

Interim Consolidated Financial Report

for the six months ended 31 December 2017

Adherium Limited
ABN 24 605 352 510

Corporate Information

ASX code: ADR

Directors

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

Joint Company Secretaries

Mr Rob Turnbull
Mr Mark Licciardo

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Share Registry

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Solicitors

K&L Gates
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Auditors

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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>

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Directors' Report

Your Directors submit their report for the six-month period ended 31 December 2017.

Directors

The names of the Company's Directors at any time during the period and until the date of this report are:

	Appointed	Resigned
Mr Thomas Lynch (Chairman)	1 September 2016	
Mr Arik Anderson	29 November 2017	
Mr Garth Sutherland	20 July 2015	29 November 2017
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

Adherium has successfully executed its plans for the first six months of the 2018 financial year. The targets set have been achieved, and as a result Adherium is able to reaffirm its revenue guidance for the 2018 financial year of between \$5.7 million and \$7.0 million, with closing cash of at least \$10 million at 30 June 2018.

Adherium is meeting its milestones in its three strategic channels:

- OEM volumes with AstraZeneca are meeting guidance, and our device development programs (which include programs for gaining market regulatory approvals) are achieving the targets needed to support both customer roll-outs and Adherium's own channel initiatives, while at the same time generating revenue;
- Our direct to consumer program is underway, with the hire of Vik Panda, VP of Marketing and launch of the New Zealand pilot. Launch in the US remains scheduled for H2 2018 with a target of 1,000 subscribing customers within the first three months after launch;
- Adherium has the best supporting clinical outcome data which is key for payers and providers. With the appointment of Tim Houchin as VP of Sales, focussed on payers and providers, development of its adherence monitoring platform and expansion of supporting in-market regulatory approvals, the Company is building its offering and anticipates a first payer pilot study in calendar 2018, and first revenue from the payer channel in calendar 2019.

Revenue was up 92% over the same period last year, at \$2,661,000. This increase resulted from:

- Device volume more than doubling from 7,000 in 2016 to 14,700 in 2017. Importantly the proportion of commercial to clinical volume increased from a ratio of 25:75 in 2016, to 95:5 in 2017. This signals a valuable shift in the Company's operations with less focus on clinical business, and significantly increased focus on commercial; and

- The commercialisation of innovative product design and engineering services which amounted to \$1,623,000 for the period. These services were supplied to the Company's major customer and partner, AstraZeneca. It is anticipated that this will be an ongoing revenue stream for Adherium.

Research and development expenses for the six months to 31 December 2017 of \$2,203,000 included:

- Approval in August 2017 by the US FDA of Adherium's 510(k) application for its SmartTouch™ for Symbicort®. This device has been designed for AstraZeneca's Symbicort® medication that is marketed in the US as a pressurised Metered Dose Inhaler (pMDI), as compared with the Turbuhaler™ marketed in most other countries in the world and for which Adherium supplies its SmartTurbo™ device, branded as Turbu+™;
- Following the initial 510(k) approval for SmartTouch™ for Symbicort® the Company submitted an application to extend this approval to over-the-counter (OTC) sales and expects to receive this before the end of FY2018. This involved a number of supporting studies and when granted will further support AstraZeneca's Symbicort® medication sales in the US as well as Adherium's direct to consumer and payer initiatives;
- Adherium gained its US FDA 510(k) approval for its SmartTouch™ device for GlaxoSmithKline (GSK) medications in 2014 and in the current period has been working on an application to extend this approval to an OTC clearance in support the Company's direct to consumer and direct to payer initiatives in the US in H2 2018 and beyond;
- Patent and design applications for protection of the Company's adherence platform technology have been ongoing;
- Further development of our mobile apps (iOS and Android) and cloud software platform, enabling self-enrolment by patients; and
- Continued development of a new SmartTouch™ model (ADR ST19) for an inhaled respiratory drug currently in development and scheduled by the drug's owner for clinical trials in calendar 2018.

Sales and marketing expenses were \$1,506,000 for the period. Following a reorganisation at the end of FY2017, the majority of sales and marketing activities are now based in the US where Adherium is now headquartered in San Mateo, California. Milestones in the period include:

- Appointment of Vik Panda as Vice President of Marketing, with proven experience in direct to consumer online community growth through digital marketing; and
- Launch of our direct to consumer channel pilot in New Zealand and preparation for the US leg of this initiative.

Following the half year end Adherium also appointed Tim Houchin as its Vice President of Sales, primarily responsible for Adherium's US direct to payer channel. Tim is based in the US and joins Adherium with over 20 years US sales experience, including key relationships with insurance carriers. Notably, Tim drove successful enterprise sales at Pebble before it was acquired by Fitbit.

Administrative expenses of \$3,196,000 included a full six months for the key hire, Arik Anderson, as US based Chief Executive, as well as recruitment of the US based Chief Financial Officer role. Non-cash costs in the six months included a share and option compensation credit of \$29,000 due largely to employee share plan reversals following the reorganisation completed during H1 2018 (2016: \$250,000 expense), and depreciation and amortisation expense of \$131,000 (2016: \$122,000).

Cash reserves at 31 December 2017 were \$14,935,000, a net use of \$7,844,000 since 30 June 2017, reflecting the operating activities noted above.

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 2017.

Signed in accordance with a resolution of the Board of Directors

A handwritten signature in black ink, appearing to read 'Thomas Lynch', written in a cursive style.

Mr Thomas Lynch

Non-executive Chairman

Dated this 7th day of February 2018

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the review of Adherium Limited for the six month period ended 31 December 2017, 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.

A handwritten signature in blue ink that reads 'Jonathan Skilton'.

Jonathan Skilton
Partner
PricewaterhouseCoopers

Auckland
7 February 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 31 December 2017

	Notes	Six months 31 Dec 2017 \$000	Six months 31 Dec 2016 \$000
Continuing Operations			
Sales	3	2,661	1,386
Cost of sales		(614)	(722)
Gross profit		2,047	664
Grants income		277	226
Manufacturing support		(559)	(573)
Research and development costs		(2,203)	(1,836)
Sales and marketing costs		(1,506)	(1,442)
Administrative expenses		(3,196)	(2,209)
Operating loss		(5,140)	(5,170)
Interest income		162	362
Interest expense		-	-
Finance income (cost) - net		162	362
Loss before income tax		(4,978)	(4,808)
Income tax expense		-	-
Loss for the period attributable to equity holders		(4,978)	(4,808)
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		(324)	(26)
Other comprehensive income for the period, net of tax		(324)	(26)
Total comprehensive loss for the period		(5,302)	(4,834)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(5,302)	(4,834)
Basic and diluted loss per share	4	2.9 cents	2.9 cents

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position as at 31 December 2017

	Notes	31 Dec 2017 \$000	30 Jun 2017 \$000
ASSETS			
Current assets			
Cash and cash equivalents		14,935	22,779
Trade and other receivables		2,422	826
Inventories		570	726
Prepayments		201	78
Total current assets		18,128	24,409
Non-current assets			
Property, plant and equipment	5	423	417
Intangible assets		218	265
Total assets		18,769	25,091
LIABILITIES			
Current liabilities			
Trade and other payables		1,359	2,382
Income received in advance		36	4
Total current liabilities		1,395	2,386
EQUITY			
Share capital	6	74,278	74,278
Accumulated deficit		(30,798)	(25,820)
Other reserves		(26,106)	(25,753)
Total equity		17,374	22,705
Total liabilities & equity		18,769	25,091

The accompanying notes form part of the financial statements.

Consolidated Statement of Changes in Equity for the six-month period ended 31 December 2017

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 year	-	(4,978)	-	-	-	(4,978)
Other comprehensive income (loss)	-	-	-	(324)	-	(324)
Total comprehensive loss	-	(4,978)	-	(324)	-	(5,302)
<i>Transactions with owners:</i>						
Share grants for services	-	-	(29)	-	-	(29)
Equity as at 31 December 2017	<u>74,278</u>	<u>(30,798)</u>	<u>1,081</u>	<u>348</u>	<u>(27,535)</u>	<u>17,374</u>

Six months to 31 December 2016	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 2016	66,720	(13,010)	632	650	(27,535)	27,457
Loss for the period	-	(4,808)	-	-	-	(4,808)
Other comprehensive income (loss)	-	-	-	(26)	-	(26)
Total comprehensive loss	-	(4,808)	-	(26)	-	(4,834)
<i>Transactions with owners:</i>						
Shares issued in placement	8,023	-	-	-	-	8,023
Share grants for services	-	-	250	-	-	250
Share issue costs	(511)	-	-	-	-	(511)
Equity as at 31 December 2016	<u>74,232</u>	<u>(17,818)</u>	<u>882</u>	<u>624</u>	<u>(27,535)</u>	<u>30,385</u>

The accompanying notes form part of the financial statements.

Consolidated Statement of Cash Flows

for the six-month period ended 31 December 2017

<i>Notes</i>	Six months 31 Dec 2017 \$000	Six months 31 Dec 2016 \$000
Cash flows from operating activities:		
Receipts from customers	1,174	1,607
Receipts from grants	160	-
Interest received	159	330
Resident withholding tax paid	21	(7)
Payments to employees	(4,411)	(3,019)
Payments to suppliers	(4,608)	(3,859)
Net cash used in operating activities	<u>(7,505)</u>	<u>(4,948)</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(118)	(229)
Purchase of intangible assets	(77)	(30)
Net cash used in investing activities	<u>(195)</u>	<u>(259)</u>
Cash flows from financing activities:		
Proceeds from the issue of shares	-	8,023
Payment of capital raising costs	-	(511)
Net cash provided from financing activities	<u>-</u>	<u>7,512</u>
Net increase (decrease) in cash	(7,700)	2,305
Cash at the beginning of the period	22,779	27,211
Effect of exchange rate changes on cash balances	(144)	7
Cash at the end of the period	<u>14,935</u>	<u>29,523</u>

The accompanying notes form part of the financial statements.

Notes to the Financial Statements for the six-month period ended 31 December 2017

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 2017 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 financial report has been prepared on a going concern basis, meaning the Group has the intention to continue its business for the foreseeable future, without the need to significantly curtail activity. The Directors have approved forecasts that indicate the Group can manage its operating requirements beyond 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 secure sufficient cash flows from new revenue streams over the next 12 months and beyond, and/or it can execute plans to reduce costs and/or raise additional capital, represent material uncertainties that cast significant doubt over the Group's ability to continue as a going concern. If revenue forecasts from new sales initiatives are not met over the next 12-24 months, cash reserves could reduce to a level where the Group is unable to meet its obligations in the normal course of business. Despite these uncertainties, the Directors are of the view that the underlying assumptions in forecasting the performance and cash flows of the Group for the next year are reasonable and adoption of the going concern basis is appropriate from the date of approval of these financial statements.

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 2017 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 2017. Adherium has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to Adherium's accounting policies and had no effect on the amounts reported for the current or prior periods.

2. Segment information

The chief operating decision maker is the Group Chief Executive Officer, 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 2017 comprised \$1,038,000 for device sales and monitoring services (December 2016: \$1,386,000) and \$1,623,000 for new product design and engineering services (December 2016: \$nil).

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 and the convertible notes) 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 2017 \$000	Six months 31 Dec 2016 \$000
Profit (loss) after income tax attributable to equity holders	(4,978)	(4,808)
Weighted average shares outstanding (basic)	172,701,814	167,003,908
Weighted average shares outstanding (diluted)	172,701,814	167,003,908
Basic and diluted loss per share	2.9 cents	2.9 cents

5. Property, plant and equipment

During the period, the Group acquired assets with a cost of \$127,000 (2016: \$321,000) mainly in relation to manufacturing related tooling and computer equipment.

6. Share Capital

	Ordinary Shares	\$000
Share capital as at 30 June 2016	151,219,925	66,720
Shares issued in placement	16,046,097	8,023
Share issue costs	-	(511)
Shares issued in employee share plans	4,797,095	-
Cancellation of shares issued in employee share plan	(708,383)	-
Shares issued on option exercise	494,458	46
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	(954,329)	-
Share capital as at 31 December 2017	173,926,935	74,278

7. Related party transactions

Details of all related party transactions have been disclosed in the annual report for the year ended 30 June 2017. There have been no other new significant related party transactions during the interim period to 31 December 2017.

8. Contingencies and commitments

The Company had no contingencies or commitments to purchase any property, plant or equipment at 31 December 2017 (June 2016: nil).

In November 2015, 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 2017 \$000	30 Jun 2017 \$000
Not later than one year	356	373
Later than one year and not later than five years	747	973
Later than five years	-	-
	1,103	1,346

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 12 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 2017 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 Thomas Lynch
Non-executive Chairman

Dated this 7th day of February 2018

Independent Auditor's Review Report



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

Report on the Interim Consolidated Financial Report

We have reviewed the accompanying interim consolidated financial report of Adherium Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period ended on that date, selected explanatory notes and the directors' declaration for Adherium Limited (the consolidated entity). The consolidated entity comprises both the Company and the entities it controlled from time to time (the Group) during the six month period.

Directors' responsibility for the interim consolidated financial report

The directors of the Company are responsible for the preparation of the interim consolidated financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim 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 interim consolidated financial report based on our review. We conducted our review in accordance with 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the six month period 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 an interim 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



Material uncertainty related to going concern

Without modifying our opinion, we draw attention to Note 1 of the Basis of Preparation within the interim consolidated financial report, which indicates the Group incurred a net loss of \$4,978,000 (2016: \$4,808,000) and operating cash outflows of \$7,505,000 (2016: \$4,948,000) during the six month period ended 31 December 2017. The cash balance at 31 December 2017 was \$14,935,000 (30 June 2017: \$22,779,000).

The Group's ability to continue as a going concern is dependent on its ability to fund its operations until such time as it can secure sufficient cash flows from new revenue streams. If the Group is unable to secure sufficient cash flows from these new revenue streams over the next 12 months, and/or it cannot execute other plans to reduce costs, and/or raise additional capital, cash reserves could reduce to a level where the Group is unable to meet its obligations as they fall due, after that period.

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.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the six month period ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'Jonathan Skilton'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'Jonathan Skilton'.

Jonathan Skilton
Partner

Auckland
7 February 2018

