



ADHERIUM LIMITED

ABN 24 605 352 510

ASX: ADR

APPENDIX 4E

PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED

30 JUNE 2021

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 12 months ended 30 June 2021
- Previous corresponding period 12 months ended 30 June 2020

Results for announcement to the market

| | 12 months 30 June 2021 \$000 | 12 months 30 June 2020 \$000 | Change \$000 | Change % |
|--|---------------------------------------|---------------------------------------|-----------------|-------------|
| Revenue from ordinary activities | 401 | 2,218 | (1,817) | (81.9)% |
| Profit (loss) from ordinary activities after tax attributable to members | (15,036) | (11,397) | (3,639) | (31.9)% |
| Net profit (loss) for the period attributable to members | (15,036) | (11,397) | (3,639) | (31.9)% |
| 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 | 0.7 cents | 0.6 cents | | |

Commentary on results

Whilst progress in executing our strategy in the 2021 financial year has been hampered by the pandemic, there has nonetheless been significant developments which are building towards the future success of Adherium.

- In the course of the year a total of \$21 million was raised, initially \$3 million through a convertible note issued to Viburnum Funds which subsequently converted at the time a further \$18 million capital raising was completed in April 2021. The raising was strongly supported by existing investors including BioScience Managers Translation Fund 1, Trudell Medical, K One W One and Fidelity International. Regal Funds, an earlier investor, also participated as did several investors new to Adherium including Planet Innovation, our Research & Development partner. These funds will be directed towards commercialisation and the Research and Development roadmap.
- Initial pilots with Adherium's partners Monaghan Medical Corporation (a Trudell Medical Limited company) and HGE Health (a Vapotherm company) are advancing albeit more slowly than originally planned due to COVID related issues. The outcomes are expected to support value propositions around improved patient outcomes, reduced costs to treat, and access to reimbursement.
- The Research & Development programme in association with our partner Planet Innovation progressed with the 510 (k) for first sensor equipped with a physiological measure being submitted in April 2021 – further sensors with this capability will be submitted for registration in the coming months enabling Adherium to offer payers and providers the opportunity to access reimbursement codes for remote patient monitoring activities in the United States. The addition of further digitalised respiratory medical devices to the Hailie® platform is underway. The “Zero Touch” feature which will allow patients to connect the sensor to the Hailie® application with improved Bluetooth connectivity and minimal interaction was successfully piloted and is under development.

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Adherium is now well placed with a clear strategy, growing market recognition of the digital remote patient monitoring opportunity and a strong Research & Development programme to advance the commercialisation of the Hailie[®] solution.

The loss for the year after tax was \$15,036,000 compared to \$11,397,000 in 2020.

Revenue to 30 June 2021 was \$401,000, compared with \$2,218,000 in the prior year. Revenue increased in two geographies however the principal reductions occurred with a major customer in line with existing contracts. The reductions were across both sensor sales and engineering services.

Research and development activities to 30 June 2021 amounted to \$5,477,000 compared with \$3,953,000 in the prior year, the increased expenditure supporting the programme outlined above.

Sales and Marketing costs were \$845,000 to 30 June 2021, compared with \$1,766,000 in the prior year. This reduction was a result of reducing contract personnel and consultants in addition to associated costs including travel, in the light of COVID impacts on commercialisation activities.

Administrative expenses increased from \$3,769,000 in year ended 30 June 2020 to \$6,143,000 in the year ended 30 June 2021. The increase had two primary components - a non-cash component reflecting net unrealised foreign currency losses of \$888,000 compared to unrealised foreign currency gains of \$144,000 in the prior year relating to intercompany loan balances, and a cash component reflecting the increase in the Administrative payroll from \$728,000 in the prior year to \$1,751,000 comprising in large part the full year/near full year impact of appointments of senior personnel at the end of the prior year and early in the year ended 30 June 2021.

Adherium ended the year to 30 June 2021 with cash of \$15,178,000.

Dividends

The board has not declared dividends or made dividend payments in the periods ended 30 June 2020 and 2021. The Company does not have any dividend or distribution reinvestment plans in operation.

Details of entities over which control has been gained or lost

There have been no changes in control over entities in the year ended 30 June 2021.

Details of associates and joint venture

Adherium does not have any associates or joint ventures.

Audit status

This Appendix 4E and the included financial information are based on the audited financial statements contained in the Company's Annual Report for the year ended 30 June 2021. The unqualified opinion contained in the independent audit report on those financial statements included an emphasis of matter regarding material uncertainty related to going concern, noting the dependency on raising additional capital or alternative funding until the Company is supported by cash flows from operations.

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The Company's Annual Report for the year ended 30 June 2021 can be obtained from the Company's website www.adherium.com.

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 Annual Report for the year ended 30 June 2021.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2021

| | | 12 months June 2021 \$000 | 12 months June 2020 \$000 |
|--|---|---------------------------------|---------------------------------|
| Continuing Operations | | | |
| Sales | 1 | 401 | 2,218 |
| Cost of sales | | (426) | (814) |
| Gross profit | | (25) | 1,404 |
| Other income - Covid 19 payroll support | | 61 | - |
| Other income - R&D tax credit | | 370 | - |
| Manufacturing support | | (764) | (727) |
| Research and development costs | | (5,477) | (3,953) |
| Sales and marketing costs | | (845) | (1,766) |
| Administrative expenses | | (6,143) | (3,769) |
| Operating loss | | (12,823) | (8,811) |
| Finance income | 1 | 23 | 15 |
| Finance expense | 7 | (2,236) | (2,601) |
| Finance income (cost) - net | | (2,213) | (2,586) |
| Loss before income tax | 1 | (15,036) | (11,397) |
| Income tax expense | | - | - |
| Loss for the period attributable to equity holders | | (15,036) | (11,397) |
| 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 | | 864 | (209) |
| Other comprehensive income for the period, net of tax | | 864 | (209) |
| Total comprehensive loss for the period | | (14,172) | (11,606) |
| Total comprehensive loss attributable to: | | | |
| Equity holders of Adherium Limited | | (14,172) | (11,606) |
| Basic and diluted loss per share | 3 | (1.7) cents | (3.6) cents |

The accompanying notes form part of this financial report.

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Consolidated Statement of Financial Position as at 30 June 2021

| ASSETS | <i>Notes</i> | June 2021 \$000 | June 2020 \$000 |
|---------------------------------------|--------------|----------------------------|----------------------------|
| Current assets | | | |
| Cash and cash equivalents | 4 | 15,178 | 4,584 |
| Trade and other receivables | 5 | 567 | 624 |
| Inventories | 6 | 962 | 1,120 |
| Prepayments | | 202 | 150 |
| Total current assets | | 16,909 | 6,478 |
| Non-current assets | | | |
| Property, plant and equipment | | 127 | 235 |
| Intangible assets | | 3 | 5 |
| Total assets | | 17,039 | 6,718 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 2,319 | 2,646 |
| Income received in advance | | 685 | 688 |
| Total current liabilities | | 3,004 | 3,334 |
| EQUITY | | | |
| Share capital | 8 | 110,172 | 87,682 |
| Accumulated deficit | | (73,385) | (58,349) |
| Other reserves | | (22,752) | (25,949) |
| Total equity | | 14,035 | 3,384 |
| Total liabilities & equity | | 17,039 | 6,718 |

The accompanying notes form part of this financial report.

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Consolidated Statement of Changes in Equity for the year ended 30 June 2021

| | 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 July 2020 | 87,682 | (58,349) | 1,837 | (251) | (27,535) | 3,384 |
| Loss for the period | - | (15,036) | - | - | - | (15,036) |
| Other comprehensive income (loss) | - | - | - | 864 | - | 864 |
| Total comprehensive loss | - | (15,036) | - | 864 | - | (14,172) |
| <i>Transactions with owners:</i> | | | | | | |
| Shares and options issued on conversion of Convertible Notes | 4,063 | - | 1,165 | - | - | 5,228 |
| Shares and options issued in Placement | 19,014 | - | 858 | - | - | 19,872 |
| Share and option grants for services | 222 | - | 310 | - | - | 532 |
| Share issue costs | (809) | - | - | - | - | (809) |
| Equity as at 30 June 2021 | 110,172 | (73,385) | 4,170 | 613 | (27,535) | 14,035 |
| Equity as at 1 July 2019 | 74,349 | (46,952) | 1,010 | (42) | (27,535) | 830 |
| Loss for the period | - | (11,397) | - | - | - | (11,397) |
| Other comprehensive income (loss) | - | - | - | (209) | - | (209) |
| Total comprehensive loss | - | (11,397) | - | (209) | - | (11,606) |
| <i>Transactions with owners:</i> | | | | | | |
| Share and option grants for services | 177 | - | 116 | - | - | 293 |
| Non-renounceable Rights Issue | 5,392 | - | - | - | - | 5,392 |
| Shares and options issued on conversion of Convertible Notes | 4,816 | - | 711 | - | - | 5,527 |
| Shares issued in Placement | 3,128 | - | - | - | - | 3,128 |
| Share issue costs | (180) | - | - | - | - | (180) |
| Equity as at 30 June 2020 | 87,682 | (58,349) | 1,837 | (251) | (27,535) | 3,384 |

The accompanying notes form part of this financial report.

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Consolidated Statement of Cash Flows for the year ended 30 June 2021

| | <i>Notes</i> | 12 months June 2021 \$000 | 12 months June 2020 \$000 |
|---|--------------|--|--|
| Cash flows from operating activities: | | | |
| Receipts from customers | | 782 | 2,731 |
| Interest received | | 23 | 15 |
| Interest paid | | (8) | - |
| Resident withholding tax refunded (paid) | | - | 13 |
| Payments to employees | | (4,536) | (2,736) |
| Payments to suppliers | | (7,534) | (7,340) |
| Net cash used in operating activities | | (11,273) | (7,317) |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | | (29) | (138) |
| Net cash used in investing activities | | (29) | (138) |
| Cash flows from financing activities: | | | |
| Proceeds from the issues of shares | 7 | 19,872 | 8,520 |
| Proceeds from the issue of Convertible Notes | | 3,000 | 2,926 |
| Payment of capital raising costs | | (968) | (105) |
| Net cash provided from financing activities | | 21,904 | 11,341 |
| Net increase (decrease) in cash | | 10,602 | 3,886 |
| Cash at the beginning of the period | | 4,584 | 763 |
| Effect of exchange rate changes on cash balances | | (8) | (65) |
| Cash at the end of the period | 4 | 15,178 | 4,584 |
| Reconciliation with loss after income tax: | | | |
| Loss after income tax | | (15,036) | (11,397) |
| <i>Non-cash items requiring adjustment:</i> | | | |
| Depreciation of property, plant and equipment | | 142 | 249 |
| Amortisation of intangible assets | | 3 | 86 |
| Fixed assets (gain)/loss on disposal | | (5) | 32 |
| Convertible notes finance cost | | 2,228 | 2,601 |
| Convertible notes issue cost | | 94 | - |
| Share and option compensation expense | | 310 | 116 |
| Shares granted for services | | 222 | 177 |
| Foreign exchange (gain) | | 888 | (144) |
| <i>Changes in working capital:</i> | | | |
| Trade and other receivables | | (1) | (178) |
| Inventories | | 150 | (720) |
| Trade and other payables | | (268) | 1,203 |
| Income received in advance | | - | 658 |
| Net cash provided from (used in) operating activities | | (11,273) | (7,317) |

The accompanying notes form part of this financial report.

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Notes to the condensed consolidated financial statements for the year ended 30 June 2021

| | 12 months June 2021 \$000 | 12 months June 2020 \$000 |
|---|---------------------------------|---------------------------------|
| 1. Revenues and expenses | | |
| (a) Income from continuing operations | | |
| Sensor sales and monitoring services | 264 | 1,171 |
| Engineering and other services | 137 | 1,047 |
| Total income from continuing operations | 401 | 2,218 |
| (b) Loss before income tax includes the following specific expenses: | | |
| Depreciation of property, plant and equipment | 142 | 249 |
| Amortisation of intangible assets | 3 | 86 |
| Operating lease costs | 89 | 93 |
| Employee benefits expense | | |
| - Wages and salaries | 4,661 | 3,039 |
| - Share option compensation | 189 | 91 |
| Total employee benefits expense | 4,850 | 3,130 |

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 Hailie® 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 Convertible Notes and Options over ordinary shares) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

| | 12 months June 2021 \$000 | 12 months June 2020 \$000 |
|---|---------------------------------|---------------------------------|
| Profit (loss) after income tax attributable to equity holders | (15,036) | (11,397) |
| Weighted average shares outstanding (basic and diluted) | 900,972,255 | 316,010,977 |
| Basic and diluted loss per share | (1.7) cents | (3.6) cents |

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4. Cash and cash equivalents and short-term investments

| | June 2021 \$000 | June 2020 \$000 |
|--------------------------|--------------------|--------------------|
| Cash at bank and on hand | 162 | 114 |
| Deposits at call | 15,016 | 4,470 |
| | <u>15,178</u> | <u>4,584</u> |

5. Trade and other receivables

| | June 2021 \$000 | June 2020 \$000 |
|--------------------------------|--------------------|--------------------|
| Trade receivables and accruals | 100 | 489 |
| R&D tax credit receivable | 370 | - |
| GST and other taxes receivable | 77 | 115 |
| Security deposit | 20 | 20 |
| | <u>567</u> | <u>624</u> |

The company is eligible to participate in the Research and Development (R&D) Tax Incentive Offset scheme to potentially obtain a tax rebate or credits equivalent to the entitlements under the scheme operating at the time. These are only recognised when it is probable that it is to be available to be offset against income tax payable or when actual cash payment is considered receivable. As at 30 June 2021, an amount of \$370,000 is receivable for the R&D Tax Incentive Offset scheme for income tax year 2020.

6. Inventories

| | June 2021 \$000 | June 2020 \$000 |
|------------------------------|--------------------|--------------------|
| Raw materials and components | 868 | 1,021 |
| Finished goods | 94 | 99 |
| | <u>962</u> | <u>1,120</u> |

7. Convertible Notes

June 2021

During the year to 30 June 2021 the Company issued Secured Convertible Notes ("2020 Notes") with a face value of \$3 million, an interest rate of 9% per annum, and maturity date of 25 October 2022. The terms of the 2020 Notes included conversion features, which allowed the noteholder to convert the principal and accrued interest to shares in the Company at 3 cents per share after the occurrence of certain events, including partnering and funding milestones.

The 2020 Notes were accounted for as two separate liability components from their issue date – the debt portion recorded at amortised cost and the embedded derivative conversion option recorded at fair value. In accounting for the debt portion of the 2020 Notes, settlement was assumed to take place on 25 October 2022 with interest accruing at 9% per annum to that date. The calculation of the fair value of the embedded derivative conversion option took into account the probability of the noteholder converting and the market price of the ordinary shares.

On 18 March 2021 the Company and noteholder agreed to modify the 2020 Notes' terms to:

- automatically convert the 2020 Notes principal plus interest to ordinary shares at the same time and price as under a capital raise for at least \$15 million; and
- in consideration of the variation of the 2020 Notes to provide for the automatic conversion mechanism referred to above; at closing of the capital raising to issue to the noteholder various options over ordinary shares.

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On 30 April 2021, the Company received shareholder approval to amend the 2020 Notes and proceed with the capital raise. This was completed on 7 May 2021 for a total of \$18 million, and accordingly the 2020 Notes automatically converted to 238,989,991 ordinary shares in addition to the grant to the noteholder of:

- 25,000,000 options with an exercise price of \$0.02 and an expiry date of 7 May 2023;
- 25,000,000 options with an exercise price of \$0.03 and an expiry date of 7 May 2023;
- 25,000,000 options with an exercise price of \$0.04 and an expiry date of 7 May 2023; and
- 104,855,877 options with an exercise price of \$0.03 and an expiry date of 25 October 2022.

The fair value of the modification of the 2020 Notes terms was assessed at \$1,344,000, and the fair value of the options granted \$1,165,000, with both recorded as a finance cost.

June 2020

During the year to 30 June 2020 the Company issued Secured Debt Notes ("2019 Notes") with a face value of \$2.926 million and maturity date of 31 January 2020. The terms of the 2019 Notes included conversion features, which were subject to shareholder approval. These entitled the noteholders to convert the 2019 Notes and accrued interest to ordinary shares and options at a discount to the market price of the ordinary shares, or for the 2019 Notes and accrued interest to mandatorily convert to shares and options should the Company raise \$2.5 million or more of capital prior to maturity. Shareholder approval of the conversion features was received in November 2019.

The 2019 Notes were accounted for as two separate liability components from their issue dates – the debt portion recorded at amortised cost and the embedded derivative conversion option recorded at fair value. In accounting for the debt portion of the 2019 Notes, settlement was assumed to take place on 29 January 2020 with interest accruing at 9% to that date. The calculation of the fair value of the embedded derivative conversion option took into account the probability of shareholders approving the conversion features, the market price of the ordinary shares, potential discount options, and the fair value of options that would be granted on conversion.

On the Company raising \$5.4 million in the Rights Issue completed in January 2020, the 2019 Notes mandatorily converted into 137,597,321 ordinary shares and 27,519,467 options over ordinary shares, with an exercise price of \$0.0219 per option, expiring 29 January 2027.

| Convertible Notes | June 2021 | | | June 2020 | | |
|-------------------------------------|----------------------------------|---|--------------|----------------------------------|---|--------------|
| | Debt component at amortised cost | Embedded derivative conversion option at fair value | Total | Debt component at amortised cost | Embedded derivative conversion option at fair value | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Recognition at Note issue | 1,622 | 1,378 | 3,000 | 933 | 1,993 | 2,926 |
| Financing cost: | | | | | | |
| - Amortised cost | 519 | - | 519 | 2,080 | - | 2,080 |
| - Fair value change | - | (800) | (800) | - | 521 | 521 |
| - Modification | 1,444 | (100) | 1,344 | - | - | - |
| Total financing cost | 1,963 | (900) | 1,063 | 2,080 | 521 | 2,601 |
| Carrying value at conversion | 3,585 | 478 | 4,063 | 3,013 | 2,514 | 5,527 |
| Conversion: | | | | | | |
| - Shares issued | | | 4,063 | | | 4,816 |
| - Options issued | | | - | | | 711 |
| | | | <u>4,063</u> | | | <u>5,527</u> |

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8. Share capital

| | <u>Ordinary Shares</u> | <u>\$000</u> |
|--|------------------------|----------------|
| Share capital as at 1 July 2019 | 167,015,351 | 74,349 |
| Shares issued in employee share plans | 7,016,635 | - |
| Shares issued in Non-renounceable Rights Issue | 179,723,413 | 5,392 |
| Shares issued on conversion of Convertible Notes | 137,597,321 | 4,816 |
| Shares issued in placement | 104,261,036 | 3,128 |
| Shares issued for services | 6,292,578 | 177 |
| Shares issue cost | - | (180) |
| Share capital as at 30 June 2020 | 601,906,334 | 87,682 |
| Shares issued in employee share plans | 13,250,000 | - |
| Shares issued in placements | 1,262,405,631 | 19,014 |
| Shares issued on conversion of Convertible Notes | 238,989,991 | 4,063 |
| Shares issued for services | 9,181,155 | 222 |
| Shares issue costs | - | (809) |
| Share capital as at 30 June 2021 | <u>2,125,733,111</u> | <u>110,172</u> |

9. Events occurring after the balance sheet date

On 29 April 2021, Respiri Limited announced a takeover bid for all of the ordinary shares of Adherium Limited. The takeover bid closed on 16 July 2021, failed to meet the offer conditions and so lapsed.

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