

# ANNUAL REPORT

for the year ended 30 June 2021



# 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 with input from their physician.



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# Chairman's Statement



I am pleased to once again provide the Chairman's report for Adherium and comment on progress made in the business in what have been unprecedented circumstances. Following a business turnaround in the prior year Adherium has faced intense challenges in the external environment in 2020-21. Despite these challenges the business has made good progress with its Research & Development portfolio, successfully resolved an unsolicited takeover offer and moves into 2021-22 with a solid funding base enabling prosecution of its plan to establish leadership in the respiratory remote digital monitoring market.

Given the progress made, the global acceleration in remote patient monitoring driven by COVID and improved reimbursement environment for digital device data capture, the prospects for meaningful revenue generation over the next 12 -24 months are increasingly promising.

## Environment and Opportunity

The opportunity for Adherium and relevance for remote patient monitoring has increased significantly in the last twelve months with COVID changing expectations in healthcare delivery. In April 2020 nearly half of US Medicare primary care visits were provided through telehealth compared with less than one percent in February of the same year before the COVID public health emergency. This has been reflected in an estimated increase of 66% (up from 24% to 80%) in the benefits of telehealth compared to pre-pandemic levels alongside a 50-175% increase in reported use of telehealth in healthcare systems and practices. As noted last year the introduction of reimbursement codes for remote patient monitoring is reinforcing the rapid increase in the market opportunity for digital device data capture.

At the same time the unmet healthcare 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 annually 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.

## Clear Strategy

Adherium has a clearly articulated strategy to establish an industry leading position in the development and commercialisation of an integrated multi-sensor respiratory management "ecosystem", providing clinicians and payors a unique capability to track both the use of the inhaled medicine as well as clinically assess the overall respiratory disease control, initially focusing on uncontrolled, difficult to treat Asthma and COPD patients.

Adherium believes there are multiple avenues through which to generate revenue including specialist distribution (hospitals and clinics), payers (including insurance companies), and disease management providers in addition to supporting clinical trials etc. Revenue streams include value based and risk share contracts in addition to sale of sensors and software licencing fees.

The primary geographical focus is on the United States in part because reimbursement for specific Remote Patient Monitoring activities is available for physicians through the Current Procedural Terminology (CPT) codes. As indicated Adherium believes this reimbursement is likely to act as a catalyst for physicians to adopt the Hailie® solution once next generation sensors incorporating a physiological measurement are available.

As noted progress in the last twelve months has continued despite the challenging external environment including progression of its active Research & Development roadmap which is planned to deliver:

- a) “next generation” sensors with physiological measures which specifically meet the requirements for physician reimbursement through the appropriate CPT codes for remote patient monitoring of patients in the US. Adherium submitted a 510(k) application to the US FDA in April 2021 for the first of its “next generation” sensors with physiological measures, with further submissions to follow in the coming months;
- b) increased market coverage of inhaled medications reaching more patients; and
- c) enhanced patient application and platform features and capabilities.

Progression of the multi-sensor device ecosystem is underway. An internal assessment of the value of different types of clinical and other data to physicians in diagnosing and managing Asthma and COPD has been made enabling the prioritisation for the next wave of digital health technologies to be incorporated onto the Hailie® platform. These include integration plans for peak flow meter and spirometer devices. Discussions are continuing with other potential partners to add further devices.

COVID has certainly presented challenges in progressing our planned pilot evaluations with our partners in the US. With the easing of lockdown and hospital access improving Adherium is expecting a strong series of positive commercial and Research & Development newsflow in the next 12 months.

## Fundraising

Adherium enters the second half of calendar 2021 with a strong balance sheet and free of debt. On 26 October 2020 Adherium announced the agreement of a \$3 million convertible note from Viburnum Funds. This was followed with a wider subscription placement with \$18 million commitments secured in March including cornerstone investments from existing shareholders Trudell Medical and BioScience Managers Translation Fund 1 (BMTF1) for \$5 million each. In addition, Viburnum Funds agreed terms under which its Secured Convertible Notes would convert into ordinary shares in conjunction with completion of the placement. The Extraordinary General Meeting held on 30 April 2021 secured the necessary amendment of the terms of the Secured Convertible Notes, and enabled these to be converted to shares in conjunction with the completion of the \$18 million capital raise. As a result of the fundraising process Regal Funds and Viburnum Funds became substantial shareholders of Adherium, joining existing substantial shareholders Trudell Medical, BMTF1 and FIL (Fidelity).

## Respiri

Shareholders will be well aware of the unsolicited, conditional, off market, all share offer by Respiri Limited for the shares of Adherium. As stated in our Target’s Statement Adherium’s Board was clear that the takeover offer was unacceptable. We are pleased that the Respiri unsolicited offer is now resolved and Adherium can now fully focus on the business at hand without distraction.

## Board and Business Leadership

The Adherium Board has continued to evolve with the appointment in May 2021 of Mr George Baran as a non-executive director replacing Mr Bryan Mogridge who retired from the Board in January. George brings over 35 years of medical device industry experience to the Board including business and technical leadership in the acquisition and development of novel medical device technologies. George serves as Executive Chair of the Trudell Medical Limited Board of Directors and his appointment reflects Trudell’s commitment to Adherium’s success both as investors and as strategic partners developing integrated digital solutions for a range of devices in the respiratory setting.

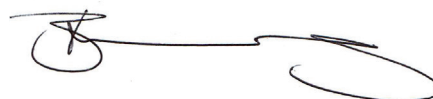
Mr Rick Legleiter was appointed Chief Executive Officer in May 2021 following Mr Mike Motion’s decision to step down from the Board and CEO position for personal reasons. Rick brings to the business a strong career track record of global systems business development and partnering at Siemens along with successful Australia-based CEO business turnaround performance whilst at Universal Biosensors. Rick combines a clear vision for the business with strong detail focus and execution orientation. Rick has now arrived in Australia, based in Melbourne from where he will directly oversee the further development of the business.

## Conclusion

Following a turnaround re-boot in the prior year I believe Adherium has faced intense challenges in the external environment in 2020-21. Despite these challenges the business has made good progress with its Research & Development portfolio, successfully resolved an unsolicited takeover offer and moves into 2021-22 with a solid funding base to prosecute its plan to meaningful commercial revenue in an increasingly attractive remote monitoring market environment.

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 shareholders for their continued commitment to the business. I would also like to thank Bryan Mogridge for his strong contribution to the Board since 2015 and to Mike Motion for his leadership role in the turnaround of the business from November 2019.

In addition, I would like to thank all the Adherium team who, despite the challenges faced by the business remain motivated, focused and engaged in supporting continued progress and strategy implementation.



**James Ward-Lilley**  
Non-Executive Chairman

# CEO's Report



## Dear Shareholder,

Over the past year Adherium made important progress on our digital health strategy that underpins our \$18 million placement, updating the product roadmap of physiologically enabled inhalation sensors and third-partner product integration, and applying lessons learned from commercial pilots. All this was achieved despite the challenges of the pandemic. Adherium's strategy is consistent and continues to be providing the key building blocks in the digital ecosystem for respiratory disease management through the extension of our technology offering beyond adherence by establishing a complementary, multi-sensor digital product offering and software platform.

The digital health landscape fortifying our strategy is very important and compelling with a huge US\$34 billion market opportunity:

## 01

There is a convergence underway in healthcare which has been stimulated and accelerated over the past year by the SARS-CoV-2 pandemic. This includes a paradigm shift in the way patients interact with medical providers including remote monitoring and telemedicine and in which medicine is practiced and patients are managed by their doctors. In this respect, COVID-19 has worked as a positive driver for our business. The convergence is comprised of advanced technologies, software innovation, and data analytics for improved clinical outcomes. Adherium's next generation sensors, physiological measurement capture, and data generation applied to respiratory disease does just that, we improve clinical outcomes.

## 02

Globally healthcare systems are increasingly under cost and performance pressures. Payers both public and private want to lower risk and reduce total cost of care and they demand that biotechnology companies demonstrate brand value. Adherium's complementary suite of respiratory digital devices in development builds on and extends our brand value from when the company was first founded. We are stepping up to payer demands and demonstrating value creation. Built on Adherium's existing software platform, and supporting next generation adherence sensors with physiological measurement, these additional digital devices will provide supplementary data on the underlying disease status. With more than 170,000 sensors sold globally, your Company is uniquely positioned with the history and experience to benefit from the rapidly developing remote patient monitoring and telehealth trends and positive reimbursement environment in, for example, the USA. This digital respiratory management ecosystem will broaden Adherium's clinical offering providing a more complete data set to physicians, payers and providers for new and recurring revenue streams.

## 03

Providers require reimbursement for their services and workflow productivity improvement to lower their costs. Reimbursement criteria is one and the same with Adherium's product design criteria. Even further our key commercial pilot programs and partner engagement in the USA, UK and Australia are focused on real-world workflow design improvements and empowering provider telemedicine. For example, recent and continuing evolution to the USA health payment structure function to our advantage by reimbursing providers approximately \$1,400 per year for each patient utilizing remote patient monitoring devices such as ours. Our

next phase proof-of-concept pilots and commercial demonstrations to show that automated physiological data capture and reporting provide the services and workflow improvements to improve productivity and lower medical costs.

To deliver on the strategy outlined above we must first and foremost execute on our product roadmap. Time to market is time to revenue. Bridging our execution results from 2020 to 2021 is the FDA clearance just this month of our first physiological enabled sensor for Symbicort. This is a very important milestone for us from a development, a regulatory and commercial standpoints. It is upon this milestone in which over the coming year we will add more sensors and third-party enabled devices to our next generation product portfolio. We will announce each new device as our development progress through the design stages. Our focus on execution, and time to market is how we generate revenue and top-line growth creating the results and returns expected from our shareholders and investors. We are taking a two-fold approach to deliver on the product roadmap. First, we are continuing our strategically critical relationship with Planet Innovation (PI). From my firsthand experience, PI is a well-respected Melbourne-based, award winning, innovation company. Our device hardware and software development collaboration with PI has even deepened as they also became an ADR shareholder in this latest funding round. Second, from an organization design and capabilities standpoint we are recruiting and staffing a Melbourne-based software engineering team. This is important for delivering on the product roadmap as a complement to PI with our own in-house staff to be closer to the user experience, associated sustaining engineering requirement, build internal capabilities for further roadmap development, and better manage and control development costs. We have already made good progress recruiting and filling open positions to achieve this objective.

Our commercial strategy is focused initially on the USA and the UK leveraging Adherium's technology to address the high unmet need of patients with severe and 'difficult- to-treat' asthma and chronic obstructive pulmonary disease. The outcome is to reduce the frequency and severity of exacerbations and the number of ER admissions, which represent a very high-cost burden to healthcare systems worldwide and may even incur provider and insurance penalties due to poor performance. These are patients who represent that preventable healthcare cost of US\$34 billion. The typical business models in this disease management approach include customers who are charged a per-patient, per-sensor, per-month fee and for payors to participate, for example, in a proportion of any risk-share savings realized. In addition, once doctors gain access to reimbursement 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. As the ecosystem develops for respiratory disease management, we will follow the optimum revenue generating approaches which are most advantageous for our investors and shareholders. In addition to new partners and customers, we are continuing to work closely with our long-term pharma partner AstraZeneca by supporting their clinical trials work.

From a clinical perspective, our primary focus is on solving the persistent medical problem of prescription non-adherence and patient inhaler and treatment challenges. Adherium's Hailie® sensor technology and cloud-based data platform have been shown in clinical studies 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 and even use their inhalers. By using Adherium's systems, doctors also collect and understand using longitudinal medical data to help them better diagnose, manage, advise and treat patients.

Finally on a personal note, I am thrilled to be back in Melbourne as Adherium's CEO. Having successfully repositioned organizations and grown laboratory diagnostics and imaging diagnostics businesses in the past, I am fully engaged to lead Adherium in working with partners, payers and providers to deliver on our business strategy as I outlined above and generate returns for our shareholders. All types of respiratory disease are on the rise globally and nothing could be more of an indicator than the SARS-CoV-2 pandemic as the greatest respiratory infection in over 100 years. Being situated in the right place at the right time is very compelling and this is Adherium's position. We have the technological solutions within our grasp with our development of next generation sensors, physiological measurement, and data analytics to answer the demands of the providers, payers and partners to deliver every step in the value chain. This is how we will generate revenue and top-line growth creating the results and returns for our shareholders and investors. I am convinced Adherium has a bright outlook.



**Rick Legleiter**  
Group CEO

**“Over the past year Adherium made important progress on our digital health strategy despite the challenges of the pandemic.”**

# 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 2021, 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 56.

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 transformation 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 positioned to take a new CDMO focussed approach.

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 Chief Commercial Officer of the Galway, Ireland Aerogen Group and Board Director of Aerogen Pharma Ltd. He has not held any other Australian public company directorships in the last three years.

**Mr George Baran, MBA.** Age 61.

Non-Executive Director

*Appointed as a Director on 13 May 2021.*

Mr Baran has over 35 years of experience in the medical device industry and serves as Executive Chair of the Trudell Medical Limited Board of Directors as well as being a significant shareholder. In addition to his role at Trudell, Mr Baran is an active investor in and Director of several medical device and e-health/connected care companies including Sensory Technologies, Mozzaz Corporation, and Sky Medical Technology Inc. He was also a lead investor and a former Director of Vanrx Phamasytems, which was recently acquired by Cytiva Life Sciences.

Mr Baran has been responsible for the marketing of new drug delivery technologies to medical opinion leaders and major pharmaceutical companies. This has included collaboration with business and clinical partners in the design and co-ordination of clinical studies. He has also been granted several US and international patents for medical devices for drug delivery and minimally invasive surgery.

Mr Baran holds an MBA from the Richard Ivey School of Business, Western University, London (ON) where he currently serves on the Advisory Board of the Lawrence National Centre for Policy and Management. Mr Baran has not held any other Australian public company directorships in the last three years.

**Mr Jeremy Curnock Cook, MA.** Age 72.

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 is 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, AMEX, 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), and sits on the board of Avita Medical, Rex Bionics Pty, GEN InCode Ltd, Cambridge Respiratory Innovations Ltd, and Sea Dragon Ltd. Mr Curnock Cook was previously a director of Bioxyme Limited and Phylogica Limited. He has held no other Australian public company directorships in the last three years.

As noted, Mr Curnock Cook has an association with significant shareholders through his capacity as Managing Director of BioScience Managers Pty Ltd. The board of directors is of the opinion that this does not compromise the independence of Mr Curnock Cook as, to the best of the Board's knowledge and based on advice received, he is not involved in decision making by the shareholders, and also does not control BioScience Managers Pty Ltd.

**Dr William Hunter, MD.** Age 58.  
Independent 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 63.  
Independent Non-Executive Director  
*Appointed as a Director on 20 July 2015.*

Mr McHarrie is a company director and adviser in the health and life sciences sectors with over 25 years' experience. 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 Pharmamark Nutrition (nutritional foods). 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 Matthew McNamara BSc (Hons), MBA, GAICD.** Age 57.  
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 35 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** was an Independent Non-Executive Director until his resignation on 29 January 2021.

**Mike Motion, B.Sc (Hons)** was Group CEO and Executive Director until his resignation on 13 May 2021.

## Joint Company Secretaries

**Mr Rob Turnbull, B.Com, CA.** Age 54.  
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 57.  
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 <sup>#</sup>	Meetings attended
James Ward-Lilley	16	16	1	1	-	-
George Baran	1	1	-	-	-	-
Jeremy Curnock Cook	16	15	-	-	-	-
William Hunter	16	13	-	-	-	-
Bruce McHarrie	16	16	2	2	-	-
Matthew McNamara	16	14	2	2	-	-
Mike Motion	15	14	2*	2*	-	-
Bryan Mogridge	9	9	1	1	-	-

\* In attendance ex-officio.

<sup>#</sup> Nomination & Remuneration Committee business was dealt with at Board meetings during this period.

## Committees of the Board

The Company has established the following committees of the board, with membership in the year to 30 June 2021 as noted:

Committee	Membership
Audit & Risk	Bruce McHarrie (Chair), Non-Executive Director Matthew McNamara, Non-Executive Director James Ward-Lilley, Non-Executive Director (appointed 29 January 2021) Bryan Mogridge, Non-Executive Director (until resignation 29 January 2021)
Nomination & Remuneration	Jeremy Curnock Cook (Chair), Non-Executive Director James Ward-Lilley, Non-Executive Director Matthew McNamara, Non-Executive Director (appointed 29 January 2021) Bryan Mogridge, Non-Executive Director (until resignation 29 January 2021)

The committees' Charters are contained in the Corporate Governance Policy which is 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 2021 was \$15,036,000.

No dividends were paid, declared or recommended during the year ended 30 June 2021.

## Review of Operations

Whilst progress in executing our strategy in the 2021 financial year has been hampered by the pandemic, there has nonetheless been significant developments which are building towards the future success of Adherium.

- In the course of the year a total of \$21 million was raised, initially \$3 million through a convertible note issued to Viburnum Funds which subsequently converted at the time a further \$18 million capital raising was completed in April 2021. The raising was strongly supported by existing investors including BioScience Managers Translation Fund 1, Trudell Medical, K One W One and Fidelity International. Regal Funds an earlier investor also participated as did several investors new to Adherium including Planet Innovation, our Research & Development partner. These funds will be directed towards commercialisation and the Research and Development roadmap.
- Initial pilots with Adherium's partners Monaghan Medical Corporation (a Trudell Medical Limited company) and HGE Health (a Vapotherm company) are advancing albeit more slowly than originally planned due to COVID related issues. The outcomes are expected to support value propositions around improved patient outcomes, reduced costs to treat, and access to reimbursement.
- The Research & Development programme in association with our partner Planet Innovation progressed with the 510 (k) for first sensor equipped with a physiological measure being submitted in April 2021 – further sensors with this capability will be submitted for registration in the coming months enabling Adherium to offer payers and providers the opportunity to access reimbursement codes for remote patient monitoring activities in the United States. The addition of further digitalised respiratory medical devices to the Hailie® platform is underway. The "Zero Touch" feature which will allow patients to connect the sensor to the Hailie® application with improved Bluetooth connectivity and minimal interaction was successfully piloted and is under development.

Adherium is now well placed with a clear strategy, growing market recognition of the digital remote patient monitoring opportunity and a strong Research & Development programme to advance the commercialisation of the Hailie® solution.

The loss for the year after tax was \$15,036,000 compared to \$11,397,000 in 2020.

Revenue to 30 June 2021 was \$401,000, compared with \$2,218,000 in the prior year. Revenue increased in two geographies however the principal reductions occurred with a major customer in line with existing contracts. The reductions were across both sensor sales and engineering services.

Research and development activities to 30 June 2021 amounted to \$5,477,000 compared with \$3,953,000 in the prior year, the increased expenditure supporting the programme outlined above.

Sales and Marketing costs were \$845,000 to 30 June 2021, compared with \$1,766,000 in the prior year. This reduction was a result of reducing contract personnel and consultants in addition to associated costs including travel, in the light of COVID impacts on commercialisation activities.

Administrative expenses increased from \$3,769,000 in year ended 30 June 2020 to \$6,143,000 in the year ended 30 June 2021. The increase had two primary components - a non-cash component reflecting net unrealised foreign currency losses of \$888,000 compared to unrealised foreign currency gains of \$144,000 in the prior year relating to intercompany loan balances, and a cash component reflecting the increase in the Administrative payroll from \$728,000 in the prior year to \$1,751,000 comprising in large part the full year/near full year impact of appointments of senior personnel at the end of the prior year and early in the year ended 30 June 2021.

Adherium ended the year to 30 June 2021 with cash of \$15,178,000.

## 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 2021.

## Events since the end of the Financial Year

On 29 April 2021, Respiri Limited announced a takeover bid for all of the ordinary shares of Adherium Limited. The takeover bid closed on 16 July 2021, failed to meet the offer conditions and so lapsed.

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 2021 is:

Director	Ordinary Shares	Options over Ordinary Shares
James Ward-Lilley	2,167,412	10,000,000
George Baran*	422,697,512	10,485,950
Jeremy Curnock Cook	2,276,439	-
William Hunter	2,696,439	-
Bruce McHarrie	2,861,292	-
Matthew McNamara	1,206,743	-

\* Shares and options disclosed are registered to Trudell Medical Limited, in which Mr Baran has a 33.33% beneficial interest.

## 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
\$0.060000	83,333,333	83,333,333	17 February 2022
\$0.134039	173,238	173,238	31 March 2022
\$0.030000	104,855,877	104,855,877	25 October 2022
\$0.020000	25,000,000	25,000,000	7 May 2023
\$0.030000	25,000,000	25,000,000	7 May 2023
\$0.040000	25,000,000	25,000,000	7 May 2023
\$0.021900	27,519,467	27,519,467	29 January 2027
\$0.040000	20,000,000	6,666,667	14 April 2027
Outstanding at 26 August 2021	310,881,915	297,548,582	

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 2021 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
Bryan Mogridge	1,500,000	\$0.04	7 August 2021
William 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 2021 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. There were no fees paid to PricewaterhouseCoopers for other services in the year ended 30 June 2021.

## 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](http://www.adherium.com) under the Investors/Corporate Governance section.

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# Remuneration Report (Audited)

The Directors present the Group's 2021 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 2021.

### (i) *Non-Executive and Executive Directors*

- James Ward-Lilley Non-Executive Chairman (appointed 14 April 2020)
- George Baran Non-Executive Director (appointed 13 May 2021)
- 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)
- Matthew McNamara Non-Executive Director (appointed 18 October 2019)
- Bryan Mogridge Non-Executive Director (appointed 20 July 2015, resigned 29 January 2021)
- Mike Motion Executive Director and Group CEO (appointed 24 April 2020, resigned 13 May 2021)

### (ii) *Other key management personnel*

- Rick Legleiter Chief Executive Officer (appointed 13 May 2021)
- Anne Bell Chief Financial Officer (appointed 20 April 2020)
- Geoff Feakes Chief Technology Officer (appointed 3 August 2020)
- Rob Turnbull Joint Company Secretary (appointed 21 August 2015) and General Manager
- Mark Licciardo Joint Company Secretary (appointed 10 May 2016)

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

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;
  - 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 continues 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 2021 the Group incurred a loss after tax of \$15,036,000 (1.7 cent loss per share). In the year to 30 June 2021 the Company's shares traded between 1.5 and 5.1 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 2021.

#### **(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. At the 2016 Annual General meeting shareholders approved an aggregate annual non-executive director fee pool of \$500,000. From this the Non-Executive Chairman is paid \$100,000 per annum and each Non-Executive Director is paid \$50,000 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 2021	Short Term Benefits			Post-Employment Benefits
	Salaries & Fees \$	Bonus \$	Insurance & Other \$	Superannuation \$
<b>Directors' remuneration</b>				
James Ward-Lilley	100,000	-	-	-
George Baran <sup>4</sup>	6,720	-	-	-
Jeremy Curnock Cook	50,000	-	-	-
William Hunter	50,000	-	-	-
Bruce McHarrie	50,000	-	-	4,750
Matthew McNamara	50,000	-	-	4,750
Bryan Mogridge <sup>4</sup>	29,167	-	-	-
<b>Sub-total Directors</b>	<b>335,887</b>	<b>-</b>	<b>-</b>	<b>9,500</b>
<b>Executives' remuneration</b>				
Mike Motion <sup>1</sup>	540,923	327,993	-	98,227
Rick Legleiter <sup>2</sup>	36,669	-	91,546	3,487
Anne Bell	287,494	116,485	-	27,881
Geoff Feakes <sup>3</sup>	201,679	95,504	-	19,159
Mark Licciardo <sup>5</sup>	6,180	-	-	-
Rob Turnbull	234,299	58,462	-	8,715
<b>Sub-total executives</b>	<b>1,307,244</b>	<b>598,444</b>	<b>91,546</b>	<b>157,469</b>
<b>Total key management personnel</b>	<b>1,643,131</b>	<b>598,444</b>	<b>91,546</b>	<b>166,969</b>

1. Mike Motion resigned from the role of Group CEO on 13 May 2021.

2. Rick Legleiter was appointed Group CEO 13 May 2021.

3. Geoff Feakes was appointed CTO 3 August 2020.

4. Bryan Mogridge resigned as a director 29 January 2021, and George Baran was appointed 13 May 2021.

Remuneration for the year ended 30 June 2020	Short Term Benefits			Post-Employment Benefits
	Salaries & Fees \$	Bonus \$	Insurance & Other \$	Superannuation \$
<b>Directors' remuneration</b>				
James Ward-Lilley	259,782 <sup>1</sup>	-	-	-
Jeremy Curnock Cook	50,000	-	-	-
William Hunter	50,000	-	-	-
Bruce McHarrie	50,000	-	-	3,755
Matthew McNamara <sup>5</sup>	37,351	-	-	3,068
Bryan Mogridge	50,000	-	-	-
Thomas Lynch	75,000	-	-	-
John Mills <sup>5</sup>	16,667	-	-	861
<b>Sub-total Directors</b>	<b>588,800</b>	<b>-</b>	<b>-</b>	<b>7,684</b>
<b>Executives' remuneration</b>				
Mike Motion <sup>2</sup>	385,349	35,418	-	4,250
Anne Bell <sup>3</sup>	52,514	10,503	-	4,989
Peter Stratford <sup>4</sup>	299,086	-	-	-
Mark Licciardo <sup>6</sup>	7,083	-	-	-
Rob Turnbull	229,030	57,241	-	6,871
<b>Sub-total executives</b>	<b>973,062</b>	<b>103,162</b>	<b>-</b>	<b>16,110</b>
<b>Total key management personnel</b>	<b>1,561,862</b>	<b>103,162</b>	<b>-</b>	<b>23,794</b>

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.

5. John Mills resigned, and Matthew McNamara was appointed, as directors on 18 October 2019.

	Incentive Share-based Payments		Performance Related Remuneration %	Fixed Remuneration %	
	Severance \$	Value of Options/ Loan Funded Shares <sup>6</sup> \$			Total \$
-	-	87,913	187,913	47%	53%
-	-	-	6,720	-	100%
-	-	-	50,000	-	100%
-	-	14,232	64,232	22%	78%
-	-	4,744	59,494	8%	92%
-	-	-	54,750	-	100%
-	-	14,232	43,399	33%	67%
-	-	<b>121,121</b>	<b>466,508</b>		
-	-	87,913	1,054,056	39%	61%
-	-	-	131,702	-	100%
-	-	62,625	494,485	36%	64%
-	-	32,580	348,922	37%	63%
-	-	-	6,180	-	100%
-	-	1,789	303,265	20%	80%
-	-	<b>184,907</b>	<b>2,339,610</b>		
-	-	<b>306,028</b>	<b>2,806,118</b>		

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.

	Incentive Share-based Payments		Performance Related Remuneration %	Fixed Remuneration %	
	Severance \$	Value of Options/ Loan Funded Shares <sup>7</sup> \$			Total \$
-	-	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%
-	-	<b>25,305</b>	<b>621,789</b>		
-	-	20,958	445,975	13%	87%
-	-	-	68,006	15%	85%
-	-	-	299,086	-	100%
-	-	-	7,083	-	100%
-	-	22,036	315,178	25%	75%
-	-	<b>42,994</b>	<b>1,135,328</b>		
-	-	<b>68,299</b>	<b>1,757,117</b>		

6. A company of which Mr Licciardo is a director received the fees from the Company for company secretarial and corporate governance consulting services.
7. The fair values of options and Loan Funded Shares are calculated at the date of grant using a Black-Scholes pricing model and allocated to each reporting period in accordance with vesting. The values noted represent the portion of the fair value of the options or loan funded shares allocated to the reporting period.

## (g) Service agreements

### **Joint Company Secretary - Mr Mark Licciardo**

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

### **Other key management personnel of the Group**

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

<b>Name</b>	<b>Term of Agreement</b>	<b>Notice Period<sup>1</sup></b>	<b>Base Salary<sup>2</sup></b>	<b>Termination Payments<sup>3</sup></b>
Rick Legleiter	No fixed term	6 months	A\$275,000	A\$52,000
Mike Motion, CEO	1 September 2021	-	£300,000	-
Anne Bell, CFO <sup>4</sup>	No fixed term	4 months	A\$320,000	-
Geoff Feakes, CTO	No fixed term	4 months	A\$220,000	-
Rob Turnbull, Joint Company Secretary and General Manager	No fixed term	2 months	NZ\$251,200	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 2021; they are reviewed annually by the Nomination and Remuneration Committee.
3. Amount or 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

### **Executive Share Option Plan**

The board has established the Adherium Executive Share Option Plan (ESOP).

Awards under the ESOP typically vest one third annually over three years of continued employment from the grant date.

The fair value of the awards of options are calculated at the date of grant using a Black-Scholes pricing model, which is allocated over the vesting periods as share and option based compensation.

In the year ended 30 June 2021 the board made offers to key management personnel under the ESOP which were accepted as follows:

<b>Key Management Personnel</b>	<b>Options</b>	<b>Exercise Price</b>	<b>Term</b>	<b>Vesting</b>	<b>Total Value<sup>1</sup></b>	<b>2021 Expense Allocation</b>
William Hunter	1,500,000	\$0.04	1 year	Immediate	\$15,885	\$14,232
Bryan Mogridge	1,500,000	\$0.04	1 year	Immediate	\$15,885	\$14,232

1. Valuation at the date of award, using the Black & Scholes option pricing model, to be allocated over the vesting periods as share-based compensation.

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 2021 and to the date of this report. The awards noted above lapsed unexercised on 7 August 2021.

### Loan funded Employee Share Plan

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

Awards under the Plans typically 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 is allocated over the vesting periods as share based compensation.

In the year ended 30 June 2021 the board made offers to key management personnel under the Plans which were accepted as follows:

Key Management Personnel	Shares	Price	Loan	Term	Vesting	Total Value <sup>1</sup>	2021 Expense Allocation
Bruce McHarrie	500,000	\$0.04	\$20,000	1 year	Immediate	\$5,295	\$4,744
Anne Bell	8,250,000	\$0.04	\$330,000	7 years	3 years	\$148,430	\$62,625
Geoff Feakes	4,500,000	\$0.05	\$225,000	7 years	3 years	\$77,220	\$32,580

1. Valuation at the date of award, using the Black & Scholes option pricing model, to be allocated over the vesting periods as share-based compensation.

The award noted above to Bruce McHarrie lapsed unexercised on 7 August 2021.

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

#### Shareholdings

The numbers of ordinary shares in the Company held during the year to 30 June 2021 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	-	-	2,167,412 <sup>2</sup>	2,167,412
George Baran	422,697,512 <sup>4</sup>	-	-	422,697,512
Jeremy Curnock Cook	1,192,734	-	1,083,705 <sup>2</sup>	2,276,439
William Hunter	1,612,734	-	1,083,705 <sup>2</sup>	2,696,439
Bruce McHarrie	1,277,587	-	1,583,705 <sup>2</sup>	2,861,292
Matthew McNamara	123,038	-	1,083,705 <sup>2</sup>	1,206,743
Anne Bell	601,151	-	9,222,095 <sup>2</sup>	9,823,246
Geoff Feakes	-	-	4,500,000 <sup>2</sup>	4,500,000
Rob Turnbull <sup>1</sup>	2,559,645	-	-	2,559,645
Mike Motion	600,000	-	1,061,951 <sup>2</sup>	1,661,951 <sup>3</sup>
Bryan Mogridge	12,858,965 <sup>1</sup>	-	-	12,858,965 <sup>3</sup>

1. Includes ordinary shares held jointly with the General Manager in their capacity as trustees of the Company's Employee Share Plan. At 30 June 2021: 10,003,149 (30 June 2020: 10,003,149) ordinary shares were held in this capacity.
2. Shares issued in lieu of salary/fees and as awards under the Company's Employee Share Plan.
3. Holding as at date directorship ended.
4. Holding as of date directorship commenced. The registered holder of the ordinary shares is Trudell Medical Limited, in which the director has a 33.33% beneficial interest.

## Options

The numbers of options over ordinary shares in the Company held during the year to 30 June 2021 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	Awarded	Exercised	Lapsed	Balance at the end of the year	Vested	Vested and exercisable	Vested and unexercisable
James Ward-Lilley	10,000,000	-	-	-	10,000,000	3,333,333	3,333,333	-
George Baran <sup>1</sup>	10,485,950	-	-	-	10,485,950	10,485,950	10,485,950	-
William Hunter	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
Mike Motion	10,000,000	-	-	-	10,000,000	3,333,333	3,333,333	-
Bryan Mogridge <sup>2</sup>	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-

1. Holding as of date directorship commenced. The registered holder of the options is Trudell Medical Limited, in which the director has a 33.33% beneficial interest.
2. 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 2021.

End of audited Remuneration Report.

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



**James Ward-Lilley**  
Non-Executive Chairman

Melbourne  
26 August 2021

# Auditor's Independence Declaration



## *Auditor's Independence Declaration*

As lead auditor for the audit of Adherium Limited for the year ended 30 June 2021, 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.

A handwritten signature in black ink, appearing to read 'SW', is written over a light blue horizontal line.

Scott Walsh  
Partner  
PricewaterhouseCoopers

Sydney  
26 August 2021

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# Financial Statements

Consolidated Statement of Profit  
or Loss and Other Comprehensive Income

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Consolidated Statement of Financial Position

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Consolidated Statement of Changes in Equity

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Consolidated Statement of Cash Flows

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Notes to the Consolidated Financial Statements



# Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2021

	Notes	June 2021 \$000	June 2020 \$000
<b>Continuing Operations</b>			
Sales	5	401	2,218
Cost of sales		(426)	(814)
<b>Gross profit</b>		(25)	1,404
Other income - Covid19 payroll support		61	-
Other income - R&D tax credit	7	370	-
Manufacturing support		(764)	(727)
Research and development costs		(5,477)	(3,953)
Sales and marketing costs		(845)	(1,766)
Administrative expenses		(6,143)	(3,769)
<b>Operating loss</b>		(12,823)	(8,811)
Finance income	5	23	15
Finance expense	15	(2,236)	(2,601)
<b>Finance income (cost) - net</b>		(2,213)	(2,586)
<b>Loss before income tax</b>		(15,036)	(11,397)
Income tax credit (expense)	7	-	-
<b>Loss for the period attributable to equity holders</b>		(15,036)	(11,397)
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss when certain conditions are met: Foreign exchange differences on translation of foreign operation		864	(209)
<b>Other comprehensive income for the period, net of tax</b>		864	(209)
<b>Total comprehensive loss for the period</b>		(14,172)	(11,606)
<b>Total comprehensive loss attributable to:</b> Equity holders of Adherium Limited		(14,172)	(11,606)
<b>Basic and diluted loss per share</b>	8	(1.7) cents	(3.6) cents

The accompanying notes form part of the financial statements.

# Consolidated Statement of Financial Position as at 30 June 2021

	Notes	June 2021 \$000	June 2020 \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	15,178	4,584
Trade and other receivables	10	567	624
Inventories	11	962	1,120
Prepayments		202	150
<b>Total current assets</b>		16,909	6,478
<b>Non-current assets</b>			
Property, plant and equipment	12	127	235
Intangible assets	13	3	5
<b>Total assets</b>		17,039	6,718
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	2,319	2,646
Income received in advance		685	688
<b>Total current liabilities</b>		3,004	3,334
<b>EQUITY</b>			
Share capital	16	110,172	87,682
Accumulated deficit		(73,385)	(58,349)
Other reserves		(22,752)	(25,949)
<b>Total equity</b>		14,035	3,384
<b>Total liabilities &amp; equity</b>		17,039	6,718

The accompanying notes form part of the financial statements.

# Consolidated Statement of Changes in Equity for the year ended 30 June 2021

	Share Capital \$000	Accumulated Deficit \$000	Share & Option Compensation Reserve \$000	Foreign Currency Translation Reserve \$000	Merger Reserve \$000	Total Equity \$000
<b>Equity as at 1 July 2019</b>	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)
<i>Transactions with owners:</i>						
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
<b>Equity as at 30 June 2020</b>	87,682	(58,349)	1,837	(251)	(27,535)	3,384
Loss for the period	-	(15,036)	-	-	-	(15,036)
Other comprehensive income	-	-	-	864	-	864
Total comprehensive loss	-	(15,036)	-	864	-	(14,172)
<i>Transactions with owners:</i>						
Shares and options issued on conversion of convertible notes	4,063	-	1,165	-	-	5,228
Shares and options issued in placements	19,014	-	858	-	-	19,872
Share and option grants for services	222	-	310	-	-	532
Share issue costs	(809)	-	-	-	-	(809)
<b>Equity as at 30 June 2021</b>	110,172	(73,385)	4,170	613	(27,535)	14,035

The accompanying notes form part of the financial statements.

# Consolidated Statement of Cash Flows for the year ended 30 June 2021

	Notes	June 2021 \$000	June 2020 \$000
<b>Cash flows from operating activities:</b>			
Receipts from customers		782	2,731
Interest received		23	15
Interest paid		(8)	-
Resident withholding tax refunded (paid)		-	13
Payments to employees		(4,536)	(2,736)
Payments to suppliers		(7,534)	(7,340)
<b>Net cash provided from (used in) operating activities</b>		<b>(11,273)</b>	<b>(7,317)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(29)	(138)
<b>Net cash used in investing activities</b>		<b>(29)</b>	<b>(138)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from the issue of shares		19,872	8,520
Proceeds from the issue of convertible notes		3,000	2,926
Payment of capital raising costs		(968)	(105)
<b>Net cash provided from financing activities</b>		<b>21,904</b>	<b>11,341</b>
Net increase (decrease) in cash		10,602	3,886
Cash at the beginning of the year		4,584	763
Effect of exchange rate changes on cash balances		(8)	(65)
<b>Cash at the end of the year</b>	9	<b>15,178</b>	<b>4,584</b>
<b>Reconciliation with loss after income tax:</b>			
Loss after income tax		(15,036)	(11,397)
<i>Non-cash and non-operating activities items requiring adjustment:</i>			
Depreciation of property, plant and equipment	12	142	249
Amortisation of intangible assets	13	3	86
Fixed assets (gain) loss on disposal		(5)	32
Convertible notes finance cost	15	2,228	2,601
Convertible notes issue cost		94	-
Share and option compensation expense		310	116
Shares granted for services		222	177
Foreign exchange (gain)		888	(144)
<b>Changes in working capital:</b>			
Trade and other receivables		(1)	(178)
Inventories		150	(720)
Trade and other payables		(268)	1,203
Income received in advance		-	658
<b>Net cash provided from (used in) operating activities</b>		<b>(11,273)</b>	<b>(7,317)</b>

The accompanying notes form part of the financial statements.

# Notes to the consolidated financial statements for the year ended 30 June 2021

## 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 2021 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 26 August 2021.

## 2. Basis of Preparation

This general purpose consolidated financial report for the twelve months ended 30 June 2021 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, 2021, the Group had net cash of \$15,178,000 (2020: \$4,584,000) and recorded a loss after tax of \$15,036,000 (2020: \$11,397,000) and operating cash outflows of \$11,273,000 (2020: \$7,317,000) 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 financial year 2022.

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*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant areas of estimate, uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements are:

**(ii) Convertible notes**

The assumptions applied in recording the recognition and conversion of the convertible notes are set out in note 15.

**(ii) 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.

**(iii) Recognition of deferred tax assets**

As at 30 June 2021, 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 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:

<b>Domicile of non-current assets</b>	<b>June 2021 \$000</b>	<b>June 2020 \$000</b>
New Zealand and Australia	57	137
South-East Asian Countries	71	100
Other Countries	2	3
	<u>130</u>	<u>240</u>

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

<b>Location of customer sales</b>	<b>June 2021 \$000</b>	<b>June 2020 \$000</b>
New Zealand and Australia	53	2
Europe	231	2,147
North America	116	25
Asia	1	44
	<u>401</u>	<u>2,218</u>

**b) Major customers**

Revenues are derived from major external customers as follows:

<b>Major customers</b>	<b>June 2021 \$000</b>	<b>June 2020 \$000</b>
Customer A group entities	148	2,110

#### 5. Revenue

<b>Income from continuing operations:</b>	<b>June 2021 \$000</b>	<b>June 2020 \$000</b>
Sensor sales and monitoring services	264	1,171
New product design and engineering services	137	1,047
	<u>401</u>	<u>2,218</u>

## 6. Expenses

Loss before income tax includes the following specific expenses:	June 2021 \$000	June 2020 \$000
Fees paid to PricewaterhouseCoopers for:		
- audit of the financial statements	91	93
- interim report review	37	36
Fees paid to PricewaterhouseCoopers for non-audit services:		
- fees in respect of other advice and services	-	35
Total fees to PricewaterhouseCoopers	128	164
Depreciation and amortisation	145	335
Directors' remuneration		
- director fees	345	337
- consulting fees	-	260
- share and option based compensation	121	25
Total Directors' remuneration	466	622
Employee benefits expense		
- wages and salaries	4,661	3,039
- share and option based compensation	189	91
Total employee benefits expense	4,850	3,130
Foreign exchange (gain) loss	888	(144)
Operating lease costs	89	93

## 7. Income tax

	June 2021 \$000	June 2020 \$000
Current tax	-	-
Deferred tax	-	-
<b>Income tax expense</b>	-	-
<i>Numerical reconciliation of income tax expense to prima facie tax payable (receivable):</i>		
Loss before income tax	(15,036)	(11,397)
Tax calculated at domestic tax rates	(4,293)	(3,206)
Tax effects of:		
Expenses not deductible for tax purposes	905	220
Under (over) provision in prior year	968	62
Deferred tax assets not recognised (note 17)	2,420	2,924
<b>Income tax expense</b>	-	-

The weighted average applicable tax rate was 29% (2020: 28%).

### Research & development (R&D) tax credit

The company is eligible to participate in the Research and Development (R&D) Tax Incentive Offset scheme to potentially obtain a tax rebate or credits equivalent to the entitlements under the scheme operating at the time. These are only recognised when it is probable that it is to be available to be offset against income tax payable or when actual cash payment is considered receivable. As at 30 June 2021, an amount of \$370,000 is receivable for the R&D Tax Incentive Offset scheme for income tax year 2020.

## 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 Convertible Notes discussed in note 15 and 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 2021 \$000	June 2020 \$000
Profit (loss) after income tax attributable to equity holders	(15,036)	(11,397)
Weighted average shares outstanding (basic)	900,972,255	316,010,977
Weighted average shares outstanding (diluted)	900,972,255	316,010,977
<b>Basic and diluted loss per share</b>	<b>(1.7) cents</b>	<b>(3.6) cents</b>

## 9. Cash and cash equivalents

	June 2021 \$000	June 2020 \$000
Cash at bank and on hand	162	114
Deposits at call	15,016	4,470
	<b>15,178</b>	<b>4,584</b>

## 10. Trade and other receivables

	June 2021 \$000	June 2020 \$000
Trade receivables and accruals	100	489
R&D tax credit receivable	370	-
GST and other taxes receivable	77	115
Security deposits	20	20
	<b>567</b>	<b>624</b>

## 11. Inventories

	June 2021 \$000	June 2020 \$000
Raw materials and components	868	1,021
Finished goods	94	99
	<b>962</b>	<b>1,120</b>

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to \$276,000 (2020: \$633,000).

## 12. Property, plant and equipment

	Manufacturing Equipment \$000	Computer Equipment \$000	Fixtures & Fittings \$000	Office Equipment \$000	Total \$000
<b>As at 1 July 2019</b>					
Cost	809	248	182	122	1,361
Accumulated depreciation	(603)	(201)	(126)	(51)	(981)
<b>Net book value</b>	<b>206</b>	<b>47</b>	<b>56</b>	<b>71</b>	<b>380</b>
<b>Movements in the year ended 30 June 2020</b>					
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)
<b>Closing net book value</b>	<b>184</b>	<b>16</b>	<b>10</b>	<b>25</b>	<b>235</b>
<b>As at 30 June 2020</b>					
Cost	763	123	20	60	966
Accumulated depreciation	(579)	(107)	(10)	(35)	(731)
<b>Net book value</b>	<b>184</b>	<b>16</b>	<b>10</b>	<b>25</b>	<b>235</b>
<b>Movements in the year ended 30 June 2021</b>					
Opening net book value	184	16	10	25	235
Additions	11	24	-	-	35
Disposals	-	-	-	-	-
Depreciation	(119)	(12)	(1)	(10)	(142)
Foreign currency translation	(1)	-	-	-	(1)
<b>Closing net book value</b>	<b>75</b>	<b>28</b>	<b>9</b>	<b>15</b>	<b>127</b>
<b>As at 30 June 2021</b>					
Cost	770	154	20	60	1,004
Accumulated depreciation	(695)	(126)	(11)	(45)	(877)
<b>Net book value</b>	<b>75</b>	<b>28</b>	<b>9</b>	<b>15</b>	<b>127</b>

### 13. Intangible assets

	Software \$000	Total \$000
<b>As at 1 July 2019</b>		
Cost	388	388
Accumulated amortisation	(296)	(296)
<b>Net book value</b>	<b>92</b>	<b>92</b>
<b>Movements in the year ended 30 June 2020</b>		
Opening net book value	92	92
Additions		
- External costs	-	-
Disposals	-	-
Amortisation	(86)	(86)
Foreign currency translation	(1)	(1)
<b>Closing net book value</b>	<b>5</b>	<b>5</b>
<b>As at 30 June 2020</b>		
Cost	300	300
Accumulated amortisation	(295)	(295)
<b>Net book value</b>	<b>5</b>	<b>5</b>
<b>Movements in the year ended 30 June 2021</b>		
Opening net book value	5	5
Additions		
- External costs	-	-
Disposals	-	-
Amortisation	(3)	(3)
Foreign currency translation	1	1
<b>Closing net book value</b>	<b>3</b>	<b>3</b>
<b>As at 30 June 2021</b>		
Cost	299	299
Accumulated amortisation	(296)	(296)
<b>Net book value</b>	<b>3</b>	<b>3</b>

### 14. Trade and other payables

	June 2021 \$000	June 2020 \$000
Trade payables	701	1,003
Accruals	365	1,063
Employee benefits	1,253	580
	<b>2,319</b>	<b>2,646</b>

## 15. Convertible Notes

### *June 2021*

During the year to 30 June 2021 the Company issued Secured Convertible Notes (“2020 Notes”) with a face value of \$3 million, an interest rate of 9% per annum, and maturity date of 25 October 2022. The terms of the 2020 Notes included conversion features, which allowed the noteholder to convert the principal and accrued interest to shares in the Company at 3 cents per share after the occurrence of certain events, including partnering and funding milestones.

The 2020 Notes were accounted for as two separate liability components from their issue date—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 2020 Notes, settlement was assumed to take place on 25 October 2022 with interest accruing at 9% per annum to that date. The calculation of the fair value of the embedded derivative conversion option took into account the probability of the noteholder converting and the market price of the ordinary shares.

On 18 March 2021 the Company and noteholder agreed to modify the 2020 Notes' terms to:

- automatically convert the 2020 Notes principal plus interest to ordinary shares at the same time and price as under a capital raise for at least \$15 million; and
- in consideration of the variation of the 2020 Notes to provide for the automatic conversion mechanism referred to above; at closing of the capital raising to issue to the noteholder various options over ordinary shares.

On 30 April 2021, the Company received shareholder approval to amend the 2020 Notes and proceed with the capital raise. This was completed on 7 May 2021 for a total of \$18 million, and accordingly the 2020 Notes automatically converted to 238,989,991 ordinary shares in addition to the grant to the noteholder of:

- 25,000,000 options with an exercise price of \$0.02 and an expiry date of 7 May 2023;
- 25,000,000 options with an exercise price of \$0.03 and an expiry date of 7 May 2023;
- 25,000,000 options with an exercise price of \$0.04 and an expiry date of 7 May 2023; and
- 104,855,877 options with an exercise price of \$0.03 and an expiry date of 25 October 2022.

The fair value of the modification of the 2020 Notes terms was assessed at \$1,344,000, and the fair value of the options granted \$1,165,000, with both recorded as a finance cost.

### *June 2020*

During the year to 30 June 2020 the Company issued Secured Debt Notes (“2019 Notes”) with a face value of \$2.926 million and maturity date of 31 January 2020. The terms of the 2019 Notes included conversion features, which were subject to shareholder approval. These entitled the noteholders to convert the 2019 Notes and accrued interest to ordinary shares and options at a discount to the market price of the ordinary shares, or for the 2019 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 2019 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 2019 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 2019 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	June 2021			June 2020		
	Debt component at amortised cost \$000	Embedded derivative conversion option at fair value \$000	Total \$000	Debt component at amortised cost \$000	Embedded derivative conversion option at fair value \$000	Total \$000
Recognition at Note issue	1,622	1,378	3,000	933	1,993	2,926
Financing cost:						
- Amortised cost	519	-	519	2,080	-	2,080
- Fair value change	-	(800)	(800)	-	521	521
- Modification	1,444	(100)	1,344	-	-	-
<b>Total financing cost</b>	<b>1,963</b>	<b>(900)</b>	<b>1,063</b>	<b>2,080</b>	<b>521</b>	<b>2,601</b>
<b>Carrying value at conversion</b>	<b>3,585</b>	<b>478</b>	<b>4,063</b>	<b>3,013</b>	<b>2,514</b>	<b>5,527</b>
<b>Conversion:</b>						
- Shares issued			4,063			4,816
- Options issued			-			711
			<u>4,063</u>			<u>5,527</u>

## 16. Share capital

	Ordinary Shares	\$000
<b>Share capital as at 1 July 2019</b>	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)
<b>Share capital as at 30 June 2020</b>	<b>601,906,334</b>	<b>87,682</b>
Shares issued in employee share plans	13,250,000	-
Shares issued in placements	1,262,405,631	19,014
Shares issued on conversion of Convertible Notes	238,989,991	4,063
Shares issued for services	9,181,155	222
Share issue costs	-	(809)
<b>Share capital as at 30 June 2021</b>	<b>2,125,733,111</b>	<b>110,172</b>

### (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
<b>Outstanding at 1 July 2019</b>	2,822,581	\$ 0.1254	1.4	2,822,581	\$ 0.1254	
Granted	-	\$ -				
Exercised	-	\$ -				
Lapsed	(589,892)	\$ 0.0925				
<b>Outstanding at 30 June 2020</b>	2,232,689	\$ 0.1340	0.6	2,232,689	\$ 0.1340	
Granted	-	\$ -				
Exercised	-	\$ -				
Lapsed	(2,059,451)	\$ 0.1340				
<b>Outstanding at 30 June 2021</b>	173,238	\$ 0.1340	0.8	173,238	\$ 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
<b>Outstanding at 1 July 2019</b>	-	\$ -		-	\$ -	
Granted	20,000,000	\$ 0.0400				
Exercised	-	\$ -				
Lapsed	-	\$ -				
<b>Outstanding at 30 June 2020</b>	20,000,000	\$ 0.0400	6.8	-	\$ -	-
Granted	7,500,000	\$ 0.0400				
Exercised	-	\$ -				
Lapsed	(4,500,000)	\$ -				
<b>Outstanding at 30 June 2021</b>	23,000,000	\$ 0.0400	5.1	9,666,667	\$ 0.0400	-

The weighted average fair value of options granted during the periods was estimated using the Black-Scholes valuation model:

Significant Black-Scholes valuation model inputs	June 2021	June 2020
Share price at grant date	\$0.0300	\$0.0240
Exercise price	\$0.0400	\$0.0400
Volatility	114.4%	101.6%
Dividend yield	0%	0%
Expected option life	1 year	5 years
Annual risk-free interest rate	0.27%	0.45%
Weighted average fair value of options granted	\$0.0106	\$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 employment with 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:

<b>Grant date</b>	<b>Shares granted</b>	<b>Issue price</b>	<b>Vested as at 30 June 2021</b>	<b>Restricted as at 30 June 2021</b>	<b>Share price at grant date</b>
16 May 2016	2,569,609	\$0.500	-	2,569,609	\$0.500
8 November 2016	2,100,000	\$0.500	900,000	2,100,000	\$0.350
14 December 2016	173,277	\$0.500	-	173,277	\$0.305
23 December 2016	243,628	\$0.500	-	243,628	\$0.260
10 July 2019	3,553,866	\$0.027	3,377,435	3,553,866	\$0.028
10 July 2019	1,154,251	\$0.075	1,099,872	1,154,251	\$0.028
10 July 2019	1,154,251	\$0.150	-	1,154,251	\$0.028
10 July 2019	1,154,251	\$0.250	-	1,154,251	\$0.028
7 August 2020	500,000	\$0.040	500,000	500,000	\$0.030
21 October 2020	8,250,000	\$0.040	-	8,250,000	\$0.026
21 October 2020	4,500,000	\$0.050	-	4,500,000	\$0.026

### **(c) Other option issues**

#### **June 2021**

In August 2020 the Company completed a shareholder approved placement of shares and related options. 83,333,333 options with an exercise price of \$0.0600 per option and an expiry date of 17 February 2022 were issued. The options' fair value at grant date of \$858,000 (\$0.0103 per option) was estimated using a Black-Scholes option pricing model, and was been recorded in equity in conjunction with the placement. The significant inputs to the option pricing model were a grant date share price of \$0.0270, a 0% dividend yield, an expected option life of 1.5 years, an annual risk-free rate of 0.27%, and a volatility of 125.6%.

As set out in Note 15, in October 2020 the Company issued Convertible Notes ("2020 Notes"). The terms of these were amended in March 2021 and as consideration the options set out in Note 15 were issued in May 2021. The options' fair value at grant date of \$1,165,000 was estimated using a Black-Scholes option pricing model, and was recorded as a finance cost related to the 2020 Notes (refer note 15). The significant inputs to the option pricing model were a grant date share price of \$0.0170, a 0% dividend yield, an expected option life to expiry, an annual risk-free rate of 0.09%, and a volatility of 103.3% - 113.6%.

#### **June 2020**

During the year ended 30 June 2020 the Company issued Convertible Notes ("2019 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 any options in cash.

## 17. Deferred Income Tax

	June 2021 \$000	June 2020 \$000
Movements:		
Deferred tax asset (liability) at the beginning of the year	-	-
Credited (charged) to the income statement (note 7)	2,420	2,924
Change in unrecognised deferred tax assets	(2,420)	(2,924)
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
<b>As at 1 July 2019</b>	-	-	-	-
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)
<b>As at 30 June 2020</b>	-	-	-	-
Credited (charged) to the income statement	424	5	1,973	2,420
Effect of exchange rate changes	-	(1)	(409)	(410)
Change in unrecognised deferred tax assets	(424)	(4)	(1,564)	(2,010)
<b>As at 30 June 2021</b>	-	-	-	-

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 \$16,384,000 (2020: \$14,632,000) in respect of losses amounting to \$52,994,000 (2020: \$47,262,000) that can be carried forward against future taxable income. The Company also did not recognise further deferred income tax assets of \$862,000 (2020: \$412,000) in respect of other timing differences amounting to \$2,969,000 (2020: \$1,467,000).

## 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 2021 \$000	June 2020 \$000
<b>Directors</b>		
- director fees and other legislated superannuation	345	337
- consulting fees	-	260
- share and option based compensation	121	25
<b>CEO and management</b>		
- short-term benefits	1,998	1,076
- post-employment benefit contributions	157	16
- share and option based compensation	185	43
	<u>2,806</u>	<u>1,757</u>

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

	June 2021 Ordinary Shares	June 2021 \$000	June 2020 Ordinary Shares	June 2020 \$000
Shares issued in Rights Issue	-	-	600,000	18
	-	-	600,000	18

### (b) Related parties

There were no other transactions with related parties in the periods presented.

## 19. Financial instruments and risk management

### (a) Categories of financial instruments

	June 2021 \$000	June 2020 \$000
<b>Financial assets</b>		
<i>Loans and receivables classification:</i>		
Cash and cash equivalents	15,178	4,584
Trade and other receivables	100	489
<b>Total financial assets</b>	<u>15,278</u>	<u>5,073</u>
<b>Financial liabilities</b>		
<i>Measured at amortised cost:</i>		
Trade and other payables	2,319	2,646
<b>Total financial liabilities</b>	<u>2,319</u>	<u>2,646</u>

### (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 loss of \$888,000 is included in results for the period ended 30 June 2021 (2020: \$144,000 gain).

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

	June 2021 \$000	June 2020 \$000
<b>Assets</b>		
New Zealand Dollars	425	70
US dollars	35	501
UK pound	3	16
<b>Liabilities</b>		
New Zealand Dollars	674	414
US dollars	38	530
UK pound	176	517
Hong Kong dollars	-	26
Japanese Yen	85	-

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.

<i>Decrease (increase) in loss after income tax</i>	June 2021 \$000	June 2020 \$000
<b>10% strengthening of Australian dollar against:</b>		
New Zealand dollars	21	-
US dollars	(4)	-
UK pound	26	33
Hong Kong dollars	-	2
<b>10% weakening of Australian dollar against:</b>		
New Zealand dollars	(26)	
US dollars	11	-
UK pound	(35)	(40)
Hong Kong dollars	-	(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 (2020: 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 2021 \$000	June 2020 \$000
<b>Counterparties with external credit rating:</b>		
• A-2	57	468
<b>Counterparties without external credit rating:</b>		
• existing customers (more than 6 months) with no defaults in the past	43	14
<b>Total trade receivables</b>	100	482

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 2020 and 30 June 2021 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 57% of accounts receivable are with one counterparty (2020: 97%). 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
<b>As at 30 June 2021</b>		
Trade and other payables	2,319	-
<b>As at 30 June 2020</b>		
Trade and other payables	2,646	-

### 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 2021. During the year ended 30 June 2021 Adherium Limited recognised an impairment on the carrying value of its investments in and loans to subsidiaries to record those at the Group carrying value. This resulted in an impairment charge of \$5,096,000 (2020: \$9,372,000 impairment) The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	Parent June 2021 \$000	Parent June 2020 \$000
<b>Statement of Financial Position</b>		
Current assets	15,309	4,708
Non-current assets	20	-
<b>Total assets</b>	<b>15,329</b>	<b>4,708</b>
Current liabilities	1,318	1,172
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>1,318</b>	<b>1,172</b>
<b>Net assets</b>	<b>14,011</b>	<b>3,536</b>
Contributed equity	110,172	87,682
Accumulated deficit	(99,916)	(85,568)
Reserves	3,755	1,422
<b>Total equity</b>	<b>14,011</b>	<b>3,536</b>
<b>Statement of Profit and Loss and Comprehensive Income</b>		
Loss after tax	(14,348)	(14,511)
<b>Total comprehensive loss</b>	<b>(14,348)</b>	<b>(14,511)</b>

## 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 2021	June 2020
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 2021 (2020: 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 2021 \$000	June 2020 \$000
Not later than one year	23	47
Later than one year and not later than five years	-	-
Later than five years	-	-
	<hr/> 23	<hr/> 47
	<hr/> <hr/>	<hr/> <hr/>

## 23. Events occurring after balance date

On 29 April 2021, Respire Limited announced a takeover bid for all of the ordinary shares of Adherium Limited. The takeover bid closed on 16 July 2021, failed to meet the offer conditions and so lapsed.

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 23 to 46 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 2021 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 2021.

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

On behalf of the board.



**James Ward-Lilley**  
Non-Executive Chairman

Melbourne  
26 August 2021

# Independent Auditor's Report



## *Independent auditor's report*

To the members of Adherium Limited

### *Report on the audit of the financial report*

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#### *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 2021 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 2021
- 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 consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

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#### *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 & 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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**PricewaterhouseCoopers, ABN 52 780 433 757**

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# Independent Auditor's Report



## Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss after tax of \$15,036,000 during the year ended 30 June 2021 and as of that date the Group had a surplus of current assets to current liabilities of \$13,905,000. In order for the Group to meet its operating requirements over the coming twelve months, it is dependent on raising capital or alternative funding, until it is able to generate positive cash flows from operations.

These conditions, along with other matters 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 opinion 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
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of \$751,000, which represents approximately 5% of the Group's loss before tax.</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matter to the Audit and Risk Committee:                             <ul style="list-style-type: none"> <li>Recognition and measurement of convertible notes</li> </ul> </li> <li>This is further described in the <i>Key audit matters</i> section of our report, except for the matter which is described in the <i>material uncertainty related to going concern</i> section.</li> </ul>

# Independent Auditor's Report



misstatements on the financial report as a whole.

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

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## 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 matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p><b>Recognition and measurement of convertible notes</b> (Refer to note 15)</p> <p>This was a key audit matter because there is significant judgement involved in preparing the estimates relating to the valuation of the debt portion of the notes, the embedded derivative and the fair value of options granted on conversion date.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"><li>• Read the relevant minutes and convertible notes deed and developed an understanding of the key terms of the convertible notes.</li><li>• Considered whether the accounting for the initial recognition and subsequent conversion was in accordance with the requirements of Australian Accounting Standards.</li><li>• Assessed the methodology adopted by the Group to value the embedded derivative and together with PwC technical accounting specialists, considered the accounting treatment adopted by the Group.</li></ul>

# Independent Auditor's Report



- Tested the mathematical accuracy, on a sample basis, of the calculations and assessed whether they were in accordance with the valuation methodology.
- Considered the subsequent conversion outcomes to verify the appropriateness of key estimates and judgements including the probability of conversion outcomes.
- Evaluated the reasonableness of the disclosures, against the requirements of Australian Accounting Standards.

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## *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 2021, 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.

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## *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.

# Independent Auditor's Report



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

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

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](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*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 13 to 20 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Adherium Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

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### *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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Scott Walsh' in a cursive, flowing script.

Scott Walsh  
Partner

Sydney  
26 August 2021

# 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 19 August 2021.

## (a) Distribution of equity securities

### Ordinary share capital

As at 19 August 2021 there were 2,129,085,960 ASX quoted ordinary shares held by 774 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	8,845	33
1,001 - 5,000	237,399	69
5,001 - 10,000	563,724	67
10,001 - 100,000	14,271,973	333
100,001 and over	2,114,004,019	272
Total	2,129,085,960	774

There were 320 shareholders holding less than a marketable parcel of ordinary shares at a price of \$0.0160, totalling 4,020,319 ordinary shares.

### Unquoted options over ordinary shares

As at 19 August 2021 there were 310,881,915 options over ordinary shares held by 11 holders.

## b) Twenty largest holders of quoted equity securities as at 19 August 2021

Shareholders	Ordinary Shares	
	Units	% Units
Phillip Asset Management Limited <BioScience Trans Fund I A/C>	500,000,000	23.48
Trudell Medical Ltd	422,697,512	19.85
J P Morgan Nominees Australia Pty Limited	246,069,991	11.56
CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	222,266,463	10.44
HSBC Custody Nominees (Australia) Limited	220,770,692	10.37
K One W One Ltd	80,503,018	3.78
One Funds Management Limited <Asia Pac Health Fund II A/C>	48,808,957	2.29
Citicorp Nominees Pty Limited	39,820,698	1.87
Summatix Pty Ltd	35,496,341	1.67
National Nominees Limited	30,000,000	1.41
BNP Paribas Noms (NZ) Ltd <DRP>	28,616,873	1.34
Planet Innovation Pty Ltd	26,666,667	1.25
JMID Pty Ltd <JAM Superfund A/C>	25,550,000	1.20
Anne Bell	13,176,095	0.62
HSBC Custody Nominees (Australia) Limited - A/C 2	11,204,336	0.53
Adherium ESP Trustee Limited	10,303,149	0.48
Calcium Investments Limited	7,112,779	0.33
Mr Carlsen Wilson Henry Marks + Mrs Edwina Mary Marks	6,250,000	0.29
Mr Garth Campbell Sutherland	5,174,885	0.24
CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd 11 A/C>	4,703,232	0.22
Total top 20 holders of fully paid ordinary shares	1,985,190,688	93.24

### (c) Substantial shareholders

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

<b>Substantial shareholders</b>	<b>Notification Date</b>	<b>Ordinary Shares Held</b>
Phillip Asset Management Limited <BioScience Managers Translation Fund 1 A/C>	10/05/2021	500,000,000
Trudell Medical Ltd	19/05/2021	422,697,512
Viburnum Funds Pty Ltd and subsidiaries and associates	10/05/2021	238,989,991
Regal Funds Management Pty Ltd	11/05/2021	222,266,463
FIL Limited	10/05/2021	211,645,356
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 George Baran  
Mr Jeremy Curnock Cook  
Dr William Hunter  
Mr Bruce McHarrie  
Mr Matthew McNamara

### Joint Company Secretaries

Mr Rob Turnbull  
Mr Mark Licciardo

### Registered Office

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

### NZ Office (Principal Administrative Office)

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

### Website

[www.adherium.com](http://www.adherium.com)  
[www.hailie.com](http://www.hailie.com)

### 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

### 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>



