



ADHERIUM LIMITED

ABN 24 605 352 510

ASX: ADR

APPENDIX 4E

PRELIMINARY FINAL REPORT

FOR THE PERIOD ENDED

30 JUNE 2016

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Adherium Limited

ABN 24 605 352 510

Adherium Limited provides the following information under listing rule 4.3A:

Details of the reporting period and the previous corresponding period

- Reporting period Fifteen months ended 30 June 2016
- Previous corresponding period 12 months ended 31 March 2015

During the period to 30 June 2016 Adherium® completed an initial public offering and listed on the Australian Securities Exchange. In that process the listing entity, Adherium Limited, was incorporated in Australia by the existing New Zealand based operating company, Adherium (NZ) Limited (formerly Nexus6 Limited). Prior to the initial public offering and listing, the owners of Adherium (NZ) Limited swapped their security holdings for securities in Adherium Limited. This capital reorganisation did not fall within the scope AASB 3 Business Combinations, and from the shareholders' perspective the reporting entity is the same before and after the reorganisation. Accordingly, the carrying values of the Group's assets and liabilities on reorganisation, and the relevant comparative financial information, are that of Adherium (NZ) Limited.

The Group has transitioned to a 30 June balance date, and accordingly these financial statements are prepared for the fifteen-month period from 1 April 2015 to 30 June 2016, with comparative information being from 1 April 2014 to 31 March 2015.

Results for announcement to the market

	15 months 30 June 2016 \$000	12 months 31 March 2015 \$000	Change \$000	Change %
Revenue from ordinary activities	2,626	2,907	(281)	(9.7)%
Profit (loss) from ordinary activities after tax attributable to members	(7,885)	(1,255)	(6,630)	(528.3)%
Net profit (loss) for the period attributable to members	(7,885)	(1,255)	(6,630)	(528.3)%
Dividends:				
Amount per Ordinary Share	Nil	Nil		
Franked amount per Ordinary Share	Nil	Nil		
Record date for determining entitlements to the dividends	N/A	N/A		
Net tangible asset backing per Ordinary Share	18.1 cents	1.3 cents		

Commentary on results

In August 2015 Adherium undertook its IPO raising \$35m to execute a plan for international growth and expansion to take its Smartinhaler™ technology to the world and transform the lives of people living with chronic disease. The period to 30 June 2016 represents the beginning of Adherium increasing its capability in all areas of its business to expand its leadership in the digitisation of respiratory medicine with its market leading Smartinhaler™ platform.

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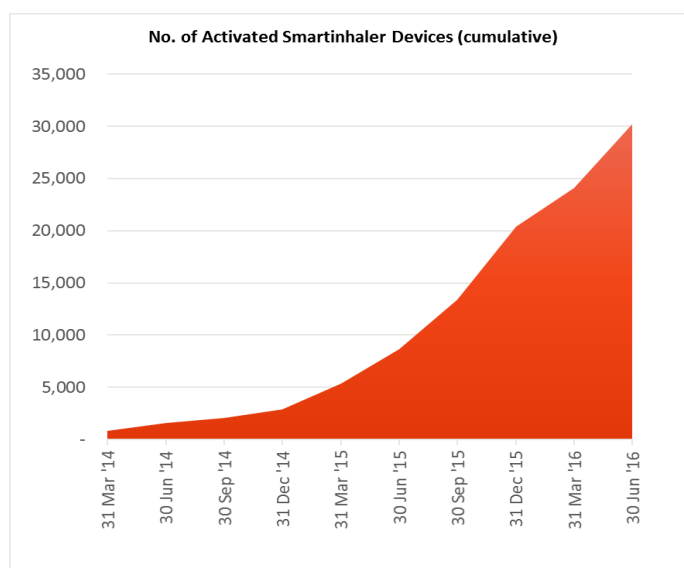
In the year ended 31 March 2015, Adherium's operations were predominantly focused on the supply of devices and related support services to the clinical trials sector. In particular, two multinational clinical trials sponsored by AstraZeneca accounted for the majority of the 34,000 Smartinhaler™ devices sold in the period, with the remainder sold to hospital and investigator led studies and other healthcare customers.

During the March 2015 year total operating revenue from the sales of Smartinhaler™ devices and related data subscriptions and support services was \$2,907,000. This reflects the higher price, lower volume nature of the clinical trials sales channels.

During the period to 30 June 2016 the Company continued to sell devices into the clinical trials channels. However, having entered into commercial supply arrangements with AstraZeneca, increasing volumes of devices were sold under a lower price, high volume commercial pricing model.

As such, in the period 1 April 2015 to 30 June 2016, operating revenues of \$2,626,000 were generated via the sales of 56,000 Smartinhaler™ devices and related data and development services, with the majority of these devices being for supply to AstraZeneca's commercial programme and accordingly at volume pricing.

In addition, activations on the Company's Smartinhaler™ platform continued to increase. This is the metric which the Company reviews to monitor the use of the platform, being the cumulative number of devices with data connectivity (connected devices) which have been "activated" or registered with the SmartinhalerLive™ cloud. In the period to 30 June 2016 activations on the Smartinhaler™ platform increased 463% from 5,364 at 31 March 2015 to 30,187 by 30 June 2016.



The shift to commercial supply was supported by a transfer of volume manufacturing operations to our Asian-based contract manufacturer at the end of the 2015 financial year, which resulted in a 28% reduction in manufacturing costs per device period on period.

The increase in activity across all areas of Adherium's business in this first period since IPO has resulted in an increase in the net loss from \$1,255,000 in 2015 to \$7,885,000 in 2016. The drivers of this included:

- enhancing the core capabilities and expertise in the Company to drive future opportunities and growth by expanding the global team from 18 people at March 2015 to more than 40 at June 2016;
- increasing investment in business development activity as evidenced by the establishment of offices in Europe and North America;
- increased investment in quality and regulatory capabilities to support filings and approvals for the commercial roll out of the Company's Smartinhaler™ devices globally;
- increased expenditure relating to intellectual property protection, as the Company continues to grow an extensive intellectual property strategy following the IPO; and
- with increased internal research and development capability, an increase in the number of Smartinhaler™ development projects to broaden the device portfolio and cloud and app software features.

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The results for the period to June 2016 also included one off costs, including:

- Expenses of \$784,000 associated with securing the AstraZeneca agreement, the ASX listing and establishment and maintenance of the share register;
- Expensing of previously capitalised product development costs of \$270,000 related to Smartinhaler™ device development projects which did not meet the criteria for continued capitalisation; and
- Non-cash interest and fair value expenses of \$378,000 related to increments in borrowing and embedded derivative classifications of the Convertible Notes prior to conversion of those notes into shares in the Company.

Adherium's annual report for the period ended 30 June 2016 will be released mid-September 2016 and will contain an update on the Company's plans for the 2017 financial year.

Dividends

The board has not declared dividends or made dividend payments in the periods ended 30 June 2016 and 31 March 2015. The Company does not have any dividend or distribution reinvestment plans in operation.

Details of entities over which control has been gained or lost

As noted above, in conjunction with the ASX listing and initial public offering, Adherium Limited was incorporated in Australia by the existing New Zealand based operating company, Adherium (NZ) Limited (formerly Nexus6 Limited). Prior to the initial public offering and listing, the owners of Adherium (NZ) Limited swapped their security holdings for securities in Adherium Limited.

In March 2016, Adherium Limited incorporated two new subsidiaries – Adherium North America, Inc. in the United States, and Adherium Europe Limited in the United Kingdom.

Audit status

This Appendix 4E and the included financial information are based on financial statements which are in the process of being audited.

Financial report

The following financial report included in this Appendix 4E does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and operating, financing and investing activities of the consolidated entity as the full financial report. The financial report should be read in conjunction with any public announcements made by Adherium Limited in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The accounting policies applied are the same as those noted in the most recent interim financial report.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the fifteen-month period ended 30 June 2016

		15 months June 2016 \$000	12 months March 2015 \$000
Continuing Operations			
Sales		2,626	2,907
Cost of sales		(1,336)	(854)
Gross profit		1,290	2,053
Grants income		290	203
Manufacturing support		(879)	(516)
Research and development costs		(2,713)	(1,343)
Sales and marketing costs		(2,148)	(252)
Administrative expenses		(3,906)	(1,319)
Operating loss		(8,066)	(1,174)
Interest income		560	22
Interest expense	7	(379)	(103)
Finance income (cost) - net		181	(81)
Loss before income tax	1	(7,885)	(1,255)
Income tax expense		-	-
Loss for the period attributable to equity holders		(7,885)	(1,255)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss when certain conditions are met:			
Foreign exchange differences on translation of foreign operation		203	12
Other comprehensive income for the period, net of tax		203	12
Total comprehensive loss for the period		(7,682)	(1,243)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(7,682)	(1,243)
Basic and diluted loss per share	3	6.6 cents	1.9 cents

The accompanying notes form part of this financial report.

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Consolidated Statement of Financial Position as at 30 June 2016

ASSETS	<i>Notes</i>	June 2016 \$000	March 2015 \$000
Current assets			
Cash and cash equivalents	4	27,211	3,468
Trade and other receivables	5	948	334
Inventories	6	418	969
Deferred capital raising costs		-	477
Prepayments		49	12
Total current assets		28,626	5,260
Non-current assets			
Property, plant and equipment		298	166
Intangible assets		31	190
Total assets		28,955	5,616
LIABILITIES			
Current liabilities			
Trade and other payables		1,394	1,329
Income received in advance		104	1,296
Borrowings	7	-	1,501
Embedded conversion derivative	7	-	473
Total current liabilities		1,498	4,599
EQUITY			
Share capital	8	66,720	5,261
Accumulated deficit		(13,010)	(5,125)
Other reserves		(26,253)	881
Total equity		27,457	1,017
Total liabilities & equity		28,955	5,616

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Consolidated Statement of Changes in Equity for the fifteen-month period ended 30 June 2016

	Share Capital	Accumulated Deficit	Share & Option Compensation Reserve	Foreign Currency Translation Reserve	Merger Reserve	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000
Equity as at 1 April 2015	5,261	(5,125)	434	447	-	1,017
Loss for the period	-	(7,885)	-	-	-	(7,885)
Other comprehensive income	-	-	-	203	-	203
Total comprehensive loss	-	(7,885)	-	203	-	(7,682)
<i>Transactions with owners:</i>						
Shares issued on Convertible Notes conversion	2,204	-	-	-	-	2,204
Shares issued in capital reorganisation	27,535	-	-	-	(27,535)	-
Shares issued in initial public offering	35,000	-	-	-	-	35,000
Share issue costs	(3,706)	-	-	-	-	(3,706)
Shares issued on option exercise	426	-	-	-	-	426
Share and option grants for services	-	-	198	-	-	198
Equity as at 30 June 2016	66,720	(13,010)	632	650	(27,535)	27,457

	Share Capital	Accumulated Deficit	Share & Option Compensation Reserve	Foreign Currency Translation Reserve	Merger Reserve	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000
Equity as at 1 April 2014	5,236	(3,870)	373	435	-	2,174
Loss for the period	-	(1,255)	-	-	-	(1,255)
Other comprehensive income	-	-	-	12	-	12
Total comprehensive loss	-	(1,255)	-	12	-	(1,243)
<i>Transactions with owners:</i>						
Shares issued on option exercise	24	-	-	-	-	24
Shares issued in lieu of capital raising fees	4	-	-	-	-	4
Share issue costs	(3)	-	-	-	-	(3)
Share option grants for services	-	-	61	-	-	61
Equity as at 31 March 2015	5,261	(5,125)	434	447	-	1,017

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Consolidated Statement of Cash Flows for the fifteen-month period ended 30 June 2016

	<i>Notes</i>	15 months June 2016 \$000	12 months March 2015 \$000
Cash flows from operating activities:			
Receipts from customers		1,124	4,091
Receipts from grants		82	120
Interest received		560	22
Resident withholding tax paid		(15)	20
Payments to employees		(3,284)	(1,558)
Payments to suppliers		(6,380)	(2,672)
Net cash used in operating activities		(7,913)	23
Cash flows from investing activities:			
Purchase of property, plant and equipment		(297)	(82)
Purchase of intangible assets		(143)	(169)
Net cash used in investing activities		(440)	(251)
Cash flows from financing activities:			
Proceeds from the issue of shares		35,000	-
Proceeds from the exercise of options		426	24
Proceeds from the issue of convertible notes		-	1,854
Payment of capital raising costs		(3,471)	(237)
Payment of convertible note issue costs		(43)	(19)
Net cash provided from financing activities		31,912	1,622
Net increase(decrease) in cash		23,559	1,394
Cash at the beginning of the period		3,468	1,893
Effect of exchange rate changes on cash balances		184	181
Cash at the end of the period	4	27,211	3,468
Reconciliation with loss after income tax:			
Loss after income tax		(7,885)	(1,255)
<i>Non-cash items requiring adjustment:</i>			
Depreciation of property, plant and equipment		152	75
Amortisation of intangible assets		12	-
Loss (gain) on disposal of property, plant and equipment		-	35
Product development costs expensed		270	-
Interest accrued to borrowings	7	378	103
Share and option compensation expense		198	61
Foreign exchange (gain) loss		(121)	(35)
<i>Changes in working capital:</i>			
Trade and other receivables		(630)	(115)
Inventories		522	(753)
Trade and other payables		327	663
Income received in advance		(1,136)	1,244
Net cash provided from (used in) operating activities		(7,913)	23

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Notes to the condensed consolidated financial statements for the period ended 30 June 2016

	15 months June 2016 \$000	12 months March 2015 \$000
1. Revenues and expenses		
(a) Income from continuing operations		
Sales revenue	2,626	2,907
Grant income	290	203
Interest income	560	22
Total income from continuing operations	3,476	3,132
(b) Loss before income tax includes the following specific expenses:		
Depreciation of property, plant and equipment	152	75
Amortisation of intangible assets	12	-
Product development costs expensed	270	-
Operating lease costs	222	80
Employee benefits expense		
- Wages and salaries	3,737	1,589
- Share option compensation	67	16
Total employee benefits expense	3,804	1,605

2. Segment Information

The chief operating decision maker is the Chief Executive Officer, who reviews financial information for the Group as a whole. The information reviewed is prepared in the same format as included in the financial statements. The Company has therefore determined that one reportable segment exists for the Company's Smartinhaler™ business.

3. Earnings per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For all periods presented, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares and the convertible notes) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

In conjunction with the capital reorganisation ahead of the initial public offering and listing in August 2015, the Company undertook a share split of approximately 8.66:1. The effect of this share split has been incorporated into the calculation of weighted average shares outstanding for all periods presented.

	15 months June 2016 \$000	12 months March 2015 \$000
Profit (loss) after income tax attributable to equity holders	(7,885)	(1,255)
Weighted average shares outstanding (basic and diluted)	119,606,316	64,967,953
Basic and diluted loss per share	6.6 cents	1.9 cents

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4. Cash and cash equivalents

	June 2016 \$000	March 2015 \$000
Cash at bank and on hand	111	37
Deposits at call	27,100	3,431
	<u>27,211</u>	<u>3,468</u>

5. Trade and other receivables

	June 2016 \$000	March 2015 \$000
Trade receivables and accruals	561	180
Grant income accrued	302	87
GST and other taxes receivable	85	67
	<u>948</u>	<u>334</u>

6. Inventories

	June 2016 \$000	March 2015 \$000
Raw materials and components	197	92
Work in progress	-	757
Finished goods	221	120
	<u>418</u>	<u>969</u>

7. Borrowings

In January 2015 Adherium (NZ) Limited offered 2 million NZ\$1 Convertible Notes on a pro rata basis to its shareholders. The Convertible Notes bore no interest from the issue date until 31 August 2015, and thereafter interest would accrue at 5% plus the New Zealand dollar 90-day bill rate per annum until redemption on 1 February 2016, the maturity date of the Convertible Notes.

The Convertible Note terms included the following conversion features:

- automatically where the Company receives approval to be admitted to the official list of ASX Limited or the Company completes a capital raising of at least \$5 million. In both cases the Convertible Notes convert to shares of Adherium (NZ) Limited at the price per share offered in conjunction with the listing or capital raising, discounted by 25%; and
- optional conversion by the Convertible Noteholder upon an event of default before redemption or automatic conversion noted above, or 20 business days prior to maturity, at a price calculated as 10,133,763 divided by the number of shares of the Company on issue immediately prior to conversion.

Management had carried out an assessment of the terms of the Convertible Notes and judged that they consisted of two components:

- a host loan instrument, measured at amortised cost; and
- an embedded derivative representing the features which may convert the Convertible Notes to ordinary shares in Adherium (NZ) Limited.

The embedded conversion derivative was classified as subject to recurring fair value measurement within Level 3 (unobservable inputs for the asset or liability) of the fair value hierarchy.

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The Company performed its own estimate of the fair value of the embedded conversion derivative recognised separately from the host Convertible Notes using a present value technique. The main inputs to the valuation were the expected probability of the Convertible Notes converting and the discount rate used. At initial recognition and 31 March 2015 a probability of 75% of the Convertible Notes converting was applied together with a discount rate of 8.45%.

The loan instrument has been initially valued at the residual of the net proceeds of the Convertible Notes less the fair value of the embedded conversion derivative.

The Company received approval to be admitted to the official list of ASX Limited on 17 August 2015, and accordingly 4,763,205 ordinary shares in the Company were issued on conversion of the Convertible Notes (see note 8).

Movements in borrowings during the periods were as follows:

	31 March 2015	Fair value change	Interest	Foreign currency translation	Conversion to ordinary shares	30 June 2016
	\$000	\$000	\$000	\$000	\$000	\$000
June 2016						
Borrowings						
Embedded conversion derivative	473	163	-	(37)	(599)	-
Liability component (net of transaction costs)	1,501	-	215	(111)	(1,605)	-
Total borrowings	1,974	163	215	(148)	(2,204)	-

	Initial recognition	Fair value change	Interest	Foreign currency translation	31 March 2015
	\$000	\$000	\$000	\$000	\$000
March 2015					
Borrowings					
Gross proceeds of Convertible Notes issue	1,854				
Transaction cost capitalised on host loan instrument	(62)				
Net proceeds of Convertible Notes issue	1,792				
Embedded conversion derivative	448	6	-	19	473
Liability component (net of transaction costs)	1,344	-	97	60	1,501
Total borrowings	1,792	6	97	79	1,974

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8. Share capital

Where applicable, share numbers presented below have been restated to reflect the 8.66:1 share split undertaken prior to the Company's initial public offering. Similarly, amounts have been presented in Australian dollars following the change in presentation currency in the period.

	<u>Ordinary Shares</u>	<u>\$000</u>	
<i>Adherium (NZ) Limited</i>			
Share capital as at 1 April 2014	64,901,839	5,236	
Shares issued on option exercise	307,498	24	
Shares issued in lieu of capital raising fees	27,458	4	
Share issue costs	-	(3)	
Share capital as at 31 March 2015	<u>65,236,795</u>	<u>5,261</u>	
Shares issued on Convertible Notes conversion	<u>4,763,205</u>	<u>2,204</u>	
Shares acquired by Adherium Limited in reorganisation	<u>70,000,000</u>	<u>7,465</u>	(a)
<i>Adherium Limited</i>			
Shares issued to Adherium (NZ) Limited shareholders	70,000,000	35,000	(a)
Shares issued in initial public offering	70,000,000	35,000	
Share issue costs	-	(3,706)	
Shares issued in employee share plans	6,778,640	-	
Shares issued on option exercise	<u>4,441,285</u>	<u>426</u>	
Share capital as at 30 June 2016	<u>151,219,925</u>	<u>66,720</u>	

(a) Capital Reorganisation

During the period to 30 June 2016 Adherium completed an initial public offering and listed on the Australian Securities Exchange. In that process the listing entity, Adherium Limited, was incorporated in Australia by the existing New Zealand based operating company, Adherium (NZ) Limited. Prior to the initial public offering and listing, the owners of Adherium (NZ) Limited swapped their security holdings for shares in Adherium Limited. This was accounted for as a capital reorganisation and the variance between the value of the shares issued to the shareholders of Adherium (NZ) Limited and carrying value of the Group's assets and liabilities (\$27,535,000) has been recorded in the Merger Reserve.

9. Events occurring after the balance sheet date

Subsequent to the end of the financial period to 30 June 2016, the Company concluded a placement of 16,046,097 fully paid Ordinary Shares at \$0.50 per share.

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