payments: 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%
-	2,661	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.

(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 [1]	Base Salary [2]	Termination Payments [3]
Mike Motion, CEO	No fixed term	6 months	£300,000	-
Anne Bell, CFO [4]	No fixed term	4 months	A$320,000	-
Rob Turnbull, (Joint Company Secretary and General Manager)	No fixed term	2 months	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 2020; 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).
4. Paid 50% in cash and 50% shares in lieu valued at the 5-day VWAP at the end of each pay period.

(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 2020 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.

In the year ended 30 June 2020 the board made an offer under the Employee Share Plan which was accepted as follows:

(a) Term of the loan: 5 years (1 July 2024) or cessation of employment, whichever is earlier.
(b) Purchase price of shares funded by loan is 2.7 cents, 7.5 cents, 15 cents and 25 cents per ordinary share vesting over 5 months, 1 year, 2 years and 3 years of continued employment respectively.
(c) Loan funded shares issued to key management personnel in the year were:

- Rob Turnbull: 2,000,000 ordinary shares; $185,333 loan. A valuation of these shares at the date of award, using the Black & Scholes option pricing model, totalled $24,394, which is being allocated over the vesting periods as share-based compensation. The charge allocated to the period ended 30 June 2020 was $22,036.

(i) Equity instruments held by key management personnel

Shareholdings

The numbers of ordinary shares in the Company held during the year to 30 June 2020 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
James Ward-Lilley	-	-	-	-
Mike Motion	-	600,000	-	600,000
Jeremy Curnock Cook	380,000	-	812,734[2]	1,192,734
William Hunter	800,000	-	812,734[2]	1,612,734
Bruce McHarrie	464,853	-	812,734[2]	1,277,587
Bryan Mogridge	9,856,105[1]	-	812,734[2]	12,858,965[1]
			2,190,126[1]	
Anne Bell	-	-	601,151[2]	601,151
Mark Licciardo	-	-	-	-
Rob Turnbull[1]	559,645	-	2,000,000	2,559,645
Thomas Lynch	1,000,000	-	1,625,468[2]	2,625,468[3]
John Mills	396,000	-	-	396,000[3]

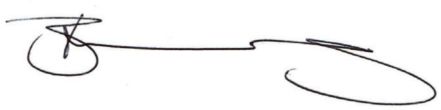
1. Ordinary shares held jointly with the General Manager in their capacity as trustees of the Company's Employee Share Plan. At 30 June 2020 10,003,149 (30 June 2019: 7,813,023) ordinary shares were held in this capacity.
2. Shares issued in lieu of salary/fees.
3. Holding as at date directorship ended.

(j) Other transactions with key management personnel

Transactions with directors or other key personnel are set out in note 18 of the accompanying Group financial statements for the year ended 30 June 2020.

End of audited Remuneration Report.

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



James Ward-Lilley
Non-Executive Chairman

Melbourne

27 August 2020

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Adherium Limited for the year ended 30 June 2020, 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 August 2020

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Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020

	Notes	June 2020 $000	June 2019 $000
Continuing Operations			
Sales	5	2,218	2,779
Cost of sales		(814)	(1,133)
Gross profit		1,404	1,646
Grants income	5	-	279
Manufacturing support		(727)	(1,293)
Research and development costs		(3,953)	(5,120)
Sales and marketing costs		(1,766)	(3,028)
Administrative expenses		(3,769)	(4,345)
Operating loss		(8,811)	(11,861)
Finance income	5	15	71
Finance expense	15	(2,601)	(4)
Finance income (cost) - net		(2,586)	67
Loss before income tax		(11,397)	(11,794)
Income tax expense	7	-	-
Loss for the period attributable to equity holders		(11,397)	(11,794)
Other comprehensive income Items that may be reclassified subsequently to profit or loss when certain conditions are met: Foreign exchange differences on translation of foreign operation		(209)	(99)
Other comprehensive income for the period, net of tax		(209)	(99)
Total comprehensive loss for the period		(11,606)	(11,893)
Total comprehensive loss attributable to: Equity holders of Adherium Limited		(11,606)	(11,893)
Basic and diluted loss per share	8	(3.6) cents	(6.8) cents

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position as at 30 June 2020

	Notes	June 2020 $000	June 2019 $000
ASSETS			
Current assets			
Cash and cash equivalents	*9*	4,584	763
Trade and other receivables	*10*	624	436
Inventories	*11*	1,120	417
Prepayments		150	156
Total current assets		6,478	1,772
Non-current assets			
Property, plant and equipment	*12*	235	380
Intangible assets	*13*	5	92
Total assets		6,718	2,244
LIABILITIES			
Current liabilities			
Trade and other payables	*14*	2,646	1,375
Income received in advance		688	39
Total current liabilities		3,334	1,414
EQUITY			
Share capital	*16*	87,682	74,349
Accumulated deficit		(58,349)	(46,952)
Other reserves		(25,949)	(26,567)
Total equity		3,384	830
Total liabilities & equity		6,718	2,244

The accompanying notes form part of the financial statements.

Consolidated Statement of Changes in Equity for the year ended 30 June 2020

	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 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
Loss for the period	-	(11,397)	-	-	-	(11,397)
Other comprehensive income	-	-	-	(209)	-	(209)
Total comprehensive loss	-	(11,397)	-	(209)	-	(11,606)
Transactions with owners:						
Non-renounceable Rights Issue	5,392	-	-	-	-	5,392
Shares and options issued on conversion of convertible notes	4,816	-	711	-	-	5,527
Shares issued in placement	3,128	-	-	-	-	3,128
Share issue costs	(180)	-	-	-	-	(180)
Share and option grants for services	177	-	116	-	-	293
Equity as at 30 June 2020	87,682	(58,349)	1,837	(251)	(27,535)	3,384

The accompanying notes form part of the financial statements.

Consolidated Statement of Cash Flows for the year ended 30 June 2020

	Notes	June 2020 $000	June 2019 $000
Cash flows from operating activities:			
Receipts from customers		2,731	3,526
Receipts from grants		-	337
Interest received		15	84
Resident withholding tax refunded (paid)		13	2
Payments to employees		(2,736)	(7,555)
Payments to suppliers		(7,340)	(8,201)
Net cash provided from (used in) operating activities		(7,317)	(11,807)
Cash flows from investing activities:			
Short term cash investments maturing (deposited)		-	436
Purchase of property, plant and equipment		(138)	(325)
Net cash used in investing activities		(138)	111
Cash flows from financing activities:			
Proceeds from the issue of shares		8,520	-
Proceeds from the issue of convertible notes		2,926	-
Payment of capital raising costs		(105)	-
Net cash provided from financing activities		11,341	-
Net increase (decrease) in cash		3,886	(11,696)
Cash at the beginning of the year		763	12,118
Effect of exchange rate changes on cash balances		(65)	341
Cash at the end of the year	*9*	4,584	763
Reconciliation with loss after income tax:			
Loss after income tax		(11,397)	(11,794)
Non-cash items requiring adjustment:			
Depreciation of property, plant and equipment	*12*	249	263
Amortisation of intangible assets	*13*	86	150
Fixed assets (gain) loss on disposal		32	270
Convertible notes finance cost	*15*	2,601	-
Share and option compensation expense		116	(88)
Shares granted for services		177	-
Foreign exchange (gain)		(144)	(510)
Changes in working capital:			
Trade and other receivables		(178)	952
Inventories		(720)	114
Trade and other payables		1,203	(1,203)
Income received in advance		658	39
Net cash provided from (used in) operating activities		(7,317)	(11,807)

The accompanying notes form part of the financial statements.

Notes to the financial statements for the year ended 30 June 2020

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 2020 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 August 2020.

2. Basis of Preparation

This general purpose consolidated financial report for the twelve months ended 30 June 2020 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, 2020, the Group had net cash of $4,584,000 (2019: $763,000) and recorded a loss before tax of $11,397,000 (2019: 11,794,000) and operating cash outflows of $7,317,000 (2019: $11,807,000) for the year then ended.

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 year 2020.

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 2020, 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 21. 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 Profit & Loss and Other 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 Profit & Loss and Other 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 Profit & Loss and Other Comprehensive Income, and a corresponding adjustment to equity over the remaining vesting period.

3.7 Leases
At lease commencement, as Lessee an asset (the right to use the leased item) and a financial liability to pay rentals across all leases are recognised unless the lease term is 12 months or less, or the underlying asset has a low value. The right-of-use assets recognised comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

3.8 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Profit & Loss and Other 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 Profit & Loss and Other 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 Comprehensive 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

The Company makes use of a simplified approach in accounting for trade and other receivables, and records any loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of a financial instrument.

In calculating expected credit losses, the Company uses its historical experience, external indicators and forward-looking information using a provision matrix. The Company assesses impairment of trade receivables on a collective basis and as they possess shared credit risk characteristics, grouped them based on the days past due.

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 Profit & Loss and Other 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 16 Leases

Effective for annual reporting periods commencing 1 January 2019, AASB 16 Leases replaces AASB 117 Leases. The new standard provides a single lessee accounting model, requiring lessees to recognise an asset (the right to use the leased item) and a financial liability to pay rentals across all leases. The only exemptions are where the lease term is 12 months or less, or the underlying asset has a low value. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The Group has adopted AASB 16 Leases using the modified retrospective approach, meaning that comparatives have not been restated as permitted under the specific transition provisions in the standard.

On adoption of AASB 16 and throughout the current reporting period, the Group had no leases with a term greater than 12 months. Accordingly, no Right-of-Use assets or Lease Liabilities were recorded in the year to 30 June 2020.

3.22 New Accounting Standards for application in future periods

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 2020 $000	June 2019 $000
New Zealand and Australia	137	235
South-East Asian Countries	100	173
Other Countries	3	64
	240	472

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

Location of customer sales	June 2020 $000	June 2019 $000
New Zealand and Australia	2	2
Europe	2,147	2,753
North America	25	14
Asia	44	10
	2,218	2,779

b) Major customers

Revenues are derived from major external customers as follows:

Major customers	June 2020 $000	June 2019 $000
Customer A group entities	2,110	2,704

5. Revenue

Income from continuing operations:	June 2020 $000	June 2019 $000
Sensor sales and monitoring services	1,171	1,499
New product design and engineering services	1,047	1,280
Grant income	-	279
Interest income	15	71
	2,233	3,129

6. Expenses

Loss before income tax includes the following specific expenses:	June 2020 $000	June 2019 $000
Fees paid to PricewaterhouseCoopers for:		
- audit of the financial statements	93	88
- interim report review	36	40
Fees paid to PricewaterhouseCoopers for non-audit services:		
- fees in respect of other advice and services	35	12
Total fees to PricewaterhouseCoopers	164	140
Depreciation and amortisation	335	413
Directors' remuneration		
- director fees	337	358
- consulting fees	260	-
- share based compensation	25	19
Total Directors' remuneration	622	377
Employee benefits expense		
- wages and salaries	3,039	6,036
- share and option based compensation	91	(106)
Total employee benefits expense	3,130	5,930
Foreign exchange (gain) loss	(144)	(510)
Operating lease costs	93	422

7. Income tax

	June 2020 $000	June 2019 $000
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-
Numerical reconciliation of income tax expense to prima facie tax payable (receivable):		
Loss before income tax	(11,397)	(11,794)
Tax calculated at domestic tax rates	(3,206)	(3,771)
Tax effects of:		
Expenses not deductible for tax purposes	220	24
Under (over) provision in prior year	62	222
Deferred tax assets not recognised (note 16)	2,924	3,525
Income tax expense	-	-

The weighted average applicable tax rate was 28% (2019: 32%).

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 16 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 2020 $000	June 2019 $000
Profit (loss) after income tax attributable to equity holders	(11,397)	(11,794)
Weighted average shares outstanding (basic)	316,010,977	173,896,088
Weighted average shares outstanding (diluted)	316,010,977	173,896,088
Basic and diluted loss per share	(3.6) cents	(6.8) cents

9. Cash and cash equivalents

	June 2020 $000	June 2019 $000
Cash at bank and on hand	114	145
Deposits at call	4,470	618
	4,584	763

10. Trade and other receivables

	June 2020 $000	June 2019 $000
Trade receivables and accruals	489	287
Grant income accrued	-	72
GST and other taxes receivable	115	34
Security deposits	20	43
	624	436

11. Inventories

	June 2020 $000	June 2019 $000
Raw materials and components	1,021	194
Finished goods	99	223
	1,120	417

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to $633,000 (2019: $977,000).

12. Property, plant and equipment

	Manufacturing Equipment $000	Computer Equipment $000	Fixtures & Fittings $000	Office Equipment $000	Total $000
As at 1 July 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
Movements in the year ended 30 June 2020					
Opening net book value	206	47	56	71	380
Additions	167	-	-	-	167
Disposals	(9)	(6)	(27)	(17)	(59)
Depreciation	(176)	(25)	(19)	(29)	(249)
Foreign currency translation	(4)	-	-	-	(4)
Closing net book value	184	16	10	25	235
As at 30 June 2020					
Cost	763	123	20	60	966
Accumulated depreciation	(579)	(107)	(10)	(35)	(731)
Net book value	184	16	10	25	235

13. Intangible assets

	Software $000	Total $000
As at 1 July 2018		
Cost	421	421
Accumulated amortisation	(155)	(155)
Net book value	266	266
Movements in the year ended 30 June 2018		
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
Movements in the year ended 30 June 2020		
Opening net book value	92	92
Additions		
- External costs	-	-
Disposals	-	-
Amortisation	(86)	(86)
Foreign currency translation	(1)	(1)
Closing net book value	5	5
As at 30 June 2020		
Cost	300	300
Accumulated amortisation	(295)	(295)
Net book value	5	5

14. Trade and other payables

	June 2020 $000	June 2019 $000
Trade payables	1,003	914
Accruals	1,063	93
Employee benefits	580	368
	2,646	1,375

15. Convertible Notes

During the year to 30 June 2020 the Company issued Secured Debt Notes with a face value of $2,926,000 and maturity date of 31 January 2020. The terms of the Notes included conversion features, which were subject to shareholder approval. These entitled the noteholders to convert the Notes and accrued interest to ordinary shares and options at a discount to the market price of the ordinary shares, or for the Notes and accrued interest to mandatorily convert to shares and options should the Company raise $2.5 million or more of capital prior to maturity. Shareholder approval of the conversion features was received in November 2019.

The Notes were accounted for as two separate liability components from their issue dates – the debt portion recorded at amortised cost and the embedded derivative conversion option recorded at fair value. In accounting for the debt portion of the Notes, settlement was assumed to take place on 29 January 2020 with interest accruing at 9% to that date. The calculation of the fair value of the embedded derivative conversion option took into account the probability of shareholders approving the conversion features, the market price of the ordinary shares, potential discount options, and the fair value of options that would be granted on conversion.

On the Company raising $5.4 million in the Rights Issue completed in January 2020, the Notes mandatorily converted into 137,597,321 ordinary shares and 27,519,467 options over ordinary shares, with an exercise price of $0.0219 per option, expiring 29 January 2027.

Convertible Notes	**Debt component at amortised cost $000**	**Embedded derivative conversion option at fair value $000**	**Total $000**
Recognition at Note issue	933	1,993	2,926
Financing cost:			
- Amortised cost	2,080	-	2,080
- Fair value change	-	521	521
Total financing cost	2,080	521	2,601
Carrying value at conversion	3,013	2,514	5,527
Conversion:			
- Shares issued			4,816
- Options issued			711
			5,527

16. Share capital

	Ordinary Shares	**$000**
Share capital as at 1 July 2018	174,273,932	74,349
Cancellation of shares issued in employee share plan	(7,258,581)	-
Share capital as at 30 June 2019	167,015,351	74,349
Shares issued in employee share plans	7,016,635	-
Shares issued in Non-renounceable Rights Issue	179,723,413	5,392
Shares issued on conversion of Convertible Notes	137,597,321	4,816
Shares issued in placement	104,261,036	3,128
Shares issued for services	6,292,578	177
Share issue costs	-	(180)
Share capital as at 30 June 2020	601,906,334	87,682

(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 Executive Share Option Plan (Adherium ESOP)

The Company operates an employee share option plan for employees, directors and consultants within the Group. Participants are invited by the Board of Directors and awards typically vest one third annually over a three-year period.

The tables below set out the movements in options within relevant exercise price ranges:

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 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	
Granted	-	$ -				
Exercised	-	$ -				
Lapsed	(589,892)	$ 0.0925				
Outstanding at 30 June 2020	2,232,689	$ 0.1340	0.6	2,232,689	$ 0.1340	

Exercise price range $0.04	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 2019	-	$ -		-	$ -	
Granted	20,000,000	$ 0.0400				
Exercised	-	$ -				
Lapsed	-	$ -				
Outstanding at 30 June 2020	20,000,000	$ 0.0400	6.8	-	$ -	

The weighted average fair value of options granted during the year ended 30 June 2020 was estimated using the Black-Scholes valuation model:

Significant Black-Scholes valuation model inputs	June 2020
Share price at grant date	$0.0240
Exercise price	$0.0400
Volatility	101.6%
Dividend yield	0%
Expected option life	5 years
Annual risk-free interest rate	0.45%
Weighted average fair value of options granted	$0.0163

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.

The assessed weighted average fair value at grant date of the awards made during the 2020 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. There were no new awards under the Adherium ESP during fiscal 2019.

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

Grant date	Shares granted	Issue price	Vested as at 30 June 2020	Restricted as at 30 June 2020	Share price at grant date
16 May 2016	2,569,609	$0.500	2,569,609	-	$0.500
8 November 2016	2,100,000	$0.500	2,100,000	-	$0.350
14 December 2016	173,277	$0.500	-	-	$0.305
23 December 2016	243,628	$0.500	-	-	$0.260
10 July 2019	3,553,866	$0.027	3,377,435	-	$0.028
10 July 2019	1,154,251	$0.075	-	1,099,872	$0.028
10 July 2019	1,154,251	$0.150	-	1,099,872	$0.028
10 July 2019	1,154,251	$0.250	-	1,099,872	$0.028

(c) Other option issues
During the year ended 30 June 2020 the Company issued Convertible Notes. These converted in January 2020, resulting in the issue of 27,519,467 options over ordinary shares, with an exercise price of $0.0219 per option, expiring 29 January 2027. No options were exercised in the period to 30 June 2020.

The options' fair value at grant date of $711,000 ($0.0258 per option) was estimated using a Black-Scholes option pricing model, which has been recorded in equity on conversion of the Convertible Notes (refer note 15). The significant inputs to the option pricing model were a grant date share price of $0.0350, a 0% dividend yield, an expected option life of 5 years, an annual risk-free rate of 0.71%, and a volatility of 84.7%. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

17. Deferred Income Tax

	June 2020 $000	June 2019 $000
Movements:		
Deferred tax asset (liability) at the beginning of the year	-	-
Credited (charged) to the income statement (note 7)	2,924	3,525
Change in unrecognised deferred tax assets	(2,924)	(3,525)
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 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	-	-	-	-
Credited (charged) to the income statement	40	(1)	2,885	2,924
Effect of exchange rate changes	(1)	(6)	(66)	(73)
Change in unrecognised deferred tax assets	(39)	7	(2,819)	(2,851)
As at 30 June 2020	-	-	-	-

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 $14,632,000 (2019: $11,812,000) in respect of losses amounting to $47,262,000 (2019: $38,016,000) that can be carried forward against future taxable income. The Company also did not recognise further deferred income tax assets of $412,000 (2019: $380,000) in respect of other timing differences amounting to $1,467,000 (2019: $1,351,000).

18. Related party transactions

(a) Key management 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 2020 $000	June 2019 $000
Directors		
- director fees and other legislated superannuation	337	358
- consulting fees	260	-
- share and option based compensation	25	19
CEO and management		
- short-term benefits	1,076	959
- post-employment benefit contributions	16	21
- share and option based compensation	43	44
	1,757	1,401

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

	June 2020 Ordinary Shares	June 2020 $000	June 2019 Ordinary Shares	June 2019 $000
Shares issued in Rights Issue	600,000	18	-	-
	600,000	18	-	-

(b) Related parties

Transactions with related parties were on normal commercial terms and on conditions no more favourable than those available to other suppliers.

	June 2020 $000	June 2019 $000
Alecia Anderson Design		
- Office design consultancy for office refurbishment	-	11

19. Financial instruments and risk management

(a) Categories of financial instruments

	June 2020 $000	June 2019 $000
Financial assets		
Loans and receivables classification:		
Cash and cash equivalents	4,584	763
Short term investments	-	-
Trade and other receivables	489	359
Total financial assets	5,073	1,122
Financial liabilities		
Measured at amortised cost:		
Trade and other payables	2,646	1,375
Total financial liabilities	2,646	1,375

(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 $144,000 is included in results for the period ended 30 June 2020 (2019: $510,000 gain).

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

	June 2020 $000	June 2019 $000
Assets		
New Zealand Dollars	70	150
US dollars	501	346
UK pound	16	40
Liabilities		
New Zealand Dollars	414	260
US dollars	530	768
UK pound	517	14
Hong Kong dollars	26	28

The following table details the sensitivity of financial assets and financial liabilities 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 2020 $000	June 2019 $000
10% strengthening of Australian dollar against:		
US dollars	-	38
UK pound	33	(2)
Hong Kong dollars	2	3
10% weakening of Australian dollar against:		
US dollars	-	(46)
UK pound	(40)	3
Hong Kong dollars	(3)	(3)

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 A1/A2 credit rating (2019: A-2) 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 2020 $000	June 2019 $000
Counterparties with external credit rating:		
• A-2	468	260
Counterparties without external credit rating:		
• existing customers (more than 6 months) with no defaults in the past	14	27
Total trade receivables	482	287

The Company applies the simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due. In calculating the expected credit losses, the Company uses its historical experience, external indicators and forward-looking information.

On this basis, the loss allowance as at 30 June 2019 and 30 June 2020 for trade and other receivables was determined to be $nil.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Company on alternative payment arrangements, amongst others, are considered indicators of no reasonable expectation of recovery.
The Company is exposed to a concentration of credit risk as 97% of accounts receivable are with one counterparty (2019: 91%). 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 2020		
Trade and other payables	2,646	-
As at 30 June 2019		
Trade and other payables	1,375	-

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.

20. Parent entity information

The following details information related to the legal parent, Adherium Limited as at 30 June 2020. During the year ended 30 June 2020 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 $9,372,000 (2019: $15,401,000 impairment) The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	Parent June 2020 $000	Parent June 2019 $000
Statement of Financial Position		
Current assets	4,708	107
Non-current assets	-	4,080
Total assets		4,187
Current liabilities	1,172	300
Non-current liabilities	-	-
Total liabilities	1,172	300
Net assets	3,536	3,887
Contributed equity	87,682	74,349
Accumulated deficit	(85,568)	(71,057)
Reserves	1,422	595
Total equity	3,536	3,887
Statement of Profit and Loss and Comprehensive Income		
Loss after tax	(14,511)	(16,534)
Total comprehensive loss	(14,511)	(16,534)

21. 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 2020	June 2019
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%

22. Contingencies and commitments

The Company had no contingencies or commitments to purchase any property, plant or equipment at 30 June 2020 (2019: 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 2020 $000	June 2019 $000
Not later than one year	47	74
Later than one year and not later than five years	-	-
Later than five years	-	-
	47	74

23. Events occurring after balance date

In May 2020, the Company agreed a $5 million investment commitment from the BioScience Managers Translation Fund 1 (BMTF1). The first tranche of $3.1 million (104,261,036 ordinary shares) was received in June 2020.

Subsequent to the balance sheet date, shareholder approval was received to proceed with the balance of the investment and in August 2020 the Company received $1.9 million from BMTF1 and allotted a further 62,405,631 ordinary shares and 83,333,333 options with an exercise price of 6 cents for option and expiry date of 17 February 2022.

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 22 to 44 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 2020 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 2020.

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

On behalf of the board.

James Ward-Lilley
Non-Executive Chairman

Melbourne
27 August 2020

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 2020 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 2020
- 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.

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.

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Material uncertainty related to going concern

We draw attention to Note 2 of the financial report, which indicates the Group incurred a loss before tax of $11,397,000 and operating cash outflows of $7,317,000 for the year ended 30 June 2020. 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 $570,000, which represents approximately 5% of the Group's loss before tax • We applied this threshold, together with qualitative 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	• 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 matters to the Audit and Risk Committee: – Revenue recognition – Accounting treatment of convertible notes • These are 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.

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.

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

Key audit matter	***How our audit addressed the key audit matter***
Revenue recognition *(Refer to note 5) [$2,218,000]* Revenue recognition was a key audit matter due to the significance of revenue to understanding the financial results for users of the financial report.	We performed the following procedures, amongst others: • Developed an understanding of and evaluated the operating effectiveness of relevant key revenue internal controls. • For a sample of new contracts for each material revenue stream we: • Developed an understanding of the key terms of the arrangement including parties, term dates, background of agreement, performance obligations and payments to be made. • Considered the appropriateness of the accounting treatment in light of the requirements of Australian Accounting Standards • Evaluated the adequacy of the disclosures made in note 5 in light of the requirements of Australian Accounting Standards.
Recognition and measurement of convertible notes *(Refer to note 15) [$2,926,000]* The recognition and measurement of the convertible notes was a key audit matter due to:	We performed the following procedures, amongst others: • Read the relevant AGM minutes and developed an understanding of the key terms of the convertible notes. • Assessed whether the initial and subsequent measurement was in accordance with the

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Key audit matter	*How our audit addressed the key audit matter*
• the complexity involved in the initial and subsequent measurement of the debt portion of the notes and the embedded derivative • the complexity of a number of key estimates and judgements made relating to the valuation methodology and inputs, such as probability of conversion outcomes and fair value of options granted on conversion date.	requirements of Australian Accounting Standards. • Assessed the reasonableness of the valuation of the embedded derivative. • Considered the subsequent conversion outcomes to verify the reasonableness of key estimates and judgements including probability of conversion outcomes.

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 2020, 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 pwc

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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 13 to 19 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Adherium Limited for the year ended 30 June 2020 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 August 2020

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 17 August 2020.

(a) Distribution of equity securities

Ordinary share capital
As at 17 August 2020 there were 664,811,965 ASX quoted ordinary shares held by 680 shareholders. All issued ordinary shares carry one vote per share and carry the right to dividends.

Range (size of holding)	Number of Ordinary Shares	Holders
1 - 1,000	8,950	28
1,001 - 5,000	264,074	77
5,001 - 10,000	647,479	77
10,001 - 100,000	13,102,987	311
100,001 and over	650,788,475	187
Total	664,811,965	680

There were 237 shareholders holding less than a marketable parcel of ordinary shares at a price of $0.0270, totalling 1,728,871 ordinary shares.

Unquoted options over ordinary shares
As at 17 August 2020 there were 136,085,489 options over ordinary shares held by 16 holders.

b) Twenty largest holders of quoted equity securities as at 17 August 2020

	Ordinary Shares	
Shareholders	Number	%
Phillip Asset Management Limited <BioScience Managers Translation Fund 1 A/C>	166,666,667	25.07
Trudell Medical Ltd	89,364,179	13.44
HSBC Custody Nominees (Australia) Limited	51,757,132	7.79
One Funds Management Limited <Asia Pacific Healthcare Fund II A/C>	48,808,957	7.34
Citicorp Nominees Pty Limited	41,416,995	6.23
Summatix Pty Ltd	35,496,341	5.34
K One W One Ltd	33,836,351	5.09
National Nominees Limited	25,000,000	3.76
JMID Pty Ltd <JAM Superfund A/C>	17,500,000	2.63
HSBC Custody Nominees (Australia) Limited - A/C 2	11,597,736	1.74
Adherium ESP Trustee Limited	10,303,149	1.55
BNP Paribas Nominees (NZ) Ltd <DRP>	8,221,667	1.24
J P Morgan Nominees Australia Pty Limited	8,122,000	1.22
Calcium Investments Limited	7,112,779	1.07
Mr Garth Campbell Sutherland	5,174,885	0.78
National Nominees Limited <DB A/C>	4,574,936	0.69
Chag Pty Ltd	4,550,000	0.68
NZVIF Investments Limited	4,483,383	0.67
Miss Sihong Zeng	2,741,076	0.41
Mr Daniel Blackwood Ritchie	2,614,454	0.39
Total top 20 holders of fully paid ordinary shares	579,342,687	87.14

(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
Phillip Asset Management Limited <BioScience Managers Translation Fund 1 A/C>	17/08/2020	166,666,667
Trudell Medical Ltd	10/06/2020	89,364,179
One Funds Management Limited <Asia Pacific Health Fund II A/C>	09/06/2020	48,808,957
FIL Limited	11/06/2020	44,681,769
Summatix Pty Ltd	09/06/2020	35,496,341
K One W One Ltd	17/08/2020	33,836,351
Phillip Thematic Fund Pte Ltd	10/06/2020	33,333,333
I.G. Investment Management, Ltd and associates	01/09/2015	9,535,000
AstraZeneca PLC and its related bodies	26/08/2015	8,079,720

(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 James Ward-Lilley (Chair)
Mr Mike Motion
Mr Jeremy Curnock Cook
Dr William Hunter
Mr Bruce McHarrie
Mr Matt McNamara
Mr Bryan Mogridge

Joint Company Secretaries

Mr Rob Turnbull
Mr Mark Licciardo

Registered Office

Collins Square, Tower 4
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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