



**InhaleRx Limited**

**ACN 611 845 820**

**(Formerly Lifespot Health Ltd)**

**Annual Report - 31 December 2021**

**InhaleRx Limited**  
**Corporate directory**  
**31 December 2021**

|                                |                                                                                                                                                                                                                                                                            |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Directors                      | Sean Williams (appointed 26th July 2021)<br>Darryl Davies (appointed 20th July 2021)<br>Andrew Saich (appointed 20th July 2021)<br>Francesco Cannavo (resigned 20th July 2021)<br>Rodney Hannington (resigned 26th July 2021)<br>Justyn Stedwell (resigned 20th July 2021) |
| Company secretary              | Nova Taylor<br>Elizabeth Spooner (appointed 12th July 2021)                                                                                                                                                                                                                |
| Registered office              | Level 5<br>126 Phillip Street, Sydney NSW 2000<br>Ph : 03 8395 5446                                                                                                                                                                                                        |
| Principal place of business    | Level 5<br>126 Phillip Street, Sydney NSW 2000                                                                                                                                                                                                                             |
| Share register                 | Automic Legal Pty Ltd<br>Level 5<br>126 Phillip Street, Sydney NSW 2000<br>Ph : 03 9415 5000                                                                                                                                                                               |
| Auditor                        | HLB Mann Judd (Vic Partnership)<br>Level 9<br>575 Bourke Street<br>Melbourne VIC 3000                                                                                                                                                                                      |
| Stock exchange listing         | InhaleRx Limited shares are listed on the Australian Securities Exchange (ASX code: IRX)                                                                                                                                                                                   |
| Corporate Governance Statement | Refer to <a href="http://inhalerx.com.au">inhalerx.com.au</a>                                                                                                                                                                                                              |

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present the Annual Report of InhaleRx Limited (**IRX** or **Company**) for the financial year ended 31 December 2021.

2021 was a year of substantial change for our Company during which the Company's strategy and focus were refined towards developing inhalation medicinal therapies. This refinement in focus was accompanied by a change in the composition of our Board in July 2021 and a change in the Company's name from Lifespot Health Limited to InhaleRx Limited on 6<sup>th</sup> October 2021. The new Board brings with it a wealth of experience in developing and marketing medicinal cannabis devices and medicines, as well as corporate governance and management expertise.

Aside from the continued marketing focus on the Medihale inhalation device, during the year the Company began working on developing a range of inhaled therapeutic medicinal formulations for registration domestically and internationally. IRX is currently in the process of developing formulations for the treatment of chronic regional pain syndrome (**CRPS**) and panic disorder (**PD**) and is in the process of opening Investigational New Drug applications (**IND's**) with the US Food & Drug Administration (**FDA**) for each formulation.

CRPS is a form of chronic pain that usually affects an arm or a leg. CRPS typically develops after an injury, a surgery, a stroke or a heart attack. The pain is out of proportion to the severity of the initial injury. CRPS is a significant cause of disability globally. No drugs have been specifically approved for CRPS and patients often resort to a combination of opioids, lyrica and atypical antidepressants. There remains a significant need for additional therapies to improve the therapeutic outcome for these patients as the sudden onset of pain and time to analgesic effect from current treatments is mismatched.

PD refers to the experience of recurrent and disabling panic attacks which last up to a few minutes and are accompanied by physical symptoms such as heart palpitations, shaking, shortness of breath, and dizziness. There are currently no effective treatments for PD with sufferers forced to rely on atypical antidepressants (SSRI), sedatives (benzodiazapines) and anti-convulsants (gabapentin).

IRX has developed novel drug device combinations of THC (CRPS) and CBD (PD) in pressurised metered dose inhalers (**PMDI**) for rapid onset symptomatic relief.

Each novel drug device combination is designed to treat individuals with CRPS and PD respectively with the following aims:

- Faster onset pain relief and relief from panic attacks;
- Reduce concomitant opioid and anti-depressant usage; and
- More convenient alternative to inhaling heated THC or CBD.

It is envisaged that these solutions will help to improve the quality of life of CRPS and PD sufferers. Furthermore, the novel drug device combination will improve the administrative efficiency and dose metering compared to smoking, vaping or oral administration of cannabinoids.

IRX has recently been granted the necessary wholesale licenses to allow it to commence sourcing and wholesaling medicinal cannabinoid medications for use in clinical trials. In addition, the Company can also now apply for the necessary import/export licenses which will allow the procurement of Cannabidiol (CBD) and Dronabinol (THC) which are required for each of its planned clinical trial programmes without the need to involve third-parties. The receipt of these licences also creates possibilities for new product development and associated revenue streams.

The financial loss for the consolidated entity after providing for income tax and non-controlling interests amounted to \$1,111,129, down 7.8% compared to previous period (31 December 2020: \$1,205,276).

Revenue from the sale of Medihale vaping devices and pods was \$167,301 for the 2021 year versus \$12,557 in 2020. A recent renewed focus on business development has generated significant interest from potential 'white label' partners in Australia and New Zealand and the Company is currently considering a range of opportunities to increase the market penetration of its Medihale device.

The winding-up of IRX's German subsidiaries is nearing completion with these entities having ceased operations in 2020.

**InhaleRx Limited**  
**Chairman's letter**  
**31 December 2021**

In 2021, the Company continued to attract new investors who are aligned with its re-focus on medicinal cannabis, with Ela Capital joining the share register in January. During the year, the company issued 33,693,464 ordinary shares to raise \$2,358,172. The costs associated with the capital raised for the year were \$13,769.

On 24<sup>th</sup> December 2021, our CEO Matthew Golden resigned from his position with the Company, with Mr Darryl Davies assuming the role of Executive Director. Darryl has brought immediate energy and focus to both the marketing of our Medihale vapes and pods and the clinical development pathway for our medicinal cannabis formulations, by leveraging his deep knowledge of the local medicinal cannabis products and markets and his strong background in project management.

With a continued focus on disciplined cost management and the refinement of our Company strategy, we are now well placed for the execution of our plans for 2022, which we expect will see the commencement of clinical trials for our CPRS and PD medicinal cannabis formulations and the continued growth of Medihale device and pod sales.

Finally, I would like to thank our shareholders for their support over the year. Your Board looks forward to an exciting and productive 2022 and to keeping everyone informed of developments as they occur.



Sean Williams  
Chairman

**InhaleRx Limited**  
**Directors' report**  
**31 December 2021**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of InhaleRx Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2021.

**Directors**

The following persons were directors of InhaleRx Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Sean Williams – Non-Executive Chairman (appointed 26th July 2021)  
Darryl Davies – Executive Director (appointed 20th July 2021)  
Andrew Saich – Non-Executive Director (appointed 20th July 2021)  
Rodney Harrington - Non-Executive Chairman (resigned 26th July 2021)  
Francesco Cannavo - Non-Executive Director (resigned 20th July 2021)  
Justyn Stedwell - Non-Executive Director (resigned 20th July 2021)

**Principal activities**

The principal activities of the consolidated entity during the period were focused on developing and commercializing medical drug delivery systems and the development of registrable drug formulations for the medical cannabis sector. The consolidated entity's devices and drug formulations aim to bring fast, safe and effective relief to suffers of pain and anxiety related illnesses.

**Our Business Model and Objectives**

The consolidated entity's strategy is to continue to develop and commercialise its integrated cannabis inhaler systems in Australia and New Zealand and to develop registerable novel medicinal cannabis drug formulations for the treatment of illnesses for which there is currently no effective treatments.

The consolidated entity's objective is to deliver increases in shareholder value, by delivering against the key elements of the strategy and business model.

There is a clear orientation towards growing the existing businesses within the consolidated entity, however, a disciplined approach to evaluating other investment opportunities will be maintained.

**Dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Review of operations**

The loss for the consolidated entity after providing for income tax amounted to \$1,111,129 (31 December 2020: \$1,205,276).

At 31 December 2021, the consolidated entity had cash and cash equivalents of \$2,803,480 (2020: \$1,719,479), a net working capital surplus of \$2,654,567 (2020: \$1,319,618) and overall net assets of \$2,677,844 (2020: \$1,323,920).

Refer to the Chairman's letter that comes directly before this Directors' Report.

**Significant changes in the state of affairs**

During the year, the company issued 33,693,464 ordinary shares to raise \$2,358,542. The costs associated with the capital raised for the year were \$13,139. Further details of shares issued during the year are outlined in note 13 to the financial statements.

Messrs Stedwell and Cannavo resigned as non-executive directors of the company on 20<sup>th</sup> July 2021 and were replaced by Messrs Davies and Saich.

Mr Harrington resigned as a director on 26<sup>th</sup> July 2021 and was replaced by Mr Williams, who assumed the role of Non-executive Chairman.

On 6<sup>th</sup> October 2021, the Company changed its name to InhaleRx Limited after shareholder approval was received at an Extraordinary General Meeting held on 15<sup>th</sup> September 2021.

On 24<sup>th</sup> December 2021, the Company's Chief Executive Officer, Mr Mathew Golden resigned from his position, with Mr Davies assuming the role of executive director and the responsibility for the operations of the Company.

### **Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### **Likely developments and expected results of operations**

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

### **Environmental regulation**

Due to the nature of legalisation of Medical and Recreational Cannabis the company continues to monitor the fast-changing regulatory environment and is well poised to pursue new markets as the regulatory environments change. The consolidated entity's operations are not affected by other environmental regulation.

### **Information on directors**

|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:                                | Sean Williams                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Title:                               | Non-Executive Chairman (appointed 26 <sup>th</sup> July 2021)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Qualifications:                      | Sean graduated from Swinburne University with a Bachelor's Degree in Business (accounting) and was admitted to the Institute of Chartered Accountants in Australia and New Zealand in 1993.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Experience and expertise:            | Sean has over 30 years experience in senior executive and finance roles across the pharmaceutical, healthcare, investment management and supply chain sectors. Having commenced his career with an international accounting firm, Sean has held a number of senior roles including General Manager, Finance for Symbion Pharmacy (Australia's largest pharmaceutical wholesaler). He also headed up Symbion's market leading hospital pharmacy and dental divisions and was responsible for Independent Pharmacy Solutions (a short-line wholesale business). Sean has worked as an investment director in private equity and as a senior executive in private equity backed ventures. He has also led management buy-outs and been involved in founding start-up businesses within the supply chain sector. Most recently, Sean was CEO of a \$500m investment management business specialising in Australian agricultural investments. |
| Other current directorships:         | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Former directorships (last 3 years): | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Interests in shares:                 | 200,000 fully paid ordinary shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Interests in options:                | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Name:                                | Darryl Davies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Title:                               | Executive Director (appointed 20 <sup>th</sup> July 2021)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Experience and expertise:            | Darryl has over 15 years experience in psychology, healthcare and harm minimisation. He has a background in substance misuse treatment and social work, and has experience in scaling up a wellness device start-up before entering the medicinal cannabis industry in 2017. Darryl co-founded private medicinal cannabis service provider, Cannvalate Pty Ltd - best known for award-winning patient access programs, end-to-end distribution solutions and its cannabinoid and psychedelic Clinical Research Organisation. Cannvalate Pty Ltd is a substantial shareholder of IRX and currently holds an interest in 19.9% of the shares of the Company.                                                                                                                                                                                                                                                                               |
| Other current directorships:         | Greenfern Industries Limited (NZX : GFI)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Former directorships (last 3 years): | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Interests in shares:                 | 33,524,924 (held indirectly by Cannvalate Pty Ltd)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Interests in options:                | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

**InhaleRx Limited**  
**Directors' report**  
**31 December 2021**

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|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:                                | Andrew Saich                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Title:                               | Non-Executive Director (appointed 20 <sup>th</sup> July 2020)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Qualifications:                      | Andrew is a UK trained physician with a degree in physiology and a degree in medicine from the University of London, who completed his post-graduate Royal College of Physicians examinations and specialised in Emergency Medicine.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Experience and expertise:            | Andrew joined the medicinal cannabis industry 15 years ago, has worked in both large and small pharmaceutical companies and has extensive experience of international management, medicines commercialisation and pharmaceutical R&D. Andrew is currently Chief Medical Officer of Return Health, a US based biotech company developing novel psychedelic treatments for patients with dementia and a co-founder of Diligenc. Capital, a cannabinoid prescription medicines investment group and Diligenc. Pathways, a consultancy comprising senior cannabinoid specialists from the ex-GW Pharmaceuticals team. In 2016 Andrew created and led the GW Pharmaceuticals International Medical organisation in preparation for the launch of Epidyolex (cannabidiol) for the treatment of rare and debilitating drug resistant epilepsies. GW Pharmaceuticals (recently acquired by Jazz Pharmaceuticals) was the world leader in the development of cannabinoid medicines and Andrew was a senior member of the international management team, the strategic launch team, the Clinical Development Committee and the Corporate Drug Safety team. |
| Other current directorships:         | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Former directorships (last 3 years): | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Interests in shares:                 | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Interests in options:                | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Name:                                | Rodney Hannington                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Title:                               | Non-Executive Chairman (resigned 26 <sup>th</sup> July 2021)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Qualifications:                      | Rodney graduated from Monash University with a Bachelor's Degree in Marketing.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Experience and expertise:            | Rodney has been working in marketing and strategy services in consumer health and fast moving consumer goods in Asia Pacific for over 15 years. He has valuable international experience in Australia, China, Japan, South Korea and South East Asia, Middle East / Africa, Russia and Ukraine markets. Working and consulting with leading Consulting firms in Asia, Mondelez and Novartis and living in Australia, China and Singapore, he has developed extensive experience with a strong network in the health and food industries. He is a strategic and innovative consumer health marketer with deep experience in China and Australia. He has led and been a part of several significant company acquisitions and new product launches in China and Australia as a board member, consultant and employee. He has strong interpersonal skills with broad cultural experience dealing with diverse cross-functional teams.                                                                                                                                                                                                                |
| Other current directorships:         | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Former directorships (last 3 years): | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Interests in shares:                 | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Interests in options:                | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Name:                                | Francesco Cannavo                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Title:                               | Non-Executive Director (resigned 20 <sup>th</sup> July 2021)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Experience and expertise:            | Francesco Cannavo is an experienced public company director with significant business and investment experience working with companies operating across various industries, and has been instrumental in assisting several listed and unlisted companies achieve their growth strategies through the raising of investment capital and the acquisition of assets. Francesco is an entrepreneur with a strong network of investors and industry contacts in the public company sector throughout the Asia-Pacific region and has extensive experience in capital raisings, investment activities and IPO's.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Other current directorships:         | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Former directorships (last 3 years): | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Interests in shares:                 | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Interests in options:                | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

**InhaleRx Limited**  
**Directors' report**  
**31 December 2021**

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|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name:                                | Justyn Stedwell                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Title:                               | Non-Executive Director (resigned 20th July 2021)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Experience and expertise:            | Justyn Stedwell has almost 15 years' experience as a Company Secretary of ASX-listed companies in a wide range of industries including biotechnology, agriculture, mining and exploration, information technology and telecommunications. Justyn's qualifications include a Bachelor of Commerce (Economics and Management) from Monash University, a Graduate Diploma of Accounting at Deakin University and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. He is currently Company Secretary of several ASX-listed companies. |
| Other current directorships:         | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Former directorships (last 3 years): | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Interests in shares:                 | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Interests in options:                | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

**Company secretaries**

On 4<sup>th</sup> January 2021, Ms Nova Taylor was appointed as company secretary replacing Justyn Stedwell, who continued as a non-executive director until 20<sup>th</sup> July 2021. Nova has 5 years experience working in company secretary and assistant company secretary roles for listed entities. She previously worked for Computershare Investor Services Pty Ltd in various roles for 10 years and has a Bachelor of Law from Deakin University.

Ms Elizabeth Spooner was appointed joint company secretary on 12<sup>th</sup> July 2021. Ms Spooner is an experienced governance and compliance professional who has worked closely with a number of boards of listed and unlisted public companies. She holds a double degree in Bachelor of Business Administration and Bachelor of Arts (Human Resources) and a Graduate Diploma of Applied Corporate Governance from the Governance Institute.

**Meetings of directors**

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 31 December 2021, and the number of meetings attended by each director were:

|                   | Full Board<br>Attended | Held |
|-------------------|------------------------|------|
| Rodney Hannington | 8                      | 8    |
| Francesco Cannavo | 8                      | 8    |
| Justyn Stedwell   | 8                      | 8    |
| Sean Williams     | 5                      | 5    |
| Darry Davies      | 5                      | 5    |
| Andrew Saich      | 5                      | 5    |

Held: represents the number of meetings held during the time the director held office.

**Remuneration report (audited)**

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

***Principles used to determine the nature and amount of remuneration***

The remuneration policy of InhaleRx Ltd has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The Board of InhaleRx Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the consolidated entity, as well as creating goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the consolidated entity is as follows:

- The remuneration policy is to be developed by the Board;
- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives;
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- The Board reviews KMP packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board which performs the functions and responsibilities of the Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives.

The performance of KMP is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP do not receive any other retirement benefits other than any applicable statutory superannuation.

Upon retirement, KMP are paid employee benefit entitlements accrued to the date of retirement.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 30 May 2017, where the shareholders approved a maximum annual aggregate remuneration of \$300,000.

#### *Executive remuneration*

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has three components:

- base pay and non-monetary benefits
- short-term performance incentives
- other remuneration such as superannuation and long service leave

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

#### *Performance-based remuneration*

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the consolidated entity and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the consolidated entity's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, the company bases the assessment on audited figures; however, where the KPI involves comparison of the consolidated entity, or a division within the consolidated entity, to the market, independent reports are obtained from organisations such as Standard & Poor's.

#### *Consolidated entity performance and link to remuneration*

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The method applied to achieve this aim, was a performance-based bonus based on KPIs. The company believes this policy will be effective in increasing shareholder wealth.

#### *Use of remuneration consultants*

No remuneration consultant was engaged to assess remuneration this period.

Voting and comments made at the company's 2020 Annual General Meeting ('AGM')

At the 30<sup>th</sup> July 2021 AGM, 82.04% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020.

#### **Details of remuneration**

##### *Amounts of remuneration*

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

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**Directors' report**  
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|                                        | Short-term benefits  |            |              | Post-employment benefits | Post employment benefits | Share-based payments |         |
|----------------------------------------|----------------------|------------|--------------|--------------------------|--------------------------|----------------------|---------|
|                                        | Cash salary and fees | Cash bonus | Non-monetary | Super-annuation          | Termination              | Equity-settled       | Total   |
| <b>2021</b>                            | \$                   | \$         | \$           | \$                       | \$                       | \$                   | \$      |
| <i>Non-Executive Directors:</i>        |                      |            |              |                          |                          |                      |         |
| R Hannington                           | 49,182               | -          | -            | -                        | -                        | -                    | 49,182  |
| F Cannavo                              | 31,942               | -          | -            | -                        | -                        | -                    | 31,942  |
| J Stedwell                             | 23,193               | -          | -            | -                        | -                        | -                    | 23,193  |
| S Williams                             | 37,851               | -          | -            | -                        | -                        | -                    | 37,851  |
| D Davies                               | 23,463               | -          | -            | -                        | -                        | -                    | 23,463  |
| A Saich                                | 18,750               | -          | -            | -                        | -                        | -                    | 18,750  |
| <i>Other Key Management Personnel:</i> |                      |            |              |                          |                          |                      |         |
| M Golden *                             | 212,187              | -          | -            | 19,242                   | -                        | -                    | 231,429 |
|                                        | 396,568              | -          | -            | 19,242                   | -                        | -                    | 415,810 |

\* Represents remuneration from 1 January 2021 to 22 December 2021.

|                                        | Short-term benefits  |            |              | Post-employment benefits | Post employment benefits | Share-based payments |         |
|----------------------------------------|----------------------|------------|--------------|--------------------------|--------------------------|----------------------|---------|
|                                        | Cash salary and fees | Cash bonus | Non-monetary | Super-annuation          | Termination              | Equity-settled       | Total   |
| <b>2020</b>                            | \$                   | \$         | \$           | \$                       | \$                       | \$                   | \$      |
| <i>Non-Executive Directors:</i>        |                      |            |              |                          |                          |                      |         |
| R Hannington                           | 78,246               | -          | -            | -                        | -                        | -                    | 78,246  |
| F Cannavo                              | 51,041               | -          | -            | -                        | -                        | -                    | 51,041  |
| A Empl                                 | 16,000               | -          | -            | -                        | -                        | -                    | 16,000  |
| J Stedwell                             | 37,150               | -          | -            | -                        | -                        | -                    | 37,150  |
| <i>Other Key Management Personnel:</i> |                      |            |              |                          |                          |                      |         |
| M Golden *                             | 40,384               | -          | -            | 3,837                    | -                        | -                    | 44,221  |
|                                        | 222,821              | -          | -            | 3,837                    | -                        | -                    | 226,658 |

\* Represents remuneration from 9 October 2020 to 31 December 2020.

**InhaleRx Limited**  
**Directors' report**  
**31 December 2021**

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name                                   | Fixed remuneration |      | At risk - STI |      | At risk - LTI |      |
|----------------------------------------|--------------------|------|---------------|------|---------------|------|
|                                        | 2021               | 2020 | 2021          | 2020 | 2021          | 2020 |
| <i>Non-Executive Directors:</i>        |                    |      |               |      |               |      |
| F Cannavo                              | 100%               | 100% | -             | -    | -             | -    |
| S Williams                             | 100%               | -    | -             | -    | -             | -    |
| D Davies                               | 100%               | -    | -             | -    | -             | -    |
| A Saich                                | 100%               | -    | -             | -    | -             | -    |
| R Hannington                           | 100%               | 100% | -             | -    | -             | -    |
| A Empl                                 | -                  | 100% | -             | -    | -             | -    |
| J Stedwell                             | 100%               | 100% | -             | -    | -             | -    |
| <i>Other Key Management Personnel:</i> |                    |      |               |      |               |      |
| M Golden                               | 100%               | 100% | -             | -    | -             | -    |

**Service agreements**

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Sean Williams  
Title: Non-Executive Chairman  
Agreement commenced: 26th July 2021  
Term of agreement: \$76,650 per annum plus superannuation

Name: Darryl Davies  
Title: Non-Executive Director  
Agreement commenced: 20th July 2021 (terminated on 24th December 2021)  
Term of agreement: \$45,000 per annum plus superannuation

Name: Andrew Saich  
Title: Non-Executive Director  
Agreement commenced: 20th July 2021  
Term of agreement: \$45,000 per annum plus superannuation

Name: Darryl Davies  
Title: Executive Director  
Agreement commenced: 24th December 2021  
Term of agreement: \$135,000 per annum plus superannuation

Name: Rodney Hannington  
Title: Non-Executive Chairman  
Agreement commenced: 12 October 2020 (terminated on 26th July 2021)  
Term of agreement: \$76,650 per annum plus superannuation

Name: Francesco Cannavo  
Title: Non-Executive Director  
Agreement commenced: 12 October 2020 (terminated on 20th July 2021)  
Term of agreement: \$50,000 per annum plus superannuation

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

**Share-based compensation**

*Issue of shares*

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2021.

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**31 December 2021**

*Options*

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Grant date  | Expiry date  | Exercise price | Fair value per option at grant date |
|-------------|--------------|----------------|-------------------------------------|
| 5 June 2019 | 22 June 2022 | \$0.2000       | \$0.016                             |

Options granted carry no dividend or voting rights.

**Additional information**

The earnings of the consolidated entity for the five years to 31 December 2021 are summarised below:

|                       | 2021<br>\$  | 2020<br>\$  | 2019<br>\$  | 2018<br>\$  | 2017<br>\$  |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Sales revenue         | 167,301     | 12,557      | 46,599      | 345,788     | 493,305     |
| Loss after income tax | (1,111,129) | (1,205,276) | (2,387,735) | (1,722,629) | (2,746,076) |

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

|                                            | 2021    | 2020    | 2019    | 2018    | 2017    |
|--------------------------------------------|---------|---------|---------|---------|---------|
| Share price at financial year end (\$)     | 0.090   | 0.077   | 0.030   | 0.060   | 0.140   |
| Basic earnings per share (cents per share) | (0.663) | (1.215) | (3.080) | (2.220) | (3.660) |

**Additional disclosures relating to key management personnel**

*Shareholding*

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

|                        | Balance at the start of the year | Held at time of appointment | Additions        | Disposals/ other | Balance at the end of the year |
|------------------------|----------------------------------|-----------------------------|------------------|------------------|--------------------------------|
| <i>Ordinary shares</i> |                                  |                             |                  |                  |                                |
| Rodney Hannington *    | 471,521                          | -                           | 55,000           | (526,521)        | -                              |
| Sean Williams          | -                                | -                           | 200,000          | -                | 200,000                        |
| Darryl Davies **       | -                                | 31,187,676                  | 2,337,248        | -                | 33,524,924                     |
|                        | <u>471,521</u>                   | <u>31,187,676</u>           | <u>2,592,248</u> | <u>(526,521)</u> | <u>33,724,924</u>              |

\* Resigned during the year

\*\* Held indirectly through Cannvalate Pty Ltd

*Option holding*

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

|                                     | Balance at the start of the year | Granted  | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|-------------------------------------|----------------------------------|----------|-----------|---------------------------|--------------------------------|
| <i>Options over ordinary shares</i> |                                  |          |           |                           |                                |
| Francesco Cannavo *                 | 500,000                          | -        | -         | (500,000)                 | -                              |
| Rodney Hannington *                 | <u>1,000,000</u>                 | <u>-</u> | <u>-</u>  | <u>(1,000,000)</u>        | <u>-</u>                       |
|                                     | <u>1,500,000</u>                 | <u>-</u> | <u>-</u>  | <u>(1,500,000)</u>        | <u>-</u>                       |

\* Resigned during the year

*Other transactions with key management personnel and their related parties*

There have been no other transactions involving equity instruments apart from those disclosed in the above tables. There have been no other options granted to key management personnel over unissued shares during or since the end of the reporting period. There have also been no loans made to key management personnel during or since the end of the reporting period.

***This concludes the remuneration report, which has been audited.***

**Shares under option**

Unissued ordinary shares of InhaleRx Limited under option at the date of this report are as follows:

| Grant date  | Expiry date | Exercise price | Number under option |
|-------------|-------------|----------------|---------------------|
| 5 June 2019 | 5 June 2022 | \$0.2000       | 2,000,000           |

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate. No options have been granted over unissued shares during or since the end of the reporting period.

**Shares issued on the exercise of options**

There were no ordinary shares of InhaleRx Limited issued on the exercise of options during the year ended 31 December 2021 and up to the date of this report.

**Indemnity and insurance of officers**

The consolidated entity has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Indemnity and insurance of auditor**

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

**Non-audit services**

There were no non-audit services provided during the financial year by the auditor.

**Officers of the company who are former partners of HLB Mann Judd**

There are no officers of the company who are former partners of HLB Mann Judd.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

**Auditor**

HLB Mann Judd continues in office in accordance with section 327 of the Corporations Act 2001.

**InhaleRx Limited**  
**Directors' report**  
**31 December 2021**

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Sean Williams  
Director

31 March 2022

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of InhaleRx Limited for the year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to InhaleRx Limited and the entities it controlled during the year.



**HLB Mann Judd**  
**Chartered Accountants**

Melbourne  
31 March 2022



**Nick Walker**  
**Partner**

**[hlb.com.au](http://hlb.com.au)**

**HLB Mann Judd (VIC Partnership) ABN 20 696 861 713**

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Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (VIC Partnership) is a member of HLB International, the global advisory and accounting network

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**General information**

The financial statements cover InhaleRx Limited as a consolidated entity consisting of InhaleRx Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is InhaleRx Limited's functional and presentation currency.

InhaleRx Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5  
126 Phillip Street, Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 March 2022. The directors have the power to amend and reissue the financial statements.

**InhaleRx Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2021**

|                                                                                                  | <b>Note</b> | <b>Consolidated<br/>2021<br/>\$</b> | <b>2020<br/>\$</b>        |
|--------------------------------------------------------------------------------------------------|-------------|-------------------------------------|---------------------------|
| <b>Revenue</b>                                                                                   | <b>5</b>    | <b>181,740</b>                      | <b>22,127</b>             |
| Interest revenue                                                                                 |             | 334                                 | 292                       |
| <b>Expenses</b>                                                                                  |             |                                     |                           |
| Cost of goods sold                                                                               |             | (115,232)                           | (168,794)                 |
| Direct project costs                                                                             |             | -                                   | (177)                     |
| Directors' fees and costs                                                                        |             | (188,132)                           | (159,695)                 |
| Travel expenses                                                                                  |             | -                                   | (1,068)                   |
| Employee benefits expense                                                                        |             | (228,106)                           | (71,225)                  |
| Entertainment expenses                                                                           |             | (351)                               | (988)                     |
| Depreciation and amortisation expense                                                            |             | (1,814)                             | -                         |
| Consulting costs                                                                                 |             | (378,593)                           | (400,350)                 |
| Corporate expenses                                                                               |             | (143,131)                           | (91,370)                  |
| Marketing expenses                                                                               |             | (52,345)                            | (41,472)                  |
| Product development expenditure                                                                  |             | (116,990)                           | (201,159)                 |
| Other expenses                                                                                   |             | <u>(68,509)</u>                     | <u>(91,397)</u>           |
| <b>Loss before income tax expense</b>                                                            |             | <b>(1,111,129)</b>                  | <b>(1,205,276)</b>        |
| Income tax expense                                                                               | <b>6</b>    | <u>-</u>                            | <u>-</u>                  |
| <b>Loss after income tax expense for the year attributable to the owners of InhaleRx Limited</b> |             | <b>(1,111,129)</b>                  | <b>(1,205,276)</b>        |
| <b>Other comprehensive income</b>                                                                |             |                                     |                           |
| <i>Items that may be reclassified subsequently to profit or loss</i>                             |             |                                     |                           |
| Foreign currency translation                                                                     |             | <u>18,820</u>                       | <u>(22,600)</u>           |
| Other comprehensive income for the year, net of tax                                              |             | <u>18,820</u>                       | <u>(22,600)</u>           |
| <b>Total comprehensive loss for the year attributable to the owners of InhaleRx Limited</b>      |             | <b><u>(1,092,309)</u></b>           | <b><u>(1,227,876)</u></b> |
|                                                                                                  |             | <b>Cents</b>                        | <b>Cents</b>              |
| Basic earnings per share                                                                         | 26          | (0.663)                             | (1.215)                   |
| Diluted earnings per share                                                                       | 26          | (0.663)                             | (1.215)                   |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**InhaleRx Limited**  
**Statement of financial position**  
**As at 31 December 2021**

|                               | <b>Note</b> | <b>Consolidated<br/>2021<br/>\$</b> | <b>2020<br/>\$</b> |
|-------------------------------|-------------|-------------------------------------|--------------------|
| <b>Assets</b>                 |             |                                     |                    |
| <b>Current assets</b>         |             |                                     |                    |
| Cash and cash equivalents     | 7           | 2,803,480                           | 1,719,479          |
| Trade and other receivables   | 8           | 19,138                              | 74,400             |
| Inventories                   | 9           | 20,605                              | -                  |
| Other                         | 10          | 64,689                              | 105,840            |
| Total current assets          |             | <u>2,907,912</u>                    | <u>1,899,719</u>   |
| <b>Non-current assets</b>     |             |                                     |                    |
| Property, plant and equipment |             | 9,707                               | -                  |
| Intangibles                   |             | 13,570                              | 4,302              |
| Total non-current assets      |             | <u>23,277</u>                       | <u>4,302</u>       |
| <b>Total assets</b>           |             | <u>2,931,189</u>                    | <u>1,904,021</u>   |
| <b>Liabilities</b>            |             |                                     |                    |
| <b>Current liabilities</b>    |             |                                     |                    |
| Trade and other payables      | 11          | 228,545                             | 404,340            |
| Contract liabilities          |             | 24,800                              | 84,938             |
| Employee benefits             |             | -                                   | 3,323              |
| Other                         | 12          | -                                   | 87,500             |
| Total current liabilities     |             | <u>253,345</u>                      | <u>580,101</u>     |
| <b>Total liabilities</b>      |             | <u>253,345</u>                      | <u>580,101</u>     |
| <b>Net assets</b>             |             | <u>2,677,844</u>                    | <u>1,323,920</u>   |
| <b>Equity</b>                 |             |                                     |                    |
| Issued capital                | 13          | 12,901,135                          | 10,454,902         |
| Reserves                      | 14          | (968,991)                           | (987,811)          |
| Accumulated losses            |             | <u>(9,254,300)</u>                  | <u>(8,143,171)</u> |
| <b>Total equity</b>           |             | <u>2,677,844</u>                    | <u>1,323,920</u>   |

*The above statement of financial position should be read in conjunction with the accompanying notes*

**InhaleRx Limited**  
**Statement of changes in equity**  
**For the year ended 31 December 2021**

| <b>Consolidated</b>                                          | <b>Issued<br/>capital<br/>\$</b> | <b>Reserves<br/>\$</b> | <b>Accumulated<br/>losses<br/>\$</b> | <b>Total equity<br/>\$</b> |
|--------------------------------------------------------------|----------------------------------|------------------------|--------------------------------------|----------------------------|
| Balance at 1 January 2020                                    | 8,243,190                        | (965,211)              | (6,937,895)                          | 340,084                    |
| Loss after income tax expense for the year                   | -                                | -                      | (1,205,276)                          | (1,205,276)                |
| Other comprehensive loss for the year, net of tax            | -                                | (22,600)               | -                                    | (22,600)                   |
| Total comprehensive loss for the year                        | -                                | (22,600)               | (1,205,276)                          | (1,227,876)                |
| <i>Transactions with owners in their capacity as owners:</i> |                                  |                        |                                      |                            |
| Contributions of equity, net of transaction costs (note 13)  | 2,211,712                        | -                      | -                                    | 2,211,712                  |
| Balance at 31 December 2020                                  | <u>10,454,902</u>                | <u>(987,811)</u>       | <u>(8,143,171)</u>                   | <u>1,323,920</u>           |
| <b>Consolidated</b>                                          | <b>Issued<br/>capital<br/>\$</b> | <b>Reserves<br/>\$</b> | <b>Accumulated<br/>losses<br/>\$</b> | <b>Total equity<br/>\$</b> |
| Balance at 1 January 2021                                    | 10,454,902                       | (987,811)              | (8,143,171)                          | 1,323,920                  |
| Loss after income tax expense for the year                   | -                                | -                      | (1,111,129)                          | (1,111,129)                |
| Other comprehensive income for the year, net of tax          | -                                | 18,820                 | -                                    | 18,820                     |
| Total comprehensive income for the year                      | -                                | 18,820                 | (1,111,129)                          | (1,092,309)                |
| <i>Transactions with owners in their capacity as owners:</i> |                                  |                        |                                      |                            |
| Contributions of equity, net of transaction costs (note 13)  | 2,446,233                        | -                      | -                                    | 2,446,233                  |
| Balance at 31 December 2021                                  | <u>12,901,135</u>                | <u>(968,991)</u>       | <u>(9,254,300)</u>                   | <u>2,677,844</u>           |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**InhaleRx Limited**  
**Statement of cash flows**  
**For the year ended 31 December 2021**

|                                                                  | <b>Note</b> | <b>Consolidated<br/>2021<br/>\$</b> | <b>2020<br/>\$</b> |
|------------------------------------------------------------------|-------------|-------------------------------------|--------------------|
| <b>Cash flows from operating activities</b>                      |             |                                     |                    |
| Receipts from customers                                          |             | 117,879                             | 77,666             |
| Payments to suppliers and employees                              |             | (1,281,220)                         | (1,136,944)        |
|                                                                  |             | (1,163,341)                         | (1,059,278)        |
| Interest received                                                |             | 334                                 | 292                |
| Other revenue                                                    |             | 14,439                              | 9,750              |
| Net cash (used in) operating activities                          | 25          | (1,148,568)                         | (1,049,236)        |
| <b>Cash flows from investing activities</b>                      |             |                                     |                    |
| Payments for property, plant and equipment                       |             | (11,521)                            | -                  |
| Payments for intangibles                                         |             | (13,570)                            | (4,302)            |
| Net cash (used in) investing activities                          |             | (25,091)                            | (4,302)            |
| <b>Cash flows from financing activities</b>                      |             |                                     |                    |
| Proceeds from issue of shares                                    |             | 2,271,042                           | 2,407,228          |
| Interest and other finance costs paid                            |             | (13,139)                            | (36,533)           |
| Net cash from financing activities                               |             | 2,257,903                           | 2,370,695          |
| Net increase in cash and cash equivalents                        |             | 1,084,244                           | 1,317,157          |
| Cash and cash equivalents at the beginning of the financial year |             | 1,719,479                           | 424,922            |
| Effects of exchange rate changes on cash and cash equivalents    |             | (243)                               | (22,600)           |
| Cash and cash equivalents at the end of the financial year       | 7           | <u>2,803,480</u>                    | <u>1,719,479</u>   |

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## **Note 1. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **New or amended Accounting Standards and Interpretations adopted**

The consolidated entity 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.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

#### *Conceptual Framework for Financial Reporting (Conceptual Framework)*

The consolidated entity has adopted the revised Conceptual Framework from 1 January 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements.

### **Going concern**

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred a loss from ordinary activities of \$1,111,129 for the year ended 31 December 2021 (2020 : \$1,205,276). In addition, the consolidated entity had negative cash from operating activities of \$1,148,568 (2020: \$1,049,236 ).

- The consolidated entity had a net working capital surplus of \$2,654,567 at 31 December 2021 (2020: \$1,319,618);
- The consolidated entity continues to proactively manage operating cash flow requirements in line with available resources; and
- The company has the ability to raise additional capital under its general placement capacity. The board is confident that the company will be able to raise additional capital as and when needed.

Accordingly, the directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report. In the event that the consolidated entity is unsuccessful in implementing the above-stated initiatives, a material uncertainty exists, that may cast significant doubt on the consolidated entity's ability to continue as a going concern and its ability to recover assets and discharge liabilities in normal course of business and at the amounts shown in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

**Note 1. Significant accounting policies (continued)**

**Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 22.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of InhaleRx Limited ('company' or 'parent entity') as at 31 December 2021 and the results of all subsidiaries for the year then ended. InhaleRx Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Board of Directors being the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**Foreign currency translation**

The financial statements are presented in Australian dollars, which is InhaleRx Limited's functional and presentation currency.

*Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. The exchange difference from the translation of any net investment in foreign entities and of borrowings and other financial instruments so designated as hedges of such investments, is recognised in other comprehensive income.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**Note 1. Significant accounting policies (continued)**

**Revenue recognition**

The consolidated entity recognises revenue as follows:

*Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity:

- identifies the contract with a customer;
- identifies the performance obligations in the contract;
- determines the transaction price which takes into account estimates of variable consideration and the time value of money;
- allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
- recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

*Sale of goods*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

*Product development services*

Product development services revenue is recognised upon delivery of the service to the customer, based on chargeable hours at agreed rates.

*Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

**Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

**Note 1. Significant accounting policies (continued)**

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**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.

**Trade and other receivables**

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

**Inventories**

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

|                     |          |
|---------------------|----------|
| Plant and equipment | 10 years |
|---------------------|----------|

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**Intangible assets**

Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less accumulated amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Patents and trademarks*

Significant costs associated with patents and trademarks are deferred and not amortised as they are not said to have a finite life.

**Impairment of non-financial assets**

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

**Note 1. Significant accounting policies (continued)**

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Contract liabilities**

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

**Employee benefits**

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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 option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

**Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Note 1. Significant accounting policies (continued)**

**Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of InhaleRx Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2021. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

**Note 2. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Provision for impairment of inventories*

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

**Note 3. Impact of COVID 19 pandemic**

During the current financial year the COVID 19 pandemic has continued to have a significant impact on the global economy.

The consolidated entity has not been entitled to any of the government financial stimulus measures. The consolidated entity's operations are of a scale that they have been able to be easily amended to adapt to various restrictions that have been imposed with minimal impact.

**Note 4. Operating segments**

*Identification of reportable operating segments*

The consolidated entity is organised into one operating segments: being development of various medical technologies. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

**Note 5. Revenue**

|                                             | <b>Consolidated</b>   |                      |
|---------------------------------------------|-----------------------|----------------------|
|                                             | <b>2021</b>           | <b>2020</b>          |
|                                             | <b>\$</b>             | <b>\$</b>            |
| <i>Revenue from contract with customers</i> |                       |                      |
| Sales of services                           | 19,829                | -                    |
| Sales of goods                              | 147,472               | 12,557               |
|                                             | <u>167,301</u>        | <u>12,557</u>        |
| <i>Other revenue</i>                        |                       |                      |
| Other revenue                               | 14,439                | 9,570                |
| Revenue                                     | <u><u>181,740</u></u> | <u><u>22,127</u></u> |

*Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

|                                      | <b>Consolidated</b> |               |
|--------------------------------------|---------------------|---------------|
|                                      | <b>2021</b>         | <b>2020</b>   |
|                                      | <b>\$</b>           | <b>\$</b>     |
| <i>Major revenue streams</i>         |                     |               |
| Thermometers                         | -                   | 12,557        |
| Medilhale                            | 147,472             | -             |
| Other                                | 19,829              | -             |
|                                      | <u>167,301</u>      | <u>12,557</u> |
| <i>Geographical regions</i>          |                     |               |
| Australia                            | <u>167,301</u>      | <u>12,557</u> |
| <i>Timing of revenue recognition</i> |                     |               |
| Goods transferred at a point in time | 147,472             | 12,557        |
| Services transferred over time       | 19,829              | -             |
|                                      | <u>167,301</u>      | <u>12,557</u> |

**Note 6. Income tax expense**

|                                                                                      | <b>Consolidated</b> |             |
|--------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                      | <b>2021</b>         | <b>2020</b> |
|                                                                                      | <b>\$</b>           | <b>\$</b>   |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>  |                     |             |
| Loss before income tax expense                                                       | (1,111,129)         | (1,205,276) |
| Tax at the statutory tax rate of 26% (2020: 30%)                                     | (288,894)           | (361,583)   |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: |                     |             |
| Non deductible costs                                                                 | 22,503              | 14,161      |
| Tax effect of German subsidiary results                                              | 19,888              | 1,404       |
| Less deductible and non assessable items                                             | (19,961)            | (60,355)    |
| Tax losses not brought to account                                                    | 266,464             | 406,373     |
| Income tax expense                                                                   | -                   | -           |

|                                                                       | <b>Consolidated</b> |             |
|-----------------------------------------------------------------------|---------------------|-------------|
|                                                                       | <b>2021</b>         | <b>2020</b> |
|                                                                       | <b>\$</b>           | <b>\$</b>   |
| <i>Australian tax losses not recognised</i>                           |                     |             |
| Unused tax losses for which no deferred tax asset has been recognised | 5,882,874           | 4,858,010   |
| Potential tax benefit @ 25% (2020: 26%)                               | 1,470,719           | 1,263,083   |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

The board have decided to wind up all of the company's German subsidiaries with the processing still ongoing. For this reason the consolidated entity will not benefit from any of the tax losses incurred by these three companies.

**Note 7. Current assets - cash and cash equivalents**

|              | <b>Consolidated</b> |             |
|--------------|---------------------|-------------|
|              | <b>2021</b>         | <b>2020</b> |
|              | <b>\$</b>           | <b>\$</b>   |
| Cash at bank | 2,803,480           | 1,719,479   |

**Note 8. Current assets - trade and other receivables**

|                                            | <b>Consolidated</b> |             |
|--------------------------------------------|---------------------|-------------|
|                                            | <b>2021</b>         | <b>2020</b> |
|                                            | <b>\$</b>           | <b>\$</b>   |
| Other receivables                          | 61,714              | 140,016     |
| Less: Allowance for expected credit losses | (54,201)            | (83,760)    |
|                                            | 7,513               | 56,256      |
| GST receivable                             | 11,625              | 18,144      |
|                                            | 19,138              | 74,400      |

Refer to note 16 for information about the impairment of trade receivables.

**InhaleRx Limited**  
**Notes to the financial statements**  
**31 December 2021**

**Note 8. Current assets - trade and other receivables (continued)**

*Allowance for expected credit losses*

Movements in the allowance for expected credit losses are as follows:

|                                  | <b>Consolidated</b> |               |
|----------------------------------|---------------------|---------------|
|                                  | <b>2021</b>         | <b>2020</b>   |
|                                  | <b>\$</b>           | <b>\$</b>     |
| Opening balance                  | 83,760              | 54,201        |
| Additional provisions recognised | -                   | 29,559        |
| Reversal of provision            | (29,559)            | -             |
|                                  | <u>54,201</u>       | <u>83,760</u> |

**Note 9. Current assets - inventories**

|                                | <b>Consolidated</b> |             |
|--------------------------------|---------------------|-------------|
|                                | <b>2021</b>         | <b>2020</b> |
|                                | <b>\$</b>           | <b>\$</b>   |
| Stock on hand - at cost        | 110,345             | 89,740      |
| Less: Provision for impairment | (89,740)            | (89,740)    |
|                                | <u>20,605</u>       | <u>-</u>    |

**Note 10. Current assets - other**

|                      | <b>Consolidated</b> |                |
|----------------------|---------------------|----------------|
|                      | <b>2021</b>         | <b>2020</b>    |
|                      | <b>\$</b>           | <b>\$</b>      |
| Prepayments          | 63,611              | 103,436        |
| Other current assets | 1,078               | 2,404          |
|                      | <u>64,689</u>       | <u>105,840</u> |

**Note 11. Current liabilities - trade and other payables**

|                  | <b>Consolidated</b> |                |
|------------------|---------------------|----------------|
|                  | <b>2021</b>         | <b>2020</b>    |
|                  | <b>\$</b>           | <b>\$</b>      |
| Trade payables * | 73,355              | 124,740        |
| Other payables * | 155,190             | 279,600        |
|                  | <u>228,545</u>      | <u>404,340</u> |

Refer to note 16 for further information on financial instruments.

\* all trade and other payables are unsecured

**Note 12. Current liabilities - other**

|                                             | Consolidated<br>2021<br>\$ | 2020<br>\$ |
|---------------------------------------------|----------------------------|------------|
| Funds received ahead of the issue of shares | -                          | 87,500     |

The shares in relation to these funds were issued on 5 January 2021.

**Note 13. Equity - issued capital**

|                              | 2021<br>Shares | Consolidated<br>2020<br>Shares | 2021<br>\$ | 2020<br>\$ |
|------------------------------|----------------|--------------------------------|------------|------------|
| Ordinary shares - fully paid | 168,466,957    | 134,773,493                    | 12,901,135 | 10,454,902 |

*Movements in ordinary share capital*

| Details                                                              | Date              | Shares      | Issue price | \$         |
|----------------------------------------------------------------------|-------------------|-------------|-------------|------------|
| Balance                                                              | 1 January 2020    | 77,568,678  |             | 8,243,190  |
| Issue of shares                                                      | 2 March 2020      | 10,128,635  | \$0.0330    | 334,244    |
| Issue of shares                                                      | 23 June 2020      | 9,090,990   | \$0.0330    | 300,002    |
| Issue of shares                                                      | 24 July 2020      | 151,515     | \$0.0330    | 5,000      |
| Shares issued to settle trade payables                               | 24 July 2020      | 733,675     | \$0.0400    | 29,347     |
| Issue of shares                                                      | 25 September 2020 | 24,000,000  | \$0.0400    | 960,000    |
| Issue of shares                                                      | 13 November 2020  | 13,100,000  | \$0.0550    | 720,500    |
| Less cost of capital raised                                          |                   | -           | \$0.0000    | (137,381)  |
| Balance                                                              | 31 December 2020  | 134,773,493 |             | 10,454,902 |
| Issue of shares                                                      | 5 January 2021    | 22,363,891  | \$0.0700    | 1,565,472  |
| Issue of shares                                                      | 19 January 2021   | 11,329,573  | \$0.0700    | 793,070    |
| Reversal of prior year accrual in relation to cost of capital raised |                   | -           | \$0.0000    | 100,830    |
| Less cost of capital raised                                          |                   | -           | \$0.0000    | (13,139)   |
|                                                                      | 31 December 2021  | 168,466,957 |             | 12,901,135 |

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Capital risk management*

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

**Note 13. Equity - issued capital (continued)**

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 31 December 2020 Annual Report.

**Note 14. Equity - reserves**

|                                       | <b>Consolidated</b> |                  |
|---------------------------------------|---------------------|------------------|
|                                       | <b>2021</b>         | <b>2020</b>      |
|                                       | <b>\$</b>           | <b>\$</b>        |
| Foreign currency reserve              | (93,340)            | (112,160)        |
| Share-based payments reserve          | 32,227              | 32,227           |
| Other reserves                        | (576,768)           | (576,768)        |
| Non-controlling interest derecognised | (331,110)           | (331,110)        |
|                                       | <u>(968,991)</u>    | <u>(987,811)</u> |

*Foreign currency reserve*

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

*Share-based payments reserve*

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

*Other reserves*

This reserve is used to account for commonly controlled acquisitions, and the reserve represents the excess of the purchase price over the identifiable fair value of net assets acquired from German subsidiaries.

*Non-controlling interest derecognised*

This reserve is used to recognise the non-controlling interest at the time of gaining a 100% ownership interest in a subsidiary.

*Movements in reserves*

Movements in each class of reserve during the current and previous financial year are set out below:

| <b>Consolidated</b>          | NCI<br>derecognised<br>\$ | Foreign<br>currency<br>\$ | Share-based<br>payments<br>\$ | Other<br>\$      | Total<br>\$      |
|------------------------------|---------------------------|---------------------------|-------------------------------|------------------|------------------|
| Balance at 1 January 2020    | (331,110)                 | (89,560)                  | 32,227                        | (576,768)        | (965,211)        |
| Foreign currency translation | -                         | (22,600)                  | -                             | -                | (22,600)         |
| Balance at 31 December 2020  | (331,110)                 | (112,160)                 | 32,227                        | (576,768)        | (987,811)        |
| Foreign currency translation | -                         | 18,820                    | -                             | -                | 18,820           |
| Balance at 31 December 2021  | <u>(331,110)</u>          | <u>(93,340)</u>           | <u>32,227</u>                 | <u>(576,768)</u> | <u>(968,991)</u> |

**Note 15. Equity - dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Note 16. Financial instruments**

**Financial risk management objectives**

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by the board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits.

The consolidated entity's financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables, all of which are recognised at amortised cost.

**Market risk**

**Foreign currency risk**

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. The consolidated entity does not hedge.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity is exposed to foreign currency risk in relation to the operations of its German subsidiaries, however based on the balances in the below table the consolidated entity's exposure is material.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

|                            |                 | Assets                                                          |                             |                 | Liabilities                                                 |                             |
|----------------------------|-----------------|-----------------------------------------------------------------|-----------------------------|-----------------|-------------------------------------------------------------|-----------------------------|
|                            |                 | 2021<br>\$                                                      | 2020<br>\$                  |                 | 2021<br>\$                                                  | 2020<br>\$                  |
| <b>Consolidated</b>        |                 |                                                                 |                             |                 |                                                             |                             |
| Euros                      |                 | 16,185                                                          | 46,822                      |                 | 109,626                                                     | 111,700                     |
|                            |                 |                                                                 |                             |                 |                                                             |                             |
| <b>Consolidated - 2021</b> | <b>% change</b> | <b>AUD strengthened<br/>Effect on<br/>profit before<br/>tax</b> |                             | <b>% change</b> | <b>AUD weakened<br/>Effect on<br/>profit before<br/>tax</b> |                             |
|                            |                 |                                                                 | <b>Effect on<br/>equity</b> |                 |                                                             | <b>Effect on<br/>equity</b> |
| Euro                       | 10%             | -                                                               | (9,344)                     | 10%             | -                                                           | 9,344                       |
|                            |                 |                                                                 |                             |                 |                                                             |                             |
| <b>Consolidated - 2020</b> | <b>% change</b> | <b>AUD strengthened<br/>Effect on<br/>profit before<br/>tax</b> |                             | <b>% change</b> | <b>AUD weakened<br/>Effect on<br/>profit before<br/>tax</b> |                             |
|                            |                 |                                                                 | <b>Effect on<br/>equity</b> |                 |                                                             | <b>Effect on<br/>equity</b> |
| Euro                       | 10%             | -                                                               | (6,488)                     | 10%             | -                                                           | 6,488                       |

**Price risk**

The consolidated entity is not exposed to any significant price risk.

**Interest rate risk**

The consolidated entity is exposed to interest rate risk in relation to its cash holdings, but has no interest bearing liabilities.

**Note 16. Financial instruments (continued)**

|                            | Basis points increase |                             |                  | Basis points decrease |                             |                  |
|----------------------------|-----------------------|-----------------------------|------------------|-----------------------|-----------------------------|------------------|
|                            | Basis points change   | Effect on profit before tax | Effect on equity | Basis points change   | Effect on profit before tax | Effect on equity |
| <b>Consolidated - 2021</b> |                       |                             |                  |                       |                             |                  |
| Cash at bank               | 100                   | <u>28,035</u>               | <u>28,035</u>    | 10                    | <u>(28,035)</u>             | <u>(28,035)</u>  |
|                            |                       |                             |                  |                       |                             |                  |
|                            | Basis points increase |                             |                  | Basis points decrease |                             |                  |
|                            | Basis points change   | Effect on profit before tax | Effect on equity | Basis points change   | Effect on profit before tax | Effect on equity |
| <b>Consolidated - 2020</b> |                       |                             |                  |                       |                             |                  |
| Cash at bank               | 100                   | <u>17,195</u>               | <u>17,195</u>    | 100                   | <u>(17,195)</u>             | <u>(17,195)</u>  |

The applicable weighted average effective interest rate was 0.01% (2020 : 0.04%)

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a small number of reliable customers and has not experienced any issues with collectability of trade receivables. All cash balances are held with reputable financial institutions.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year. An impairment of \$29,559 (2019: \$54,201) was recognised in relation to other receivables.

The consolidated entity's exposure to credit risk for receivables at the end of each reporting period per region is summarised below:-

|           | Consolidated |               |
|-----------|--------------|---------------|
|           | 2021         | 2020          |
|           | \$           | \$            |
| Australia | -            | 42,000        |
| Germany   | <u>6,855</u> | <u>14,256</u> |
|           | <u>6,855</u> | <u>56,256</u> |

**Liquidity risk**

Liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents).

The consolidated entity manages liquidity risk by maintaining adequate cash reserves continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Refer to note 1 going concern for details of how the board is managing the consolidated entity's liquidity risk.

**Note 16. Financial instruments (continued)**

*Remaining contractual maturities*

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| <b>Consolidated - 2021</b>  | Weighted<br>average<br>interest rate<br>% | 1 year or less<br>\$ | Between 1<br>and 2 years<br>\$ | Between 2<br>and 5 years<br>\$ | Over 5 years<br>\$ | Remaining<br>contractual<br>maturities<br>\$ |
|-----------------------------|-------------------------------------------|----------------------|--------------------------------|--------------------------------|--------------------|----------------------------------------------|
| <b>Non-derivatives</b>      |                                           |                      |                                |                                |                    |                                              |
| <i>Non-interest bearing</i> |                                           |                      |                                |                                |                    |                                              |
| Trade and other payables    | -                                         | 228,545              | -                              | -                              | -                  | 228,545                                      |
| Total non-derivatives       |                                           | 228,545              | -                              | -                              | -                  | 228,545                                      |
| <b>Consolidated - 2020</b>  | Weighted<br>average<br>interest rate<br>% | 1 year or less<br>\$ | Between 1<br>and 2 years<br>\$ | Between 2<br>and 5 years<br>\$ | Over 5 years<br>\$ | Remaining<br>contractual<br>maturities<br>\$ |
| <b>Non-derivatives</b>      |                                           |                      |                                |                                |                    |                                              |
| <i>Non-interest bearing</i> |                                           |                      |                                |                                |                    |                                              |
| Trade and other payables    | -                                         | 404,340              | -                              | -                              | -                  | 404,340                                      |
| Total non-derivatives       |                                           | 404,340              | -                              | -                              | -                  | 404,340                                      |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***

None of the consolidated entity's financial instrument have been restated at fair value after initial recognition.

**Note 17. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

|                              | <b>Consolidated</b> |                |
|------------------------------|---------------------|----------------|
|                              | <b>2021</b>         | <b>2020</b>    |
|                              | <b>\$</b>           | <b>\$</b>      |
| Short-term employee benefits | 396,568             | 222,821        |
| Post-employment benefits     | 19,242              | 3,837          |
|                              | <u>415,810</u>      | <u>226,658</u> |

**Note 18. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by HLB Mann Judd, the auditor of the company, and its network firms:

|                                             | <b>Consolidated</b> |             |
|---------------------------------------------|---------------------|-------------|
|                                             | <b>2021</b>         | <b>2020</b> |
|                                             | <b>\$</b>           | <b>\$</b>   |
| <i>Audit services - HLB Mann Judd</i>       |                     |             |
| Audit or review of the financial statements | 48,950              | 54,000      |
| <i>Audit services - HLB network firms</i>   |                     |             |
| Audit or review of the financial statements | -                   | 15,845      |

**Note 19. Contingent asset and liabilities**

The consolidated entity had no contingent assets and liabilities at the end of the current or prior financial year.

**Note 20. Commitments**

The consolidated entity had no commitments at the end of the current or prior financial year.

**Note 21. Related party transactions**

*Parent entity*

InhaleRx Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 23.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 17 and the remuneration report included in the directors' report.

*Transactions with related parties*

The following transactions occurred with related parties:

|                                                                                     | <b>Consolidated</b> |             |
|-------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                     | <b>2021</b>         | <b>2020</b> |
|                                                                                     | <b>\$</b>           | <b>\$</b>   |
| Payment for goods and services:                                                     |                     |             |
| Services from received from Cannvalate Pty Ltd (an entity related to Darryl Davies) | 21,411              | -           |
| Other transactions:                                                                 |                     |             |
| Prepayment of expense with Cannvalate Pty Ltd (an entity related to Darryl Davies)  | 28,589              | -           |

*Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

|                           | <b>Consolidated</b> |             |
|---------------------------|---------------------|-------------|
|                           | <b>2021</b>         | <b>2020</b> |
|                           | <b>\$</b>           | <b>\$</b>   |
| Current payables:         |                     |             |
| Fees payable to directors | 7,500               | 11,145      |

**Note 21. Related party transactions (continued)**

*Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

**Note 22. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

|                          | <b>Parent</b> |             |
|--------------------------|---------------|-------------|
|                          | <b>2021</b>   | <b>2020</b> |
|                          | <b>\$</b>     | <b>\$</b>   |
| Loss after income tax    | (1,063,738)   | (2,416,280) |
| Total comprehensive loss | (1,063,738)   | (2,416,280) |

*Statement of financial position*

|                              | <b>Parent</b> |             |
|------------------------------|---------------|-------------|
|                              | <b>2021</b>   | <b>2020</b> |
|                              | <b>\$</b>     | <b>\$</b>   |
| Total current assets         | 2,891,725     | 1,852,890   |
| Total assets                 | 2,915,003     | 1,857,192   |
| Total current liabilities    | 143,719       | 468,401     |
| Total liabilities            | 143,719       | 468,401     |
| Equity                       |               |             |
| Issued capital               | 12,901,134    | 10,454,901  |
| Share-based payments reserve | 32,227        | 32,227      |
| Accumulated losses           | (10,162,077)  | (9,098,337) |
| Total equity                 | 2,771,284     | 1,388,791   |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity has provided no guarantees in relation to the debts of its subsidiaries during the year. It did provide letters of financial support in relation to its Germany subsidiaries in the prior year.

*Contingent liabilities*

The parent entity had no contingent liabilities as at the end of the current and prior financial year.

*Contractual commitments*

The parent entity had no commitments as at the end of the current and prior financial year.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.

**InhaleRx Limited**  
**Notes to the financial statements**  
**31 December 2021**

**Note 23. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

| Name                 | Principal place of business /<br>Country of incorporation | Ownership interest |           |
|----------------------|-----------------------------------------------------------|--------------------|-----------|
|                      |                                                           | 2021<br>%          | 2020<br>% |
| Body Tel GmbH *      | Germany                                                   | 100.00%            | 100.00%   |
| Lifespot AG *        | Germany                                                   | 100.00%            | 100.00%   |
| Seng-Vital Pty Ltd   | Australia                                                 | 100.00%            | 100.00%   |
| Seng-Vital GmbH *    | Germany                                                   | 100.00%            | 100.00%   |
| Seng-Vital Asia Ltd. | Hong Kong                                                 | 100.00%            | 100.00%   |

\* These companies did not trade during the year and are in the process of being wound up.

*Significant restrictions*

There are no significant restrictions over the consolidated entity's ability to access or use assets, and settle liabilities of the consolidated entity.

**Note 24. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 25. Reconciliation of loss after income tax to net cash (used in) operating activities**

|                                                   | Consolidated       |                    |
|---------------------------------------------------|--------------------|--------------------|
|                                                   | 2021<br>\$         | 2020<br>\$         |
| Loss after income tax expense for the year        | (1,111,129)        | (1,205,276)        |
| Adjustments for:                                  |                    |                    |
| Depreciation and amortisation                     | 1,814              | -                  |
| Derecognition of deferred consideration liability | 4,302              | -                  |
| Shares issued to settle trade payables            | -                  | 29,347             |
| Change in operating assets and liabilities:       |                    |                    |
| Decrease in trade and other receivables           | 55,262             | 92,532             |
| Increase in income tax refund due                 | (20,605)           | -                  |
| Decrease/(increase) in other operating assets     | 41,151             | (73,981)           |
| Increase/(decrease) in trade and other payables   | (55,902)           | 39,710             |
| Increase/(decrease) in contract liabilities       | (60,138)           | 65,109             |
| Increase/(decrease) in employee benefits          | (3,323)            | 3,323              |
| Net cash (used in) operating activities           | <u>(1,148,568)</u> | <u>(1,049,236)</u> |

**Note 26. Earnings per share**

|                                                                                           | <b>Consolidated</b> |                    |
|-------------------------------------------------------------------------------------------|---------------------|--------------------|
|                                                                                           | <b>2021</b>         | <b>2020</b>        |
|                                                                                           | <b>\$</b>           | <b>\$</b>          |
| Loss after income tax attributable to the owners of InhaleRx Limited                      | <u>(1,111,129)</u>  | <u>(1,205,276)</u> |
|                                                                                           | <b>Number</b>       | <b>Number</b>      |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | <u>167,570,844</u>  | <u>99,191,395</u>  |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>167,570,844</u>  | <u>99,191,395</u>  |
|                                                                                           | <b>Cents</b>        | <b>Cents</b>       |
| Basic earnings per share                                                                  | (0.663)             | (1.215)            |
| Diluted earnings per share                                                                | (0.663)             | (1.215)            |

**Note 27. Share-based payments**

During the prior year 2,000,000 options were issued to directors as part of their remuneration under the company's employee share option plan. An overall share based payment expense of \$32,227 was recognised.

Set out below are summaries of options granted under the plan:

|                                                    | Number of<br>options<br>2021 | Weighted<br>average<br>exercise price<br>2021 | Number of<br>options<br>2020 | Weighted<br>average<br>exercise price<br>2020 |
|----------------------------------------------------|------------------------------|-----------------------------------------------|------------------------------|-----------------------------------------------|
| Outstanding at the beginning of the financial year | <u>2,000,000</u>             | \$0.2000                                      | <u>2,000,000</u>             | \$0.2000                                      |
| Outstanding at the end of the financial year       | <u>2,000,000</u>             | \$0.2000                                      | <u>2,000,000</u>             | \$0.2000                                      |
| Exercisable at the end of the financial year       | <u>2,000,000</u>             | \$0.2000                                      | <u>2,000,000</u>             | \$0.2000                                      |

Set out below are the options exercisable at the end of the financial year:

| Grant date | Expiry date | 2021<br>Number   | 2020<br>Number   |
|------------|-------------|------------------|------------------|
| 05/06/2019 | 05/06/2022  | <u>2,000,000</u> | <u>2,000,000</u> |
|            |             | <u>2,000,000</u> | <u>2,000,000</u> |

For the options granted during the prior year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price<br>at grant date | Exercise<br>price | Expected<br>volatility | Dividend<br>yield | Risk-free<br>interest rate | Fair value<br>at grant date |
|------------|-------------|------------------------------|-------------------|------------------------|-------------------|----------------------------|-----------------------------|
| 05/06/2019 | 05/06/2022  | \$0.7100                     | \$0.2000          | 73.19%                 | -                 | 1.08%                      | \$0.016                     |

The weighted average remaining life of options was 0.43 years (2020: 1.43 years).

**InhaleRx Limited**  
**Directors' declaration**  
**31 December 2021**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, based on the factors outlined in note 1 going concern to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



---

Sean Williams  
Director

31 March 2022

## **Independent Auditor's Report to the Members of InhaleRx Limited**

### **REPORT ON THE AUDIT OF THE FINANCIAL REPORT**

#### **Opinion**

We have audited the financial report of InhaleRx Limited ("the Company") and its controlled entities ("the Group"), which comprises the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration for the Company and the Group.

In our opinion, the accompanying financial report of InhaleRx Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2021 and of their financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **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 are independent of the Company and the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Material Uncertainty Regarding Going Concern**

We draw attention to Note 1 Going Concern in the financial report, which indicates that the Group incurred a net loss of \$1,111,129 during the year ended 31 December 2021 (2020: \$1,205,276) and, as of that date, had negative cash from operating activities of \$1,148,568 (2020: \$1,049,236). As stated in Note 1 Going Concern, these events or conditions, along with other matters as set forth in Note 1 Going Concern, 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.

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#### **HLB Mann Judd (VIC Partnership) ABN 20 696 861 713**

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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 of the current period. These 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. We did not identify any additional key audit matters other than In the matter described in the *Material Uncertainty Related to Going Concern* section above.

### **Information Other than the Financial Report and Auditor's Report Thereon**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company and 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 Company or the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **REPORT ON THE REMUNERATION REPORT**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 13 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of InhaleRx Limited for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**HLB Mann Judd**  
**Chartered Accountants**



**Nick Walker**  
**Partner**

Melbourne  
31 March 2022

**InhaleRx Limited**  
**Shareholder information**  
**31 December 2021**

The shareholder information set out below was applicable as at 16 March 2022.

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

|                                       | Ordinary shares   |                          |
|---------------------------------------|-------------------|--------------------------|
|                                       | Number of holders | % of total shares issued |
| 1 to 1,000                            | 31                | -                        |
| 1,001 to 5,000                        | 95                | 0.21                     |
| 5,001 to 10,000                       | 143               | 0.71                     |
| 10,001 to 100,000                     | 249               | 5.58                     |
| 100,001 and over                      | 132               | 93.50                    |
|                                       | <b>650</b>        | <b>100.00</b>            |
| Holding less than a marketable parcel | 15                | 0.22                     |

**Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

|                                                                                  | Ordinary shares    |                          |
|----------------------------------------------------------------------------------|--------------------|--------------------------|
|                                                                                  | Number held        | % of total shares issued |
| CANNVALATE PTY LTD                                                               | 33,524,924         | 19.90                    |
| 10 BOLIVIANOS PTY LTD                                                            | 17,554,561         | 10.42                    |
| M I D WEALTH PTY LTD                                                             | 16,375,000         | 9.72                     |
| ELA CAPITAL INC                                                                  | 11,329,573         | 6.73                     |
| PYXIS HOLDINGS PTY LTD                                                           | 10,683,475         | 6.34                     |
| BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM                                     | 5,466,380          | 3.24                     |
| BNP PARIBAS NOMINEES PTY LTD CIBC WORLD MARKETS INC (DRP)                        | 4,163,438          | 2.47                     |
| SUPERHERO NOMINEES PTY LTD (CLIENT A/C)                                          | 3,978,377          | 2.36                     |
| MR NIV DAGAN                                                                     | 2,682,013          | 1.59                     |
| DR DAVID JAMES WALLAND                                                           | 2,005,262          | 1.19                     |
| APERTUS CAPITAL PTY LTD                                                          | 2,000,000          | 1.19                     |
| MR PIPER BELESPRIT MADISON                                                       | 1,800,038          | 1.07                     |
| BNP PARIBAS NOMS PTY LTD (DRP)                                                   | 1,691,802          | 1.00                     |
| MR SEAN CHRISTOPHER REEVES                                                       | 1,672,318          | 0.99                     |
| MR PETER STEINMETZ                                                               | 1,500,000          | 0.89                     |
| NEVERTITY HOLDINGS PTY LTD (J ISAC FAMILY A/C)                                   | 1,387,476          | 0.82                     |
| MR SHAWN YAPP                                                                    | 1,360,000          | 0.81                     |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                                        | 1,337,193          | 0.79                     |
| MR NOEL RUSSELL CAMERON & DR BELINDA CAROLINE GOAD (NOEL CAMERON SUPER FUND A/C) | 1,321,920          | 0.78                     |
| SACCO DEVELOPMENTS AUSTRALIA PTY LIMITED (THE SACCO FAMILY A/C)                  | 1,150,000          | 0.68                     |
|                                                                                  | <b>122,983,750</b> | <b>72.98</b>             |

*Unquoted equity securities*

A total of 2,000,000 options are on issue to 3 former directors and employees.

**InhaleRx Limited**  
**Shareholder information**  
**31 December 2021**

**Substantial holders**

The number of shares held by substantial shareholders and their associates, as disclosed in substantial holder notices are set out below:

|                                                   | <b>Ordinary shares</b> |                                 |
|---------------------------------------------------|------------------------|---------------------------------|
|                                                   | <b>Number held</b>     | <b>% of total shares issued</b> |
| CANNVALATE PTY LTD                                | 33,524,924             | 19.90                           |
| NIV DARGAN AND ASSOCIATED ENTITIES                | 19,172,302             | 11.38                           |
| ELA CAPITAL INC                                   | 14,515,742             | 8.62                            |
| M I D WEALTH PTY LTD                              | 13,100,000             | 7.78                            |
| PYXIS HOLDINGS PTY LTD AND PYXIS EQUITIES PTY LTD | 8,909,441              | 5.29                            |

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Options*

Option holders have no voting rights.