adherium

Interim Consolidated Financial Report

for the six months ended 31 December 2018

Adherium Limited

ABN 24 605 352 510

Corporate Information

ASX code: ADR

Directors

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

Joint Company Secretaries

Mr Rob Turnbull
Mr Mark Licciardo

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Share Registry

Computershare Investor Services Pty Ltd
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Abbotsford, Victoria 3067, Australia

Solicitors

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

Auditors

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

Website

www.adherium.com
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Shareholder Enquiries
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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

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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 six months ended 31 December 2018, 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:

	Appointed	Resigned
Mr Thomas Lynch (Chairman)	1 September 2016	
Mr Arik Anderson	29 November 2017	1 February 2019
Mr Jeremy Curnock Cook	17 April 2015 (incorporation)	
Dr William Hunter	17 December 2015	
Mr Bruce McHarrie	20 July 2015	
Prof John Mills	20 July 2015	
Mr Bryan Mogridge	20 July 2015	

Review of Operations

In early December 2018 the Board announced a reorganization to create a smaller, simpler, more dynamic operational structure, from which it will develop discrete programs with partners during 2019. The focus is on overseeing enterprise solutions development and supporting our current and new customers' growth with Smartinhaler™ sensors and related software. Consistent with this, in addition to supporting AstraZeneca's growth plans for 2019, Adherium continues to develop its "direct-to-payer" channel in the US, which encompasses payers, providers and large self-insured employers. We anticipate onboarding the first client patients on a subscription basis in the coming quarter.

This reshaping of the business has seen the discontinuation of a number of non-core activities, including the "direct-to-consumer" offering, and the refocusing of resources on using external creativity and expertise. In this the Company is now engaging with leading development houses to enhance its sensor development and platform capabilities. This will deliver the scalability and features in sensors and mobile and platform applications commercial customers are seeking in a total solution for managing populations with chronic respiratory disease.

The reorganization has also resulted in a significant reduction in recurring future operating cost meaning there is no immediate need to raise capital.

Through the six months to 31 December 2018, Adherium continued to enhance its Hailie™ solution, implementing further customer and clinician focused features through updates to its mobile app and cloud platform, including Apple watch integrations. Applications for "over-the-counter" (OTC) regulatory clearance in the US were submitted for another two of Adherium's Hailie™ range of sensors, for use with GSK's Advair® Diskus®, Flovent Diskus®, Flixotide Accuhaler®, and Seretide Accuhaler®, and Boehringer Ingelheim's Spiriva® Handihaler®. These clearances are expected to be received in the second half of fiscal 2019.

US FDA 510(k) OTC clearance for Adherium's sensor for AstraZeneca's Bevespi® medication was also received in the six months to 31 December 2018, and has also been successfully transferred to production.

Many shareholders will have seen the recent acquisition of Propeller Health by Resmed for a reported US$225 million. Adherium and Propeller have for many years been the predominant players in the respiratory adherence monitoring market with very similar technology, but Adherium having significantly more supporting clinical evidence for its products as well as a significant commercial partner in AstraZeneca. The Board believes significant value is yet to be realized in Adherium's business.

As previously announced, to assist with implementing the Company's shift in focus, the Board has appointed Jeremy Curnock Cook as interim Managing Director and Dr Bill Hunter as an executive director involved in business development. No additional remuneration will be awarded for these appointments. In addition, effective 1 January 2019, all Directors have agreed to reduce director fee cash payments by 50%, the deferred balance of fees to be converted to shares in Adherium at a monthly average subject to approval of shareholders at the next general meeting.

Revenue was down 63% on the same period last year at $986,000. The reduction was due to a significant level of innovative product design and engineering services of $1,623,000 undertaken in the prior year compared with $681,000 in the current period. In addition, there was a halt in production of one of the Company's sensors at its contract manufacturer at the end of the September quarter to implement a design change. Production of this sensor resumed by the end of the December quarter, and the production backlog is expected to be cleared by the end of February 2019, and the related revenue and receipts from customers will therefore be reported in the second half of fiscal 2019.

Manufacturing support ($940,000) and sales and marketing ($3,163,000) expenses were higher year on year predominantly due to additional staff supporting the transfer to production of new sensors and features, and the new direct to payer and consumer channel initiatives. As previously noted, the roll out of Adherium's subscription-based solution in the US direct-to-payer channel is expected to commence in quarter three of fiscal 2019, and the direct-to-consumer offering was wound down in December 2018.

Research and development expenses were $2,584,000 in the six months to 31 December 2018 compared with $2,203,000 in the previous year, reflecting the completion of new sensor and software product development activities and the submission of regulatory clearance applications in the US which once received will represent an 80% coverage of inhaled asthma and COPD medications by Adherium's Hailie™ sensors.

Administrative expenses reduced from $3,196,000 in the prior year to $2,736,000 in the six months to 31 December 2018 due largely to lower recruitment costs and favourable foreign exchange gains. Other non-cash items included share and option compensation expense $43,000 (2017: $29,000 credit), depreciation and amortisation expense of $182,000 (2017: $131,000) and a $227,000 provision for asset impairments expected to arise as a result leased office changes and discontinuation of activities such as the direct-to-consumer initiative.

Cash at 31 December 2018 was $4,093,000, a net use of $8,025,000 since 30 June 2018. Following the reshaping of the Company's business announced in December 2018, committed cash outflows will reduce significantly. At the date of this report, the reorganisation is largely complete, and while no significant reorganisation costs were incurred, most expenses incurred in the December quarter fall for payment in the following March quarter and so quarterly cash flow is expected to normalise in quarter four and beyond.

Events subsequent to balance date

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

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 directors' report and financial report have been rounded off to the nearest $1,000.

Auditor's independence declaration

The Auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the six months ended 31 December 2018.

Signed in accordance with a resolution of the Board of Directors

Mr Thomas Lynch
Non-executive Chairman
Dated this 28th day of February 2019

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the review of Adherium Limited for the half-year ended 31 December 2018, 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 review; and

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

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

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
28 February 2019

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 31 December 2018

	Notes	Six months 31 Dec 2018 $000	Six months 31 Dec 2017 $000
Continuing Operations			
Sales	*3*	986	2,661
Cost of sales		(491)	(614)
Gross profit		495	2,047
Grants income		216	277
Manufacturing support		(940)	(559)
Research and development costs		(2,584)	(2,203)
Sales and marketing costs		(3,163)	(1,506)
Administrative expenses		(2,736)	(3,196)
Operating loss		(8,712)	(5,140)
Interest income		65	162
Interest expense		-	-
Finance income (cost) - net		65	162
Loss before income tax		(8,647)	(4,978)
Income tax expense		-	-
Loss for the period attributable to equity holders		(8,647)	(4,978)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss when certain conditions are met: Foreign exchange differences on translation of foreign operation		(159)	(324)
Other comprehensive income for the period, net of tax		(159)	(324)
Total comprehensive loss for the period		(8,806)	(5,302)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(8,806)	(5,302)
Basic and diluted loss per share	*4*	(5.0) cents	(2.9) cents

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position as at 31 December 2018

	Notes	31 Dec 2018 $000	30 Jun 2018 $000
ASSETS			
Current assets			
Cash and cash equivalents		4,093	12,118
Short term cash investments		-	427
Trade and other receivables		475	1,205
Inventories		406	509
Prepayments		376	281
Total current assets		5,350	14,540
Non-current assets			
Property, plant and equipment	5	431	515
Intangible assets		165	266
Total assets		5,946	15,321
LIABILITIES			
Current liabilities			
Trade and other payables		1,823	2,511
Income received in advance		75	-
Total current liabilities		1,898	2,511
EQUITY			
Share capital	6	74,349	74,349
Accumulated deficit		(43,805)	(35,158)
Other reserves		(26,496)	(26,381)
Total equity		4,048	12,810
Total liabilities & equity		5,946	15,321

The accompanying notes form part of the financial statements.

Consolidated Statement of Changes in Equity for the six-month period ended 31 December 2018

Six months to 31 December 2018	Share Capital $000	Accumulated Deficit $000	Share & Option Compensation Reserve $000	Foreign Currency Translation Reserve $000	Merger Reserve $000	Total Equity $000
Equity as at 1 July 2018	74, 349	(35,158)	1,097	57	(27,535)	12,810
Loss for the period	-	(8,647)	-	-	-	(8,647)
Other comprehensive income (loss)	-	-	-	(159)	-	(159)
Total comprehensive loss	-	(8,647)	-	(159)	-	(8,806)
Transactions with owners:						
Share grants for services	-	-	44	-	-	44
Equity as at 31 December 2018	74,349	(43,805)	1,141	(102)	(27,535)	4,048

Six months to 31 December 2017	Share Capital $000	Accumulated Deficit $000	Share & Option Compensation Reserve $000	Foreign Currency Translation Reserve $000	Merger Reserve $000	Total Equity $000
Equity as at 1 July 2017	74,278	(25,820)	1,110	672	(27,535)	22,705
Loss for the period	-	(4,978)	-	-	-	(4,978)
Other comprehensive income (loss)	-	-	-	(324)	-	(324)
Total comprehensive loss	-	(4,978)	-	(324)	-	(5,302)
Transactions with owners:						
Share grants for services	-	-	(29)	-	-	(29)
Equity as at 30 December 2017	74,278	(30,798)	1,081	348	(27,535)	17,374

The accompanying notes form part of the financial statements.

Consolidated Statement of Cash Flows for the six-month period ended 31 December 2018

	Notes	Six months 31 Dec 2018 $000	Six months 31 Dec 2017 $000
Cash flows from operating activities:			
Receipts from customers		1,778	1,174
Receipts from grants		257	160
Interest received		72	159
Resident withholding tax paid		(11)	21
Payments to employees		(5,513)	(4,411)
Payments to suppliers		(5,133)	(4,608)
Net cash used in operating activities		(8,550)	(7,505)
Cash flows from investing activities:			
Proceeds from short term cash investments		436	-
Purchase of property, plant and equipment		(235)	(118)
Purchase of intangible assets		-	(77)
Net cash used in investing activities		201	(195)
Cash flows from financing activities:			
Proceeds from the issue of shares		-	-
Payment of capital raising costs		-	-
Net cash provided from financing activities		-	-
Net increase (decrease) in cash		(8,349)	(7,700)
Cash at the beginning of the period		12,118	22,779
Effect of exchange rate changes on cash balances		324	(144)
Cash at the end of the period		4,093	14,935

The accompanying notes form part of the financial statements.

Notes to the Financial Statements for the six-month period ended 31 December 2018

1. General Information

Adherium Limited (the Company, Group or Adherium) is an Australian Securities Exchange listed company which develops, manufactures and supplies digital health technologies which address sub-optimal medication use and improve health outcomes in chronic disease.

Basis of Presentation
This general purpose consolidated condensed financial report for the six months ended 31 December 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting and the Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The interim 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 December 31, 2018, the Group had net cash of $4,093,000 (June 30, 2018: $12,118,000) and recorded a loss before tax of $8,647,000 (2017: $4,978,000) and operating cash outflows of $8,550,000 (2017: $7,505,000) for the six months then ended.

The Directors have approved forecasts that indicate the Group can manage its operating requirements for at least 12 months from the date of authorization of these financial statements. 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 until the Group is supported by cash flows from operations; and
- secure growth in revenues from existing and new revenue streams

represent material uncertainties that cast significant doubt over the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Despite these uncertainties, the Directors are of the view that the Company will be successful in the above matters and accordingly have adopted the going concern basis for the preparation of the financial report.

This interim report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and operating, financing and investing activities of the consolidated entity as the full financial report. This interim financial report should be read in conjunction with the annual report of Adherium Limited for the year ended 30 June 2018 and considered together with any public announcements made by Adherium Limited in accordance with the continuous disclosure obligations of the *ASX Listing Rules*.

This interim financial report has been prepared using the same accounting policies as used in the annual financial statements of Adherium Limited for the year ended 30 June 2018 unless otherwise stated

New accounting standards adopted during the year

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 9 Financial Instruments

AASB 9 Financial Instruments' has been adopted in the current period. AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Upon adoption of AASB 9, the group now applies the simplified approach to providing for expected credit losses, which requires the use of the lifetime expected loss provision for all trade receivables. The group has assessed the financial impact of adopting the new impairment model on transition to be immaterial.

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018. AASB 15 applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as AASB 117 Leases.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligation to a customer.

The principles in AASB 15 must be applied using the following 5 step model:

(a) Identify the contract(s) with a customer
(b) Identity the performance obligation in the contract
(c) Determine the transaction price
(d) Allocate the transaction price to the performance obligation in the contract
(e) Recognise revenue when or as the entity satisfied its performance obligation.

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to their contracts with customers. On adoption of the new revenue standard the Group has reviewed potential performance obligations which may arise under its revenue contracts, based on management assessment there are no areas of revenue recognition that are materially affected.

b) New accounting standards and interpretations not yet mandatory or early adopted

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The following Accounting Standards and Interpretations are most relevant to the Group:

Leases AASB 16 Leases will primarily impact the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the distinction between operating and financing leases and requires recognition of a 'right to-use' asset and a financial liability to pay rentals for almost all lease contracts. The Group is yet to fully assess the impact but it is likely that the Group's assets and liabilities will not be significantly impacted. The standard is applicable for accounting periods beginning on or after 1 January 2019.

2. Segment Information

The chief operating decision maker is the General Manager, who reviews financial information for the Group 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 Smartinhaler™ business.

3. Revenue

Revenue in the six months to 31 December 2018 comprised $305,000 for device sales and monitoring services (December 2017: $1,038,000) and $681,000 for new product design and engineering services (December 2017: $1,623,000).

4. Earnings per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For all periods presented, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares) 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.

	Six months 31 Dec 2018	**Six months 31 Dec 2017**
Profit (loss) after income tax attributable to equity holders ($000)	(8,647)	(4,978)
Weighted average shares outstanding (basic)	174,273,932	172,701,814
Weighted average shares outstanding (diluted)	174,273,932	172,701,814
Basic and diluted loss per share	(5.0) cents	(2.9) cents

5. Property, plant and equipment

During the period, the Group acquired assets with a cost of $207,000 (2016: $127,000) mainly in relation to manufacturing related tooling and office equipment. Following a reorganisation of the Company in December 2018, the Company recorded a provision for impairment of $194,000 in relation to surplus furniture and fittings, and computer equipment.

6. Share Capital

	Ordinary Shares	$000
Share capital as at 30 June 2017	171,849,192	74,278
Shares issued in employee share plans	3,032,072	-
Cancellation of shares issued in employee share plan	(1,554,329)	-
Shares issued on option exercise	946,997	71
Share capital as at 30 June 2018	174,273,932	74,349
Shares issued in employee share plans	-	-
Cancellation of shares issued in employee share plan	-	-
Share capital as at 31 December 2018	174,273,932	74,349

7. Related party transactions

Details of all related party transactions have been disclosed in the annual report for the year ended 30 June 2018. There have been no other new significant related party transactions during the interim period to 31 December 2018.

8. Contingencies and commitments

The Company entered into a six-year office lease commitment, with one two-year right of renewal. 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.

	31 Dec 2018 $000	30 Jun 2018 $000
Not later than one year	326	364
Later than one year and not later than five years	460	572
Later than five years	-	-
	786	936

9. Events occurring after the balance sheet date

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

Directors' Declaration

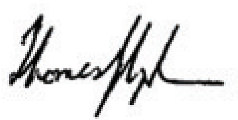
In the opinion of the Directors of Adherium Limited:

(a) The financial statements and notes set out on pages 6 to 13 are in accordance with the Corporations Act, including:

   (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the financial period ended on that date; and
   (ii) Complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Mr T Lynch
Chairman

Dated this 28th day of February 2019

Independent auditor's review report to the members of Adherium Limited

Report on the Half-Year Consolidated Financial Report

We have reviewed the accompanying half-year consolidated financial report of Adherium Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Adherium Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year consolidated financial report

The directors of the Company are responsible for the preparation of the half-year consolidated 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 half-year consolidated financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year consolidated financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year consolidated financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Adherium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year consolidated financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Independent Auditor's Review Report

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year consolidated financial report of Adherium Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1 of the half-year consolidated financial report, which indicates the Group incurred a loss before tax of $8,647,000 (2017: $4,978,000) and operating cash outflows of $8,550,000 (2017: $ 7,505,000) for the half-year ended 31 December 2018.

The Group's ability to continue as a going concern is dependent on whether the Group can raise additional capital until the company is supported by cash flows from operations and secure growth in revenues from existing and new revenue streams. These conditions along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our report is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
28 February 2019

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