

Adherium Limited

ABN 24 605 352 510

Appendix 4D

Interim Consolidated Financial Report for the six months ended 31 December 2020

1. Adherium Limited ("Adherium", the "Company" or the "Group") presents this financial report, including the interim financial statements, for the six months ended 31 December 2020.
2. **Results for announcement to the market**

	6 months ended 31 Dec 2020 \$'000	6 months ended 31 Dec 2019 \$'000	% Change
2.1 Operating revenue	243	1,415	(83)%
2.2 Loss after tax from ordinary activities	(8,579)	(4,481)	(91)%
2.3 Net loss from ordinary activities	(8,579)	(4,481)	(91)%
2.4 Dividends and franked amount per security	nil	nil	n/a
2.5 Dividend record date	n/a	n/a	n/a
2.6 Explanation of results:			
Please refer to the Review of Operations in the Directors' Report contained in the attached Interim Consolidated Financial Report for the six months ended 31 December 2020.			

The information required by ASX listing rule 4.2A is contained in both this Appendix 4D and the attached interim consolidated financial report. The interim information should be read in conjunction with the most recent annual financial report.

+ See chapter 19 for defined terms.

3. Net Tangible Assets per Security

	<u>Current period</u>	<u>Comparative period</u>
Net tangible assets per share	\$(0.003)	\$ (0.020)

4. Entities over which control has been gained or lost during the period:

Not applicable.

5. Details of dividends

Not applicable.

6. Details of dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

None.

⁺ See chapter 19 for defined terms.



Interim Consolidated Financial Report

for the six months ended 31 December 2020

Corporate Information

ASX code: ADR

Directors

Mr James Ward-Lilley (Chairman)
Mr Jeremy Curnock Cook
Dr William Hunter
Mr Bruce McHarrie
Mr Matt McNamara
Mr Mike Motion (CEO)

Joint Company Secretaries

Mr Rob Turnbull
Mr Mark Licciardo

Registered Office

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Auckland 1010, New Zealand
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Share Registry

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

Solicitors

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

Auditors

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

Website

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Shareholder Enquiries

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 2020, together with the independent auditor's report thereon.

Directors

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

	Appointed	Resigned
Mr James Ward-Lilley (Chairman)	14 April 2020	
Mr Jeremy Curnock Cook	17 April 2015 (incorporation)	
Dr William Hunter	17 December 2015	
Mr Bruce McHarrie	20 July 2015	
Mr Matt McNamara	18 October 2019	
Mr Mike Motion (CEO)	24 April 2020	
Mr Bryan Mogridge	20 July 2015	29 January 2021

Review of Operations

Throughout the six-month period to the 31 December 2020 Adherium continued to execute its revised strategy and initiated discussions to explore potential future funding arrangements, including new partners. Adherium also continued to make progress in rolling out the US Hailie® program despite challenges related to hospital and patient access due to the impact of the US COVID-19 situation, which also saw a delay in expected clinical trial activity all leading to a decrease in revenues from \$1,415,000 in 2019 to \$243,000 in the period to 31 December 2020.

In October 2020 Adherium secured funding support from Viburnum Funds, a Perth based investment firm with A\$750 million under management. Viburnum provided a \$3,000,000 secured convertible note allowing Adherium to explore potential future funding arrangements with new potential partners including CDMO pharma and device companies, telehealth virtual care and medical device companies to complete Adherium's planned sensor and software development and initial commercialisation. Discussions with these potential partners across a range of sectors and geographies i.e. US, UK, Australia, is ongoing with a particular focus on partners who can bring capital, complementary assets and/or capabilities to the relationship. The aim is to accelerate the market delivery of Adherium's core Hailie® sensor technology and software platform, allowing US physicians to access reimbursement, meeting the respiratory leadership opportunity that exists today and driving a step change in the growth rate of Adherium.

Interest in telehealth and remote patient monitoring remains high driven by a positive reimbursement environment in many regions and from the necessity to protect patients and healthcare systems during the COVID-19 pandemic. Healthcare Systems, hospitals and commercial insurers in the US, Canada and the UK have made several unsolicited approaches to Adherium looking to evaluate the Hailie® solution as part of their coverage of patients with respiratory disease (Asthma and Chronic Obstructive Pulmonary Disease, COPD). Pending further discussions our goal is to establish the framework for pilot programs within their patient populations in the second and third quarter of calendar year 2021.

Research and development costs in the period were \$3,512,000 (2019: \$1,830,000). Having secured \$5,000,000 of funding from BioScience Managers Translation Fund 1 received in two tranches - \$3,128,000 in June 2020 and \$1,872,000 in September 2020 - with the express objective to accelerate the development of Adherium's sensor device portfolio and software platform through internal and external partners in Australia, significant progress has been made. Adherium made the important decision to centralise the Hailie® portal to a single platform on Microsoft Azure with a highly scalable and robust secure cloud architecture, increasing the scope for improved functionality, capacity, and new capabilities. The improved system architecture allows the addition of third-party devices to the Hailie® platform, enabling the planned creation of a digital ecosystem of devices and data management tools enhancing the future capture of additional clinical data, and supporting remote monitoring and access to reimbursement for physicians in the US. We have validated this approach with a number of key opinion leaders who have prioritised in terms of clinical importance the data sets required for safe and effective remote management of Asthma and COPD patients. On that basis we have also initiated discussions with leading device manufacturers for the integration of "partnership" devices in the fourth quarter of financial year 2021.

In the sensor program, devices upgraded to incorporate physiological measures will be released later in calendar year 2021, ensuring the Adherium portfolio covers most Asthma and COPD inhalers in the market. This increased coverage allows doctors to prescribe the best possible combination of medications to their patients whilst gaining access to the data generated on the Hailie® platform.

Administrative expenses were \$3,921,000 compared with \$1,706,000 in the comparative period, the increase largely due to:

- an additional \$1,202,000 non-cash foreign exchange loss on inter-group loans in the 2020 period (offset by a corresponding gain on foreign group investments in equity), and
- additional staffing costs related to new hires.

Cash at 31 December 2020 was \$3,460,000, a net use of \$1,124,000 since 30 June 2020. As previously noted, Adherium is actively engaged in finalising funding from existing shareholders, new investors and potential future funding arrangements with new potential partners including CDMO pharma and device companies, telehealth virtual care and medical device companies who can bring capital, complementary assets and/or capabilities to the relationship, accelerating the market delivery of Adherium's core Hailie® sensor technology and software platform.

Events subsequent to balance date

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

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 2020.

Signed in accordance with a resolution of the Board of Directors

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line and a loop.

Mr J Ward-Lilley

Chairman

Dated this 25th day of February 2021

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the review of Adherium Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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 black ink, appearing to read 'SW', with a long, flowing horizontal stroke extending to the right.

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
25 February 2021

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 31 December 2020

	Notes	Six months 31 Dec 2020 \$000	Six months 31 Dec 2019 \$000
Continuing Operations			
Sales	3	243	1,415
Cost of sales		(204)	(418)
Gross profit		39	997
Other income		61	-
Manufacturing support		(425)	(319)
Research and development costs		(3,512)	(1,830)
Sales and marketing costs		(545)	(676)
Administrative expenses		(3,921)	(1,706)
Operating loss		(8,303)	(3,534)
Finance income (cost) - net	4	(276)	(947)
Loss before income tax		(8,579)	(4,481)
Income tax expense		-	-
Loss for the period attributable to equity holders		(8,579)	(4,481)
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			
		1,253	(150)
Other comprehensive income for the period, net of tax		1,253	(150)
Total comprehensive loss for the period		(7,326)	(4,631)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(7,326)	(4,631)
Basic and diluted loss per share	5	(1.3) cents	(2.6) cents

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position as at 31 December 2020

	Notes	31 Dec 2020 \$000	30 Jun 2020 \$000
ASSETS			
Current assets			
Cash and cash equivalents		3,460	4,584
Trade and other receivables		415	624
Inventories		1,094	1,120
Prepayments		427	150
Total current assets		5,396	6,478
Non-current assets			
Property, plant and equipment	6	172	235
Intangible assets		4	5
Total assets		5,572	6,718
LIABILITIES			
Current liabilities			
Trade and other payables		3,497	2,646
Income received in advance		689	688
Secured convertible notes	7	3,286	-
Total current liabilities		7,472	3,334
EQUITY			
Share capital	8	88,726	87,682
Accumulated deficit		(66,928)	(58,349)
Other reserves		(23,698)	(25,949)
Total equity		(1,900)	3,384
Total liabilities & equity		5,572	6,718

The accompanying notes form part of the financial statements.

Consolidated Statement of Changes in Equity for the six-month period ended 31 December 2020

Six months to 31 December 2020	Share Capital \$000	Accumulated Deficit \$000	Share & Option Reserve \$000	Foreign Currency Translation Reserve \$000	Merger Reserve \$000	Total Equity \$000
Equity as at 1 July 2020	87,682	(58,349)	1,837	(251)	(27,535)	3,384
Loss for the period	-	(8,579)	-	-	-	(8,579)
Other comprehensive income (loss)	-	-	-	1,253	-	1,253
Total comprehensive loss	-	(8,579)	-	1,253	-	(7,326)
<i>Transactions with owners:</i>						
Shares and options issued in placement	1,014	-	858	-	-	1,872
Share and option issue costs	(25)	-	-	-	-	(25)
Share and option grants for services	55	-	140	-	-	195
Equity as at 31 December 2020	88,726	(66,928)	2,835	1,002	(27,535)	(1,900)

Six months to 31 December 2019	Share Capital \$000	Accumulated Deficit \$000	Share & Option Reserve \$000	Foreign Currency Translation Reserve \$000	Merger Reserve \$000	Total Equity \$000
Equity as at 1 July 2019	74,349	(46,952)	1,010	(42)	(27,535)	830
Loss for the period	-	(4,481)	-	-	-	(4,481)
Other comprehensive income (loss)	-	-	-	(150)	-	(150)
Total comprehensive loss	-	(4,481)	-	(150)	-	(4,631)
<i>Transactions with owners:</i>						
Share grants for services	161	-	99	-	-	260
Equity as at 31 December 2019	74,510	(51,433)	1,109	(192)	(27,535)	(3,541)

The accompanying notes form part of the financial statements.

Consolidated Statement of Cash Flows

for the six-month period ended 31 December 2020

	Notes	Six months 31 Dec 2020 \$000	Six months 31 Dec 2019 \$000
Cash flows from operating activities:			
Receipts from customers		491	1,524
Interest received		11	3
Payments to employees		(1,988)	(1,172)
Payments to suppliers		(4,306)	(3,509)
Net cash used in operating activities		(5,792)	(3,154)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(3)	(72)
Net cash used in investing activities		(3)	(72)
Cash flows from financing activities:			
Proceeds from issue of shares and options		1,872	-
Proceeds from issue of Secured Debt Notes		3,000	2,926
Payment of capital and debt issue costs		(193)	-
Net cash provided from financing activities		4,679	2,926
Net increase (decrease) in cash		(1,116)	(300)
Cash at the beginning of the period		4,584	763
Effect of exchange rate changes on cash balances		(8)	(85)
Cash at the end of the period		3,460	378

The accompanying notes form part of the financial statements.

Notes to the Financial Statements for the six-month period ended 31 December 2020

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 2020 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.

As of December 31, 2020, the Group had net cash of \$3,460,000 (2019: \$378,000), recorded a loss before tax of \$8,579,000 (2019: \$4,461,000) and operating cash outflows of \$5,792,000 (2019: \$3,154,000) for the six months then ended.

The Directors have approved cash flow forecasts. These forecasts indicate in order for the Group to meet its operating requirements for the 12 months from the date of authorisation of these financial statements, the Group must raise additional capital or alternative funding. The cash flow forecast indicates this additional funding would be required by the end of calendar year 2021.

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.

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 2020 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 2020 unless otherwise stated.

New accounting standards adopted during the period

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.

2. Segment information

The chief operating decision maker is the 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 Halie® respiratory monitoring business.

3. Revenue

Revenue in the six months to 31 December 2020 comprised \$136,000 for device sales and monitoring services (December 2019: \$900,000) and \$107,000 for new product design and engineering services (December 2019: \$515,000).

4. Finance income (expense)

	Six months 31 Dec 2020 \$000	Six months 31 Dec 2019 \$000
Interest received	10	3
Finance expense on Secured Convertible Notes	(178)	(1,512)
Fair value gain (loss) on Notes conversion features	(108)	562
	<u>(276)</u>	<u>(947)</u>

5. 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 and 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 2020 \$000	Six months 31 Dec 2019 \$000
Profit (loss) after income tax attributable to equity holders	(8,579)	(4,481)
Weighted average shares outstanding (basic)	653,701,280	175,023,407
Weighted average shares outstanding (diluted)	653,701,280	175,023,047
Basic and diluted loss per share	(1.3) cents	(2.6) cents

6. Property, plant and equipment

During the period, the Group acquired assets with a cost of \$3,000 (2019: \$17,000) in relation to computer equipment.

7. Secured Convertible Notes

During the period to 31 December 2020 the Company issued Secured Debt Notes with a face value of \$3,000,000, an interest rate of 9% per annum, and maturity date of 25 October 2022. The terms of the Notes include conversion features, which allow 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 Notes were accounted for as two separate liability components from their issue dates - the debt portion recorded at amortised cost and the embedded derivative conversion option recorded at fair value.

In accounting for the debt portion of the Notes, settlement is assumed to take place on 25 October 2022 with interest accruing at 9% per annum to that date. At 31 December 2020 the carrying value of the Notes debt component at amortised cost was \$1,799,000.

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. The fair value of the embedded derivative conversion option as at 31 December 2020 was estimated at \$1,486,000.

8. Share Capital

	Ordinary Shares	\$000
Share capital as at 1 July 2019	167,015,351	74,349
Shares issued in employee share plans	7,016,635	-
Shares issued in Non-renounceable Rights Issue	179,723,413	5,392
Shares issued on conversion of Convertible Notes	137,597,321	4,816
Shares issued in placement	104,261,036	3,128
Shares issued for services	6,292,578	177
Share issue costs	-	(180)
Share capital as at 30 June 2020	601,906,334	87,682
Shares issued in employee share plans	13,250,000	-
Shares issued in placement	62,405,631	1,014
Share and option grants for services	2,034,046	55
Share and option issue costs	-	(25)
Share capital as at 31 December 2020	679,596,011	88,726

9. Related party transactions

The nature of related party transactions the Group enters into is disclosed in the annual report for the year ended 30 June 2020. There have been no other new significant related party transactions during the interim period to 31 December 2020.

10. Contingencies and commitments

The Company had no contingencies or commitments to purchase any property, plant or equipment at 31 December 2020 (June 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.

	31 Dec 2020 \$000	30 Jun 2020 \$000
Not later than one year	40	47
Later than one year and not later than five years	-	-
Later than five years	-	-
	40	47

11. 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 2020 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

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line and a large loop at the end.

Mr J Ward-Lilley
Chairman

Dated this 25th day of February 2021

Independent Auditor's Review Report



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

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Adherium Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of management for the half-year financial report

Management is responsible for the preparation of the half-year 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 management determines is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that

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Independent Auditor's Review Report



the half-year 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 2020 and of 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*.

A review of a half-year 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.

Material uncertainty related to going concern

We draw attention to Note 1 of the half-year financial report, which indicates the Group incurred a loss before tax of \$8,579,000 (2019: \$4,481,000) and operating cash outflows of \$5,792,000 (2019: \$3,154,000) for the half-year ended 31 December 2020.

The Group's ability to continue as a going concern is dependent on whether the Group can raise additional capital until the Group is supported by cash flows from operations. 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.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A stylized, handwritten signature of 'Scott Walsh' in a cursive script.

Scott Walsh
Partner

Sydney
25 February 2021

