ADHERIUM LIMITED ANNUAL REPORT

FOR THE FIFTEEN MONTHS ENDED 30 JUNE 2016

adherium

ABN 24 605 352 510

Medication non-adherence.
A US$300B+ healthcare problem.[1]

More than 50% of patients suffering chronic illness do not take their medication as prescribed. This leads to poor patient outcomes, disease progression, and an estimated burden of US$100B - US$300B[1] annually in avoidable direct healthcare costs in the US alone[2], and a US$564B burden globally[3].

What is adherence?

Adherence is a measure of the extent to which a patient follows a plan agreed upon with their healthcare provider for the treatment of their health condition. Non-adherence means that patients can struggle to balance their need to take medications against the other demands in their lives.

[1] http://www.healthworkscollective.com/ashish-varshneya/300471/medication-non-adherence-290-billion-unnecessary-expenditure
[2] http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3934668/
[3] https://www.adherence564.com

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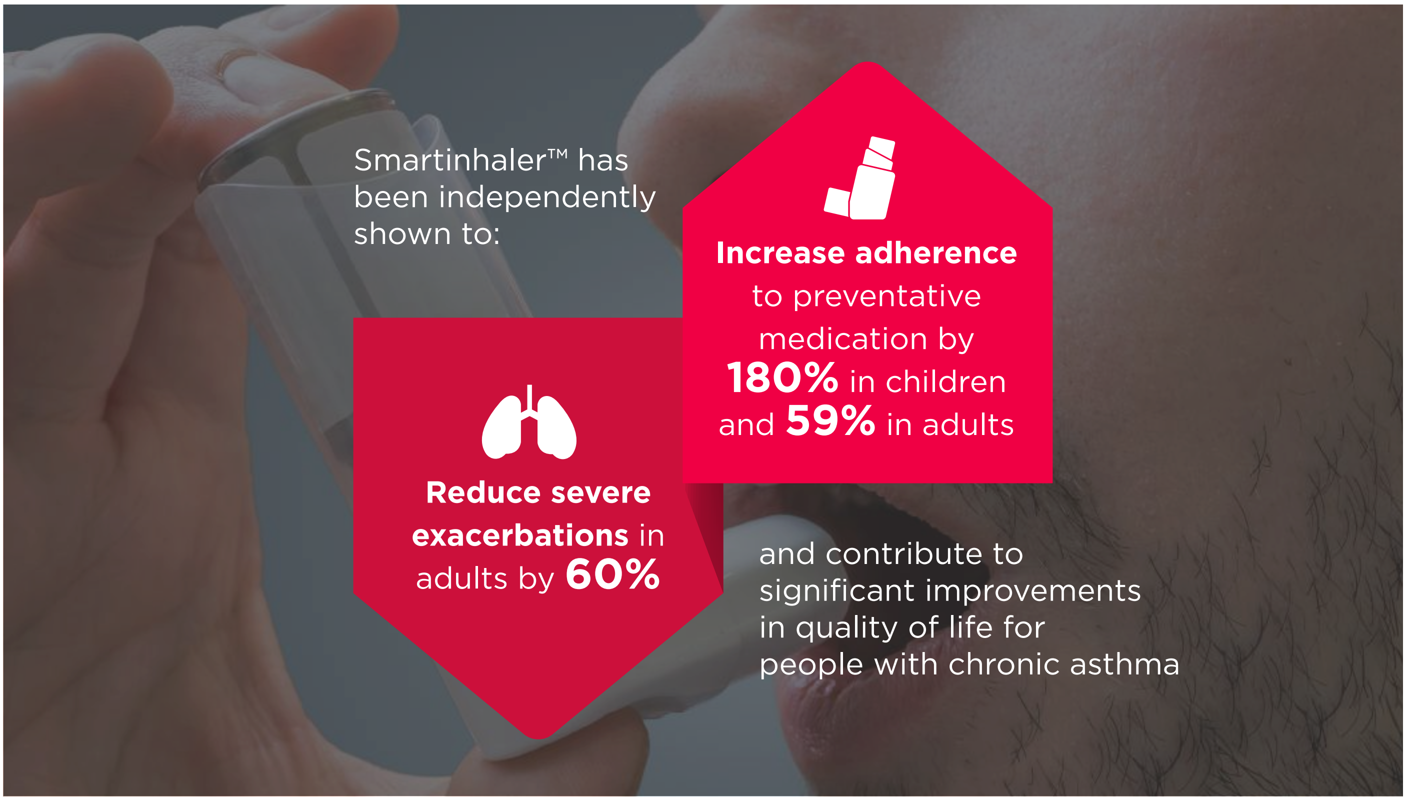
COMPANY
OVERVIEW

Adherium (ASX:ADR) is a global leader in digital health technologies which address sub-optimal medication use in chronic diseases. Our Smartinhaler™ platform is the world's most clinically supported asthma and COPD medication adherence solution, leading to improved health outcomes for patients with chronic respiratory disease.

Adherium has the broadest range of "smart" devices for respiratory medications globally. The Bluetooth® enabled Smartinhaler™ medication sensors wrap around patients existing inhalers and automatically send usage data to their smartphone. Using the Smartinhaler™ app enables patients and healthcare professionals to track medication adherence, set daily reminders, and discover insights into their medication usage.

Proven health technologies

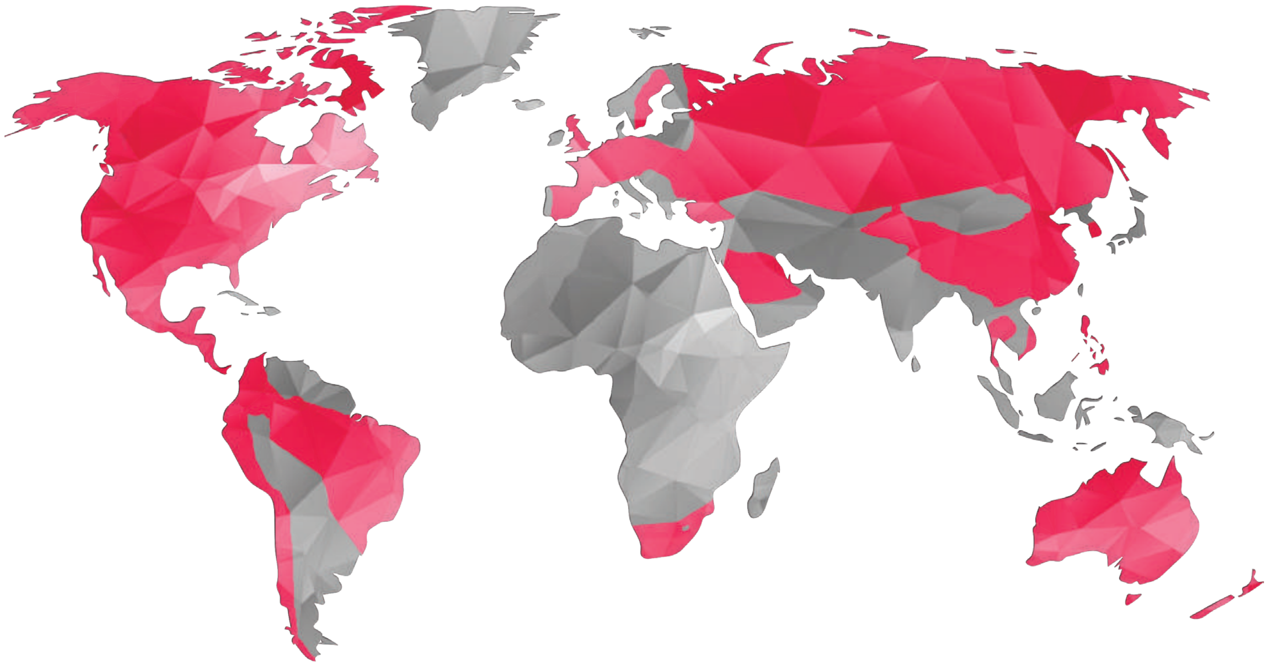
Our smart personal medication monitoring system is an ecosystem of devices and apps that helps patients manage their chronic respiratory conditions, track their medication usage, provide reminders to help ensure doses are not missed, and help them to enjoy a life with fewer symptoms.



Smartinhaler™ technology adoption

The Smartinhaler™ platform has been used in over 30 countries, in more than 65 projects (clinical, device validation or other) and has peer reviewed journal articles resulting from 14 studies.

The Company has received FDA 510(k) notifications for clearance to market and CE Marks for its devices and software, which allows it to sell its solution into international markets.



Pathway to Commercial Success

Clinical validation: Proven health outcomes

Smartinhaler™ platform is the world's most clinically supported asthma and COPD medication adherence solution

Commercial validation: Global partnerships

Long term partnership with international pharmaceutical leader AstraZeneca is a world-first commercial arrangement combining digital health technology with blockbuster inhaler medications

Expand: Build scale

Accelerate Commercial roll-out with our partners

Build out international sales & marketing capabilities to attract and service new customers

CHAIRMAN'S **STATEMENT**

Dear Adherium shareholder,

Having recently joined the board of Adherium Limited as Chairman, I am delighted to present the Company's first Annual Report to investors.

It has been a very busy period for the Company, during which time we listed on the Australian Securities Exchange (ASX) following an oversubscribed Initial Public Offering. We have also continued to publish overwhelmingly positive clinical results and seen the Smartinhaler™ platform transform from its origins in the clinical trial arena to a commercially available product, with the potential to change the lives of people living with chronic respiratory conditions around the world. Whilst our commercial journey is still at an early stage, we are gaining market traction and have achieved a number of milestones this year.

Over the period to 30 June 2016, the Company sold 56,000 Smartinhaler™ devices and related data and development services, with the majority of these devices being for supply to AstraZeneca's commercial programme. Adherium now has 30,187 connected devices which have been "activated" or registered with the SmartinhalerLive™ cloud. This is a 463% increase in activations on the Smartinhaler™ platform over the previous financial year.

An important factor contributing to the momentum in the market is the expansion of the Company's business development activities and its global footprint. This year saw the establishment of our North American operation and the appointment of a Senior Business Development executive to lead our US market expansion. The Company also appointed a Senior Executive to establish European operations, based in the UK. These specialised sales executives have established relationships and networks across the healthcare landscape.

Moving forward, we will continue to focus on growth and gaining traction in the major markets. We have set ourselves ambitious goals for FY17 and will be reporting on our progress throughout the year. The potential opportunity for our Company is huge and we currently operate in an arena where there is significant need for disruption. Our Smartinhaler™ platform is the solution for a major worldwide healthcare problem. More than 50% of patients suffering chronic illnesses do not take their medication as prescribed which leads to poor patient outcomes, disease progression, and an estimated burden of US$564B globally[1].

I would like to take this opportunity to thank the shareholders for their support over the last 15 months and my fellow Board members and the executive team for their tireless dedication and hard work. We look forward to sharing the exciting journey with you in the year ahead.

Tom Lynch
Non-Executive Chairman

56,000
Smartinhaler™ devices were sold over the period to 30 June 2016

463%
increase in activations on the Smartinhaler™ platform

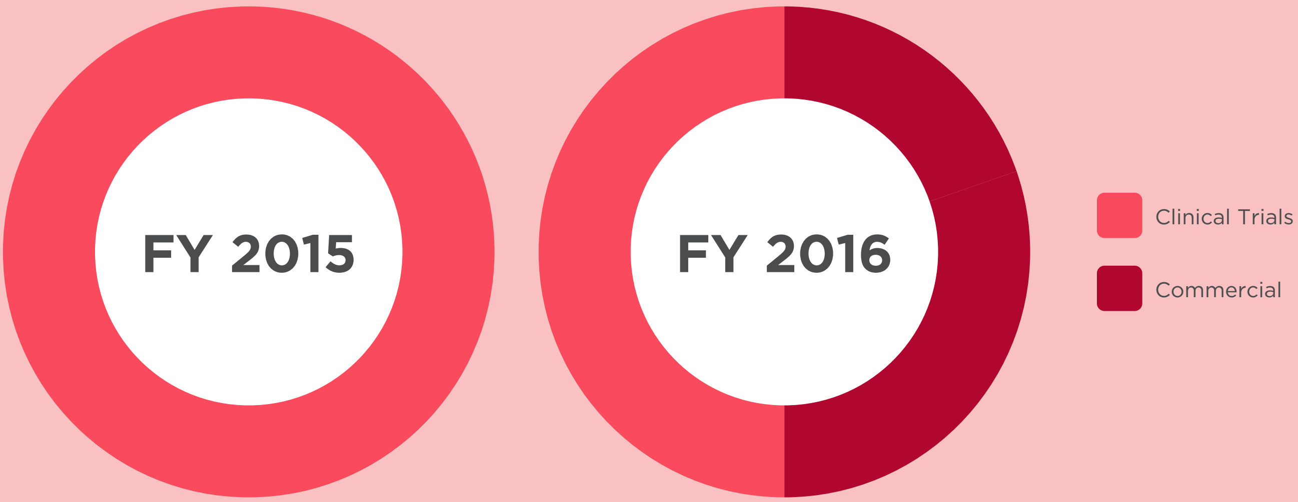
[1] https://www.adherence564.com

CEO'S **REPORT**

After years of dedicated development, I am proud to report to you that 2015 – 2016 was *the year* that Adherium's solution transitioned from exclusively clinical trials supply to now being distributed through international commercial channels.

These channels opened up for us in July 2015, when Adherium was the first digital health company in the world to sign a commercial partnership with a global pharmaceutical company. We entered into a 10-year supply agreement with AstraZeneca, one of the world's largest and most respected pharmaceutical companies in the respiratory market. At the 2016 European Respiratory Society (ERS) congress, the largest respiratory congress in the world with some 27,000 attendees, AstraZeneca showcased two of Adherium's products (SmartTurbo and SmartTouch) to the world's top respiratory key opinion leaders and physicians.

Transformation in revenue from clinical trials only in FY15 to commercial (and trials) revenue in FY16



This represented a major turning point in the history of pharmaceuticals, as it was the first time a global pharmaceutical company has promoted a connected digital health solution, under their own brand, alongside their multibillion dollar block-buster medication. We are entering an age where medications are evolving to become a hybrid of molecule and transistor, and Adherium is a key company driving this revolution.

For most of the 20th century, the development, manufacture, and distribution of medications has been a highly controlled process – from multi-phased clinical trials, to GMP manufacture, to clinical trialling, to prescription, to pharmacy storage and dispensing to the patient. Yet as soon as the patient collects their medication, there are few systems available to assist the patient in taking their medications as prescribed, and with the right drug-delivery technique. Consequently, this lack of control manifests itself in large proportions of patients who are on medications exhibiting poor disease control. For example, in asthma, 40%-50% of patients in the G7 countries exhibit poorly controlled disease, despite widespread access to efficacious medications. Similar trends are shown in hypertension, diabetes, and other chronic diseases.

Adherium is the first company in the world to demonstrate through robust independent clinical trials and programmes that significant gains in patient outcomes can be made by combining five of humankind's greatest inventions:

1) the medicine
2) the microprocessor
3) wireless communications technologies
4) software
5) the internet

We have done this firstly in asthma and COPD, with our Smartinhaler™ platform, which provides a patient friendly solution that is clinically proven in asthma to:

- significantly reduce the risk of severe exacerbations;
- reduce the use of oral steroids;
- reduce the use of rescue medication; and
- significantly improve the quality of life of the patient.

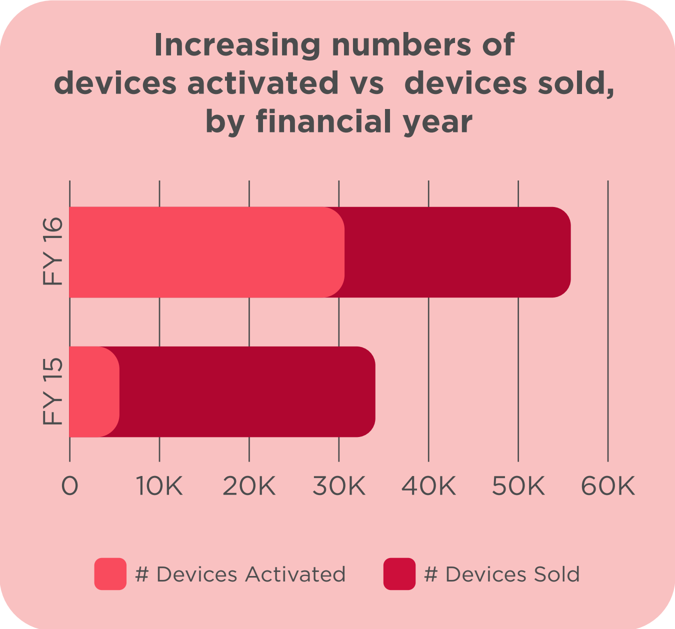
Adherium has demonstrated this using the medicine the patient is already prescribed, and most importantly, we have proven that this is safe.

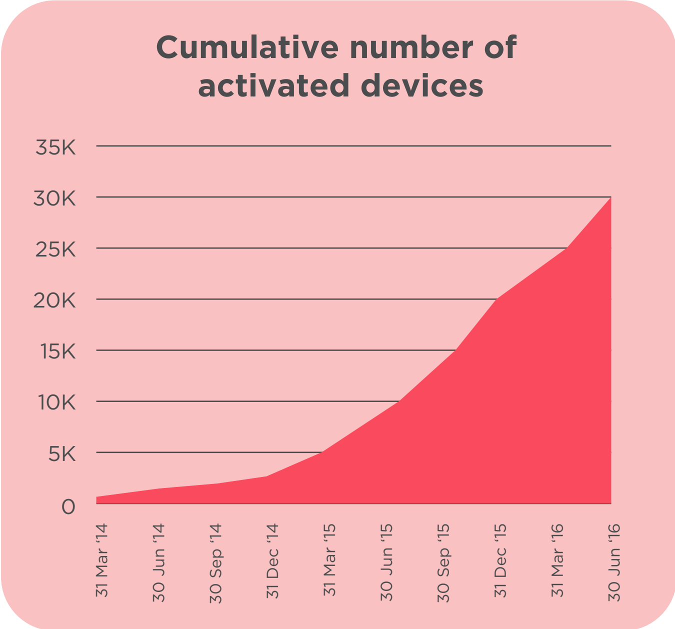
Having achieved this, our mission is to get our technology to the world's patients, and as quickly as we can.

Our agreement with AstraZeneca is delivering on this, and offers enormous opportunity to scale. In 2015-2016 AstraZeneca commenced the commercial distribution of Adherium's technology in the major markets.

These programmes are gathering momentum. In the last year a massive amount of energy has gone into setting up distribution channels to patients, updates to the technology, regulatory approvals (CE, China, CA, TGA etc), internationalisation to support eight languages, logistics, privacy, pharmacovigilance, and all other critical success factors needed for major market scale up. In our measure of Smartinhaler™ use, the number of patients activating has increased 463% from April 2015 to June 2016.

Secondly, Adherium has been working hard on opening up other additional distribution channels to market. We have been receiving requests from an ever increasing number of hospitals who are buying our Smartinhaler™ solution to manage their local population of children and adults with poorly controlled chronic lung disease. We want to service these healthcare professionals at a global level and are actively working on establishing distribution partnerships to support these networks.





Thirdly, we appreciate that increasing pressure from the US Account Care Act, the UK Government, and other payors, is a key driver in healthcare transformation towards data-driven, health-outcomes based reimbursement. Programmes such as remote patient monitoring and disease management are crucial to delivering on this. In this sector Adherium has completed two major market research projects in preparation for opening up payor channels in the year ahead.

Concurrent to the above activities we have been investing in our team, infrastructure, and systems to enable us to scale in the commercial market. In the last year we have delivered on the following:

Commercial

- ☑ Global Supply Agreement with AstraZeneca
- ☑ Direct supply to an increasing number of hospitals
- ☑ International operations established in Europe and North America
- ☑ Senior business development teams operating across target markets

Product Pipeline

- ☑ Expanded suite of products
- ☑ Commenced embedded Smartinhaler™ designs
- ☑ Expanded IP portfolio
- ☑ Transferred products to volume manufacturing in Asia

Clinical and Regulatory

- ☑ Health outcomes data published from leading global research institutions
- ☑ Pivotal data published in peer reviewed journals and presented at global conferences
- ☑ Marketing approvals granted in Europe, China, Canada, and Australia

Corporate

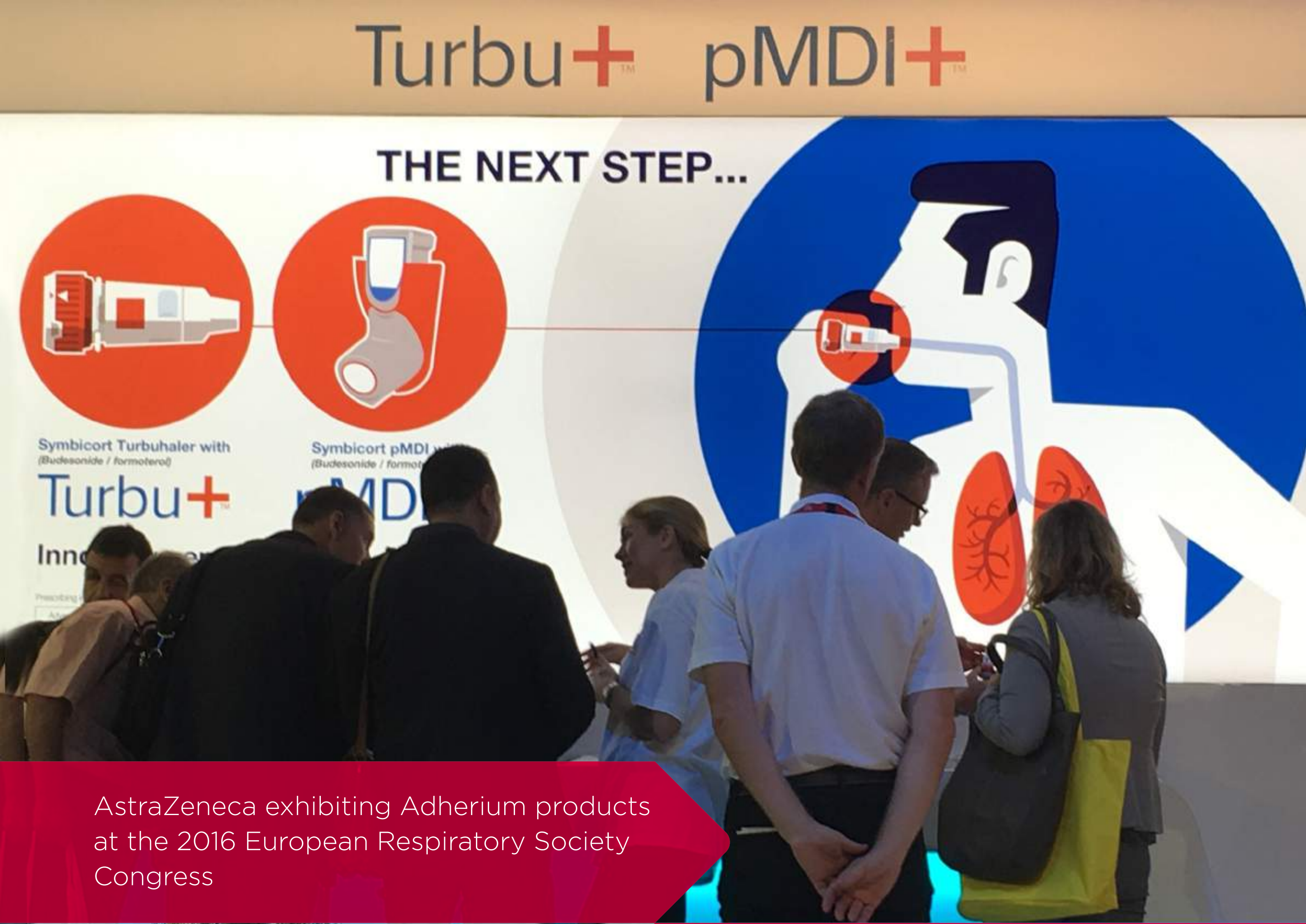
- ☑ Raised $35M via IPO on ASX
- ☑ Added international commercial med-tech and pharmaceutical experience to the board and management team
- ☑ Grew the Adherium team from 18 to 46 people, to expand commercial and engineering capabilities
- ☑ Raised $8M in July 2016 to accelerate commercialisation

The major milestones we are working on for the next year are:

- Supplying the international roll out of our solution currently being distributed by AstraZeneca
- Open up new additional pharmaceutical partnerships
- Complete new commercial distribution agreements for supply to hospitals and provider networks
- Commence selling data-driven programmes to payors
- Establish business development operations for the rest-of-world markets (in addition to our existing European and North American operations)

As a daily user of Adherium's Smartinhaler™ solution for asthma, and as the founder of Adherium, I have never been more passionate or energised by the work the team at Adherium is doing for the world's population of people who have chronic diseases. My thanks go to our amazing team, and you, our valued shareholder, for your continued support.

Garth Sutherland
Group CEO



AstraZeneca exhibiting Adherium products at the 2016 European Respiratory Society Congress

Adherium North America in Silicon Valley

DIRECTORS' **REPORT**

The Directors present their report on the consolidated entity **(the Group)**, consisting of Adherium Limited **(the Company or Adherium)** and the entities it controlled at the end of, or during, the fifteen months ended 30 June 2016, together with the independent auditor's report thereon.

Directors

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

Mr Thomas Lynch, BSc, FCA. Age 60.
Independent Non-Executive Chairman
Appointed as a Director and Chairman on 1 September 2016.

Mr Lynch has extensive experience of biotechnology and specialty pharma. He has recently stepped down as chair of Icon plc, one of the world's largest clinical research organisations having served on its board for 22 years. He is also chair of Evofem Biosciences Inc and Profectus Biosciences Inc, two privately-held US biotechnology companies. Mr Lynch serves as a non-executive director of GW Pharma plc, a biotechnology company listed on NASDAQ and AIM. In a pro-bono capacity, Mr Lynch serves as chair of the Ireland East Hospital Group, the largest hospital group in Ireland. Mr Lynch has also served in a range of roles at Elan Corporation plc and Amarin Corporation plc. Throughout his career, Mr Lynch has been involved in the listing of a number of companies on the NASDAQ market and brings significant international capital markets experience to Adherium. Mr Lynch has held no other Australian public company directorships in the last three years.

Dr Doug Wilson, MB, ChB, FRACP, FRCPA. Age 79.
Independent Non-Executive Chairman
Appointed as a Director and Chairman on 20 July 2015, and resigned 1 September 2016.

Dr Wilson is a New Zealand medical graduate with post graduate experience in London at St Thomas Hospital Medical School, and at Walter and Eliza Hall Institute Melbourne. Dr Wilson joined the international pharmaceutical industry and became Senior Vice president for Boehringer Ingelheim for Medicine and Regulatory Affairs in the USA, responsible for all dealings with FDA. He moved to Ingelheim and had the same responsibilities world-wide. Dr Wilson headed the company's International Labelling Committee, and was deputy head of the International Medical Committee which oversaw all drugs in clinical development globally. During his tenure he saw ten drugs approved in the USA. Dr Wilson is now a consultant and is on the board of a number of other companies. He consults widely on biotech and pharmaceutical issues, and has been appointed as Adherium's Medical Director. Dr Wilson serves as a non-executive director on the board of ASX-listed company, Phylogica Limited. Dr Wilson has held no other Australian public company directorships in the last three years.

Mr Garth Sutherland, MSc. Age 50.
Executive Director
Appointed as a Director on 20 July 2015.

Mr Sutherland has spent the past 20 years working for some of the world's top technology companies in Europe, North America and Australasia including Microsoft and Gallagher Group. Mr Sutherland graduated with a Masters of Science in Physics from the University of Waikato, New Zealand, with First-Class Honours. Mr Sutherland founded Adherium's operations (formerly named Nexus6) in 2001. Having had asthma all his life he wanted a solution for automatically tracking his asthma medication use to improve his asthma management. Mr Sutherland has held no other Australian public company directorships in the last three years.

Mr Jeremy Curnock Cook, MA. Age 67.
Independent Non-Executive Director
Appointed as a Director on incorporation of Adherium Limited on 17 April 2015.

Mr Curnock Cook was formerly the head of the life science private equity team at Rothschild Asset Management in the UK and an active investor in the Australian life science sector. At Rothschild, Mr Curnock Cook was responsible for the launch of the first dedicated biotechnology fund for the Australian market. Over his 40-year career, Mr Curnock Cook has specialised in creating value in emerging biotech enterprises, through active participation with management. He has served on over 40 boards in various roles, including chair of private and public biotechnology companies listed on NASDAQ, LSE, TSX and ASX. Mr Curnock Cook received his MA in Natural Sciences from Trinity College in Dublin, Ireland. Mr Curnock Cook serves as a non-executive director on the board of ASX listed companies, Avita Medical Ltd and Phylogica Limited. Mr Curnock Cook has held no other Australian public company directorships in the last three years.

Dr William Hunter, MD. Age 53.
Independent Non-Executive Director
Appointed as a Director on 17 December 2015.

Dr Hunter co-founded Angiotech Pharmaceuticals in 1992 and assumed the position of Chief Executive Officer in 1997 when Angiotech was a venture-stage, private, pre-clinical company with less than 50 employees. He led Angiotech through its IPO and listing on the Toronto Stock Exchange and NASDAQ. Dr Hunter has over 200 patents and patent applications to his name and products in which he was an inventor or co-inventor include the TAXUS® Drug-Eluting Coronary Stent, the Zilver PTX Peripheral Drug-Eluting Stent, the Quill barbed wound closure device and the 5-FU Anti-Infective Catheter. Dr Hunter currently serves as a director of Epirus Biopharmaceuticals, Inc. (NASDAQ: EPRS) and Union Medtech and selected awards he has received include the 2006 Principal Award from the Manning Foundation (one of Canada's highest awards for innovation); BC Innovation Council's Cecil Green Award for Science and Technology Entrepreneurship; Entrepreneur of the Year from the Canadian Venture Capital and Private Equity Association; and Canada's 40 Under 40. Dr Hunter served as a practicing physician in British Columbia for five years. Dr Hunter has held no other Australian public company directorships in the last three years.

Mr Bruce McHarrie, B.Com, FCA, GAICD. Age 58.
Independent Non-Executive Director
Appointed as a Director on 20 July 2015.

Mr McHarrie is currently an independent director and consultant with over 20 years' experience in the Health and Life Sciences sectors. He was formerly with the Telethon Kids Institute in Perth, Western Australia, for 15 years where his roles included Chief Financial Officer, Director of Operations and Director of Strategic Projects. Prior to joining the Telethon Kids Institute, Mr McHarrie was a Senior Manager at Deloitte in London before moving to Rothschild Asset Management as Assistant Director of the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology/healthcare companies. Mr McHarrie is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors. Until recently, Mr McHarrie served as a non-executive director and chairman on the board of ASX-listed company, Phylogica Limited. Mr McHarrie has held no other Australian public company directorships in the last three years.

Professor John Mills, AO, SB, MD, FACP, FIDSA, FRACP. Age 76.
Independent Non-Executive Director
Appointed as a Director on 20 July 2015.

Professor Mills is an internationally-regarded physician, scientist and biotechnology businessman. He was recruited from the USA to Melbourne 25 years ago as the managing director of the Burnet Institute of Medical Research and Public Health. Since then Professor Mills has been managing director of an ASX-listed company, Narhex Life Sciences, chairman of another ASX-listed company, AMRAD Corp. and executive chairman of a Swedish biotechnology company, Cavidi AB and non-executive director of a further ASX-listed company, Phosphagenics Corp. Ltd. He is currently a non-executive director of an Australian venture capital company, GBS Venture Partners Pty Ltd and non-executive director of two charitable companies (one Australian and one US). Twelve years ago he co-founded a boutique, private, anatomic pathology practice in Victoria, TissuPath Specialist Pathology, serving as its managing director for three years before stepping down (as the practice was sold to the pathologists) to Director of Research and Development. Professor Mills is an honours graduate of the University of Chicago and Harvard Medical School, and is a Fellow of both the US and Australian Colleges of Physicians. His expertise is in infectious diseases and pulmonary diseases. He maintains a clinical practice at The Alfred Hospital in Melbourne. Professor Mills has held no other Australian public company directorships in the last three years.

Mr Bryan Mogridge BSc, ONZM, FNZIOD. Age 70.
Independent Non-Executive Director
Appointed as a Director on 20 July 2015.

Mr Mogridge has been a successful public company director for the past 30 years. He has been CEO of two listed companies and has a background in science, manufacturing, investment and technology. His business philosophy is to be invested where he is involved and grow value for all shareholders. Mr Mogridge's current directorships are Rakon Ltd (Chairman), Mainfreight Ltd, BUPA ANZ Pty Ltd, plus he is a Director and shareholder of a number of private companies. Mr Mogridge has significant involvement in philanthropy, chairing one of New Zealand's most successful charities (The Starship Foundation) for the past 20 years, helping to transform sick children's lives, through New Zealand's national children's hospital "The Starship". Mr Mogridge has previously chaired national organisations such as the NZ Wine Institute, the NZ Food and Beverage Exporters Council and the NZ Tourism Board. He was previously chair of ASX-listed Lantern Hotel Group having resigned in June 2015. Mr Mogridge has held no other Australian public company directorships in the last three years.

During the period Mr Matthew McNamara and Ms Bronwyn Le Grice were also appointed as Directors on incorporation of Adherium Limited on 17 April 2015 and resigned on 20 July 2015 as part of an administrative process related to the structure and organisation of the Adherium group through the initial public offer and listing process.

Joint Company Secretaries

Rob Turnbull, B.Com, CA. Age 49.
Chief Financial Officer and Joint Company Secretary
Appointed 21 August 2015.

Mr Turnbull has over 20 years' corporate experience, starting his career with PricewaterhouseCoopers where he worked in Auckland, Toronto, and London; and has over 10 years' experience with technology and life-sciences companies. Most recently Mr Turnbull was Chief Financial Officer for an ASX-listed biotech company undertaking multiple international studies ranging from preclinical to clinical Phase 3, and with operations in the United States, Australia and New Zealand. In addition to capital markets financing and compliance, treasury, tax, financial reporting, commercial contract negotiations and general management, he was involved in M&A activity to acquire and develop specific technologies. Mr Turnbull graduated from Auckland University with a Bachelor of Commerce, and is a Chartered Accountant and member of Chartered Accountants Australia and New Zealand.

Mark Licciardo, B.Bus (Acc), GradDip CSP, FCSA, FCIS, FAICD. Age 52.
Joint Company Secretary
Appointed 10 May 2016.

Mr Licciardo is Managing Director of Mertons Corporate Services Pty Ltd (Mertons) which provides company secretarial and corporate governance consulting services to ASX listed and unlisted public and private companies. Prior to establishing Mertons, Mr Licciardo was Company Secretary of the Transurban Group (2004-2007) and Australian Foundation Investment Company Limited, Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited (1997-2004). Mr Licciardo has also had an extensive commercial banking career with the Commonwealth Bank and State Bank Victoria. Mr Licciardo is a former Chairman of Governance Institute of Australia (GIA) (formerly the Chartered Secretaries Australia) in Victoria, a fellow of both GIA and the Australian Institute of Company Directors (AICD), former Chairman of Melbourne Fringe Limited and a director of ASX listed Frontier Digital Ventures and several unlisted public and private companies.

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the period and the number of meetings attended by each director was as follows:

	Directors' Meetings		Audit & Risk Committee Meetings		Nomination & Remuneration Committee Meetings	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
D Wilson	9	9	-	-	4	4
G Sutherland	9	8	4*	2*	4*	2*
J Curnock Cook	9	8	4	4	3	3
W Hunter	4	3	-	-	-	-
B McHarrie	9	9	4	4	-	-
J Mills	9	9	4	4	4	4
B Mogridge	9	9	-	-	4	4

**In attendance ex-officio.*

Committees of the Board

The Company has established the following committees of the board, with membership in the period to 30 June 2016 as noted:

Committee	Membership
Audit & Risk	• Bruce McHarrie (Chair), Non-Executive Director • Jeremy Curnock Cook, Non-Executive Director • John Mills, Non-Executive Director
Nomination & Remuneration	• Bryan Mogridge (Chair), Non-Executive Director • Jeremy Curnock Cook, Non-Executive Director • John Mills, Non-Executive Director • Doug Wilson, Non-Executive Director

The committees' Charters are available on the Company's website.

Principal Activities

During the year, the principal continuing activity of the Group was the development, manufacture and supply of its Smartinhaler™ digital health technologies which address sub-optimal medication use and improve health outcomes in chronic disease.

Results and Dividends

The net loss after tax of the Group for the fifteen months ended 30 June 2016 was $7,885,000.
No dividends were paid, declared or recommended during the period ended 30 June 2016.

Review of Operations

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.

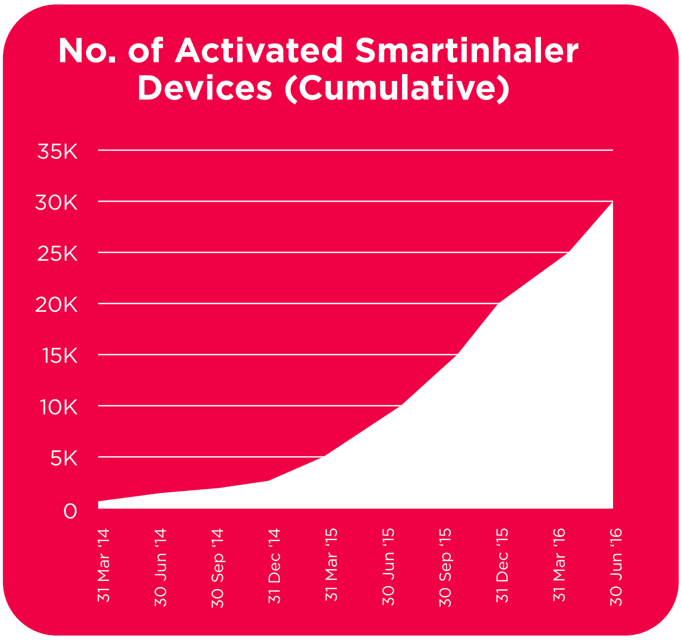
In the year ended 31 March 2015, Adherium's operations were predominantly focused on the supply of devices and related support services to the clinical trials sector. In particular, two multinational clinical trials sponsored by AstraZeneca accounted for the majority of the 34,000 Smartinhaler™ devices 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.

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.

As at 30 June 2016, the Group's cash on hand was $27,211,000.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Group during the financial period were as follows:

- Adherium completed an initial public offering and on 26 August 2015 listed on the Australian Securities Exchange. In that process the listing entity, Adherium Limited was incorporated in Australia on 17 April 2015 by the existing New Zealand based operating company, Adherium (NZ) Limited (formerly Nexus6 Limited). On 19 August 2015, the owners of Adherium (NZ) Limited swapped their security holdings for securities in Adherium Limited and Adherium Limited proceeded with its initial public offering and listing.
- 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, and commenced operations through these entities in North America and Europe respectively.

Events since the end of the Financial Period

On 26 July 2016, the Company concluded a placement of 16,046,097 fully paid ordinary shares at $0.50 per share.

Likely Developments and Expected Results

Commentary on the Group's strategic direction and plan is set out in the CEO's Report on pages 5 to 8.

Environmental Regulation

The Group's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

Directors' Interests

The relevant interest of each Director in shares and options over shares in the Company as notified by the Directors to the ASX in accordance with section 205G of the Corporations Act 2001 as at 30 June 2016 is:

Director	Ordinary Shares	Options over Ordinary Shares
D Wilson	1,039,428	-
G Sutherland	11,347,688	1,039,428
J Curnock Cook	80,000	-
W Hunter	-	-
B McHarrie	-	-
J Mills	40,000	-
B Mogridge	8,358,807*	-

** relevant interest includes 6,858,807 ordinary shares held in the Director's joint capacity with the CFO as trustee of the Company's Employee Share Plan.*

Indemnification and Insurance of Directors and Officers

The Company has entered into deeds of access, insurance and indemnity with each director and officer which contain rights of access to certain books and records of the Group for a period of seven years after the director or officer ceases to hold office. This seven-year period can be extended where certain proceedings or investigations commence before the seven-year period expires.

In respect of the indemnity of the directors and officers, the Company is required, pursuant to the constitution, to indemnify all directors and officers, past and present, against all liabilities allowed under law. Under the deed of access, insurance and indemnity, the Company indemnifies parties against all liabilities to another person that may arise from their position as a director or an officer of the Company or its subsidiaries to the extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

In respect of insurance being obtained on behalf of the directors and officers, the Company may arrange and maintain directors' and officers' insurance for its directors and officers to the extent permitted by law. Under the deed of access, insurance and indemnity, the Company must obtain such insurance during each director's and officer's period of office and for a period of seven years after a director or an officer ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven-year period expires.

Disclosure of the insurance premiums and the nature of liabilities covered by such insurance are prohibited by the relevant contracts of insurance.

Shares Under Option

Unissued shares

As at the date of this report, unissued ordinary shares of the Company under option comprised:

Exercise price	Total Number of Options	Vested Options	Expiry date
$0.075268	517,696	517,696	31 March 2017
$0.075268	600,521	600,521	31 March 2018
$0.075268	799,061	799,061	31 March 2019
$0.075268	589,892	589,892	31 March 2020
$0.134039	173,238	173,238	31 March 2020
$0.134039	217,214	217,214	30 November 2020
$0.134039	692,952	692,952	16 December 2020
$0.134039	1,039,428	1,039,428	1 January 2021
$0.134039	259,857	259,857	24 March 2021
$0.134039	173,238	173,238	31 March 2022
$0.665	1,400,000	-	3 September 2018
Outstanding at 30 June 2016	**6,463,097**	**5,063,097**	

The options over unissued ordinary shares do not entitle the holder to participate in any share issue of the Company or any entity in the Group.

Options were granted in the period to 30 June 2016 to Garth Sutherland, Executive Director and CEO, by the Company's wholly owned subsidiary Adherium (NZ) Limited prior to the Company's initial public offering and listing, and subsequently swapped for options over shares of the Company as part of the process leading up to the initial public offering and listing. The options are as detailed in the Remuneration Report below. No other options were granted to the Directors of the Company or other key management personnel of the Group in the period to 30 June 2016.

Details of fully paid ordinary shares issued on exercise of options in the period to 30 June 2016 are contained in the accompanying consolidated financial statements.

Proceedings on behalf of the Company

There are no legal or other proceedings being made on behalf of the Company or against the Company as at the date of this report.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. During the period to 30 June 2016 PricewaterhouseCoopers did not provide any non-audit services.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 in relation to the audit for the financial period is provided with this report.

Corporate Governance Statement

The board of Directors of Adherium Limited is responsible for corporate governance. The board has prepared the Corporate Governance Statement (CGS) in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the CGS may be made available on the Company's website.

Accordingly, a copy of the Company's CGS is available on the Adherium website at www.adherium.com under the Investors/Corporate Governance section.

Remuneration Report (Audited)

The Directors present the Group's 2016 remuneration report which sets out the remuneration information for the Company's Non-Executive Directors, Executive Director and other key management personnel of the Group.

The report contains the following sections:

(a) Details of key management personnel disclosed in this report
(b) Remuneration governance
(c) Executive remuneration policy and framework
(d) Relationship between remuneration and Group performance
(e) Non-Executive Director remuneration policy
(f) Details of remuneration of key management personnel
(g) Service agreements
(h) Details of share and option based compensation
(i) Equity instruments held by key management personnel
(j) Other transactions with key management personnel

(a) Details of key management personnel disclosed in this report

The following persons acted as key management personnel of the Company and the Group during the fifteen months ended 30 June 2016.

(i) Non-Executive and Executive Directors

• Doug Wilson	Non-Executive Chairman (appointed 20 July 2015; resigned 1 September 2016)
• Garth Sutherland	Executive Director (appointed 20 July 2015) and Group CEO
• Jeremy Curnock Cook	Non-Executive Director (appointed on incorporation 17 April 2015)
• William Hunter	Non-Executive Director (appointed 17 December 2015)
• Bruce McHarrie	Non-Executive Director (appointed 20 July 2015)
• John Mills	Non-Executive Director (appointed 20 July 2015)
• Bryan Mogridge	Non-Executive Director (appointed 20 July 2015)
• Matthew McNamara	Non-Executive Director (appointed on incorporation 17 April 2015; resigned 20 July 2015)
• Bronwyn Le Grice	Non-Executive Director (appointed on incorporation 17 April 2015; resigned 20 July 2015)

(ii) Other key management personnel

• Mark Licciardo	Joint Company Secretary (appointed 10 May 2016)
• Bronwyn Le Grice	Joint Company Secretary (appointed on incorporation 17 April 2015; resigned 10 May 2016) and Head of Commercial Development (appointed 19 August 2015; resigned 22 April 2016)
• Rob Turnbull	Joint Company Secretary (appointed 21 August 2015) and Chief Financial Officer

(iii) Changes since the end of the reporting period

In the period after the end of the reporting date and up to the date of this report there following changes to key management personnel were:

- On 1 September 2016 Dr Doug Wilson resigned as Non-Executive Chairman, and Mr Thomas Lynch was appointed as Non-Executive Chairman; and
- On 1 August 2016 Mr Ross Bradding commenced as Chief Operating Officer.

(b) Remuneration governance

The Nomination and Remuneration Committee is a committee of the board. Its responsibilities include assisting the board in ensuring that the Company:

- has coherent remuneration policies and practices which are observed and which enable it to attract and retain executives and directors who will create value for shareholders;
- fairly and responsibly rewards executives having regard to the performance of the Company, the performance of the executive and the general pay environment;
- provides disclosure in relation to the Company's remuneration policies to enable investors to understand the costs and benefits of those policies and the link between remuneration paid to directors and key executives and corporate performance; and
- complies with the provisions of the ASX Listing Rules and the Corporations Act.

The primary purpose of the Nomination and Remuneration Committee is to support and advise the board in fulfilling its responsibilities to shareholders in ensuring that the board is appropriately remunerated, structured and comprised of individuals who are best able to discharge the responsibilities of directors by:

- assessing the size, composition, diversity and skills required by the board to enable it to fulfil its responsibilities to shareholders, having regard to the Company’s current and proposed scope of activities;
- assessing the extent to which the required knowledge, experience and skills are represented on the board;
- establishing processes for the identification of suitable candidates for appointment to the board;
- overseeing succession planning for the board and the Chief Executive Officer;
- establishing processes for the review of the performance of individual directors and the board as a whole;
- assessing the terms of appointment and remuneration arrangements for non-executive directors; and
- assessment and reporting to the board in relation to:
    - executive remuneration policy;
    - the remuneration of executive directors;
    - the remuneration of persons reporting directly to the Chief Executive Officer, and as appropriate, other executive directors;
    - diversity plans, measurable diversity objectives and ensuring equality in remuneration across gender aligned, where relevant, with the ASX Corporate Governance Guidelines;
    - the Company's recruitment, retention and termination policies and procedures;
    - superannuation arrangements; and
    - all equity-based plans.

(c) Executive remuneration policy and framework

Remuneration policy

The policy for determining the nature and amount of remuneration of key management personnel is agreed by the board of directors as a whole on advice from the Nomination and Remuneration Committee. The board obtains professional advice where necessary to ensure that the Group attracts and retains talented and motivated directors and employees who can enhance the performance of the Group through their contributions and leadership. The Nomination and Remuneration Committee makes specific recommendations on the remuneration package and other terms of employment for the CEO having regard to his performance, relevant comparative information, and if appropriate, independent expert advice.

For key management personnel, the Group provides a remuneration package that incorporates both cash-based remuneration and, if appropriate, share-based remuneration. The contracts for service between the Group and key management personnel are on a continuing basis, the terms of which are to align executive performance-based remuneration with Group objectives.

The Nomination and Remuneration Committee is also responsible for making recommendations to the board in relation to the terms of any issue of equity-based remuneration to employees, as part of their individual package, or a wider staff incentive and retention scheme, and for ensuring that any such issue is made in accordance with the ASX Listing Rules.

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits, including legislative superannuation;
- short-term performance incentives; and
- long-term incentives through participation in the Adherium Employee Share Plans.

A combination of some or all of these components comprises an executive's total remuneration.

Base pay

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure that executive remuneration is competitive with the market.

There are no guaranteed base pay increases included in any executives' contracts.

Short-term incentives (STI)

Executives have a target STI opportunity depending on the accountabilities of the role and impact on the organisation. The STI is a cash-based incentive which forms part of the executive's total compensation. Each year, the Nomination and Remuneration Committee in conjunction with the CEO, will consider the appropriate targets and key performance indicators (KPIs) of each executive to link the STI plan and the level of payout if targets are met. This will include setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

The STI achievement is calculated and paid annually. As at 30 June 2016 and the date of this report, calculation of individual executive STI achievement had not been completed or paid in relation to the fifteen-month period ended 30 June 2016.

Long-term incentives (LTI)

Long-term incentives are provided to certain employees via the Adherium Employee Share Plans (the Plans), one of which is operated for New Zealand resident participants and the other for participants resident elsewhere.

The board has the discretion to offer and issue to eligible employees including directors:

- ordinary shares in the Company issued at an issue price determined by the board, but generally at the prevailing market price of the Company's ordinary shares; and

- limited recourse loans where some or all of the issue price of the share awards are funded by way of a loan from the Company.

The Plans are designed to focus executives on delivering long-term shareholder returns.

Share awards issued under the Plans vest in three equal tranches over three years of continuing employment. If the vesting condition is not met, the related share award is forfeited and loan cancelled such that the executive receives no benefit from unvested shares.

Participation in the Plans is at the board's discretion and executives do not have a contractual right to participate in the Plans.

(d) Relationship between remuneration and Group performance

The Group is presently in a business growth phase, as it undertakes continued product development, and seeks relevant regulatory approvals for its technologies and market penetration for its products, and this is the focus of executives and the board. During this phase expenditures continue to exceed revenues, and in the fifteen months ended 30 June 2016 the Group incurred a loss before tax of $7,885,000 (6.6 cent loss per share). The Company was admitted to the Official List of the ASX in August 2016, and in the period to 30 June 2016 the Company's shares traded between 42.5 and 72 cents per share. Given the stage of the Group, the board does not utilise earnings per share as a performance measure and does not presently include the Company's share price as a measure of executive performance.

No dividends were paid, declared or recommended during the period ended 30 June 2016.

(e) Non-Executive Director remuneration policy

On appointment to the board, Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

Non-Executive directors receive a fee which is inclusive of fees for chairing or participating on board committees. They do not receive performance-based pay. Non-Executive Directors' fees and payments are reviewed annually by the board. The Non-Executive Chairman's fees are determined independently of the fees of Non-Executive Directors based on comparative roles in the external market, and for the period to 30 June 2016 were set at $80,000 per annum. Other directors were each entitled in the period to 30 June 2016 to be paid a fixed remuneration of up to a maximum of $40,000 per annum (plus legislative superannuation contributions where applicable).

A Non-Executive Director may be paid fees or other amounts as the Directors determine where a Director performs services outside the scope of the ordinary duties of a Director. The Company may reimburse Non-Executive Directors for their expenses properly incurred as a Director or in the course of office.

(f) Details of remuneration of key management personnel

Remuneration for the fifteen months ended 30 June 2016

Directors' remuneration		Short Term benefit Salaries & fees $	Cash bonus $
Doug Wilson	- Adherium Limited	80,000	-
	- Adherium (NZ) Limited	41,908	-
Jeremy Curnock Cook	- Adherium Limited	40,000	-
	- Adherium (NZ) Limited	14,162	-
Bruce McHarrie	- Adherium Limited	40,000	-
William Hunter[1]	- Adherium Limited	20,000	-
John Mills	- Adherium Limited	40,000	-
Bryan Mogridge	- Adherium Limited	40,000	-
Matthew McNamara[2]	- Adherium (NZ) Limited	15,019	-
Maxine Simmons[2]	- Adherium (NZ) Limited	14,162	-
Sub-total directors		345,251	-
Executives' remuneration			
Garth Sutherland		312,638	22,105
Bronwyn Le Grice[3]		181,186	-
Mark Licciardo[4]		5,718	-
Rob Turnbull		234,101	-
Sub-total executives		733,643	22,105
Total key management personnel		1,078,894	22,105

1. *William Hunter was appointed a Non-Executive Director 17 December 2015.*
2. *Adherium (NZ) Limited directors resigned on admission of Adherium Limited to the Official List of the ASX.*
3. *Bronwyn Le Grice joined Adherium 19 August 2015 as Head of Commercial Development and Corporate Affairs and resigned on 22 April 2016, and as Joint Company Secretary 10 May 2016.*

Remuneration for the year ended 31 March 2015

Directors' remuneration		Short Term benefit Salaries & fees $	Cash bonus $
Doug Wilson	- Adherium (NZ) Limited	60,265	-
Jeremy Curnock Cook	- Adherium (NZ) Limited	39,404	-
Matthew McNamara	- Adherium (NZ) Limited	39,404	-
Maxine Simmons	- Adherium (NZ) Limited	39,404	-
Sub-total directors		178,477	-
Executives' remuneration			
Garth Sutherland		185,433	-
Rob Turnbull		157,620	-
Sub-total executives		343,053	-
Total key management personnel		521,530	-

1. *The fair values of options and loan funded shares are calculated at the date of grant using a Black-Scholes pricing model and allocated to each reporting period in accordance with vesting. The values noted represent the portion of the fair value of the options or loan funded shares allocated to the reporting period.*

Post employment benefits	Share-based payments			
Superannuation $	Value of Options/ Loan Funded Shares[5] $	Total $	Performance Related remuneration %	Fixed remuneration %
-	-	80,000		
-	5,678	47,586	4%	96%
-	-	40,000		
-	3,407	17,569	6%	94%
3,483	-	43,483	-	-
-	-	20,000	-	-
3,483	-	43,483	-	-
-	-	40,000	-	-
-	3,407	18,426	18%	82%
-	3,407	17,569	19%	81%
6,966	15,899	368,116		
13,390	7,658	355,791	8%	92%
16,002	-	197,188	-	-
-	-	5,718	-	-
7,023	3,585	244,709	1%	99%
36,415	11,243	803,406		
43,381	27,142	1,171,522		

4. *A company of which Mr Licciardo is a director received fees from the Company for company secretarial and corporate governance consulting services, commencing 10 May 2016.*
5. *The fair values of options and loan funded shares are calculated at the date of grant using a Black-Scholes pricing model and allocated to each reporting period in accordance with vesting. The values noted represent the portion of the fair value of the options or loan funded shares allocated to the reporting period.*

Post employment benefits	Share-based payments			
Superannuation $	Value of Options/ Loan Funded Shares[5] $	Total $	Performance Related remuneration %	Fixed remuneration %
-	16,245	76,510	21%	79%
-	9,706	49,110	20%	80%
-	9,706	49,110	20%	80%
-	9,706	49,110	20%	80%
-	45,363	223,840		
7,417	-	192,850	-	-
4,729	8,256	170,605	5%	95%
12,146	8,256	363,455		
12,146	53,619	587,295		

(g) Service agreements

Joint Company Secretary - Mr Mark Licciardo

Mr Licciardo currently provides company secretarial and corporate governance services under a service arrangement between the Company and Merton Corporate Services Pty Ltd, a company associated with Mr Licciardo. The current arrangement has no predetermined termination date, with each party having the right to terminate the arrangement by giving ninety days' notice in writing to the other party.

Other key management personnel of the Group

Remuneration and other terms of employment for other key management personnel of the Group are formalised in employment agreements which specify the components of remuneration, benefits and notice periods. Participation in the STI and LTI plans is subject to the board's discretion. Other major provisions of the agreements relating to remuneration are set out below:

Name	Term of Agreement	Notice Period [1]	Base Salary[2]	Termination Payments[3]
Garth Sutherland *Group Chief Executive Officer*	No fixed term	3 months	NZ$280,000	6 months
Bronwyn Le Grice *Head of Commercial Development and Corporate Affairs (resigned 22 April 2016)*	No fixed term	Employee – 3 months Employer – 5 months	AU$195,800	Nil
Rob Turnbull *Chief Financial Officer*	No fixed term	1 month	NZ$220,000	1 month

1. *The notice period applies without cause equally to either party unless otherwise stated.*
2. *Base salaries quoted are annual as at 30 June 2016; they are reviewed annually by the Remuneration Committee.*
3. *Base salary payable if the Group terminates employees with notice, and without cause (e.g. for reasons other than unsatisfactory performance).*

(h) Details of share and option based compensation

Options over ordinary shares of the Company

All options over ordinary shares issued by the Company are exercisable on a one-for-one basis.

During the period to 30 June 2016 and to the date of this report:

- 173,238 options with an exercise price of $0.134039 per option were granted to Garth Sutherland as part of his remuneration. The options had an aggregate fair value of $7,658, are vested, and expire 31 March 2022.
- Garth Sutherland exercised 173,238 options with an exercise price of $0.075268 per option. The options had been awarded as compensation at 31 March 2009.

Loan funded Employee Share Plan

During the period the board established the loan funded Adherium Employee Share Plans (Plans). Offers of allocations under the plan were made to key management personnel on 16 May 2016 and an acceptance was received.

The offer accepted was as follows:

(a) Term of the loan: 5 years (16 May 2021) or cessation of employment, whichever is earlier.
(b) Purchase price of shares funded by loan is 50 cents per ordinary share.
(c) The shares vest one third annually over three years of continued employment.
(d) Loan funded shares remaining on issue with key management personnel are:
  Rob Turnbull: 409,645 ordinary shares, $204,823 loan

A valuation of these shares at the date of award, using the Black & Scholes option pricing model, totalled $47,587, which is being allocated over the vesting period as share based compensation. The charge allocated to the period ended 30 June 2016 was $3,585.

(i) Equity instruments held by key management personnel

Shareholdings

The number of ordinary shares in the Company held during the period to 30 June 2016 by each Director and other key management personnel of the Group, including their personally related parties, are set out below:

Name	Balance at the start of the period [1]	Purchases	Other changes during the period	Balance at the end of the period
Doug Wilson	-	-	1,039,428[2]	1,039,428
Jeremy Curnock Cook	-	80,000[3]	-	80,000
Bruce McHarrie	-	-	-	-
William Hunter	-	-	-	-
John Mills	-	40,000[3]	-	40,000
Bryan Mogridge	1,500,000	-	6,858,807[4]	8,358,807
Matthew McNamara[6]	-	-	-	-
Maxine Simmons[6]	-	-	-	-
Garth Sutherland	11,174,450	-	173,238[5]	11,347,688
Bronwyn Le Grice[6]	-	20,000[3]	-	20,000
Mark Licciardo	-	-	-	-
Rob Turnbull	-	-	409,645[7]	409,645

1. *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 balance of shares at the start of the period.*
2. *Exercise of options to acquire ordinary shares.*
3. *Ordinary share subscription in the Company's initial public offering.*
4. *Ordinary shares held jointly with the CFO in their capacity as trustees of the Company's Employee Share Plan.*
5. *Exercise of options to acquire ordinary shares.*
6. *Holding as at date of resignation.*
7. *Award of loan funded shares under the Company's Employee Share Plan.*

(j) Other transactions with key management personnel

There were no other transactions with directors or other key management personnel.

End of audited Remuneration Report.

This report is made in accordance with a resolution of the Directors.

Thomas Lynch
Non-Executive Chairman

Melbourne
16 September 2016

Auditor's Independence Declaration

As lead auditor for the audit of Adherium Limited for the fifteen month period ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adherium Limited and the entities it controlled during the period.

Graeme Pinfold
Partner
PricewaterhouseCoopers

Auckland
16 September 2016

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Financial Statements:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the fifteen-month period ended 30 June 2016

	Notes	June 2016 $000	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	*14*	(379)	(103)
Finance income (cost) - net		181	(81)
Loss before income tax		(7,885)	(1,255)
Income tax expense	*6*	-	-
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	*7*	6.6 cents	1.9 cents

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position

as at 30 June 2016

	Notes	June 2016 $000	March 2015 $000
ASSETS			
Current assets			
Cash and cash equivalents	*8*	27,211	3,468
Trade and other receivables	*9*	948	334
Inventories	*10*	418	969
Deferred capital raising costs		-	477
Prepayments		49	12
Total current assets		28,626	5,260
Non-current assets			
Property, plant and equipment	*11*	298	166
Intangible assets	*12*	31	190
Total assets		28,955	5,616
LIABILITIES			
Current liabilities			
Trade and other payables	*13*	1,394	1,329
Income received in advance		104	1,296
Borrowings	*14*	-	1,501
Embedded conversion derivative	*14*	-	473
Total current liabilities		1,498	4,599
EQUITY			
Share capital	*15*	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

The accompanying notes form part of the financial statements.

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

	Share Capital $000	Accumulated Deficit $000	Share & Option Compensation Reserve $000	Foreign Currency Translation Reserve $000	Merger Reserve $000	Total Equity $000
Equity as at 1 April 2014	5,236	(3,870)	373	435	-	2,174
Loss for the year	-	(1,255)	-	-	-	(1,255)
Other comprehensive income	-	-	-	12	-	12
Total comprehensive loss	-	(1,255)	-	12	-	(1,243)
Transactions with owners:						
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
Loss for the year	-	(7,885)	-	-	-	(7,885)
Other comprehensive income	-	-	-	203	-	203
Total comprehensive loss	-	(7,885)	-	203	-	(7,682)
Transactions with owners:						
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

The accompanying notes form part of the financial statements.

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

	Notes	June 2016 $000	March 2015 $000
Cash flows from operating activities:			
Receipts from customers		1,124	4,091
Receipts from grants		82	120
Interest received		560	22
Interest paid		-	-
Resident withholding tax refunded (paid)		(15)	20
Payments to employees		(3,284)	(1,558)
Payments to suppliers		(6,380)	(2,672)
Net cash provided from (used in) operating activities		(7,913)	23
Cash flows from investing activities:			
Purchase of property, plant and equipment		(297)	(82)
Purchase of software		(41)	-
Product development costs incurred		(102)	(169)
Net cash used in investing activities		(440)	(251)
Cash flows from financing activities:			
Proceeds from the issue of shares	*15*	35,000	-
Proceeds from the exercise of options	*15*	426	24
Proceeds from the issue of convertible notes	*14*	-	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 year		3,468	1,893
Effect of exchange rate changes on cash balances		184	181
Cash at the end of the year	*8*	27,211	3,468
Reconciliation with loss after income tax:			
Loss after income tax		(7,885)	(1,255)
Non-cash items requiring adjustment:			
Depreciation of property, plant and equipment	*11*	152	75
Amortisation of intangible assets	*12*	12	-
Loss on disposal of property, plant and equipment	*11*	-	35
Product development costs expensed	*12*	270	-
Interest accrued to borrowings	*14*	378	103
Share and option compensation expense		198	61
Foreign exchange (gain) loss		(121)	(35)
Changes in working capital:			
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

The accompanying notes form part of the financial statements.

Notes to the financial statements
for the fifteen-month period ended 30 June 2016

1. General Information

Adherium Limited (the Company or Adherium) is a company domiciled in Australia. The address of the Company's registered office is Level 14, 140 William Street, Melbourne, VIC 3000. The consolidated financial statements of the Company as at and for the fifteen-month period ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities). The Group is a for-profit entity and primarily develops, manufactures and supplies digital health technologies which address sub-optimal medication use and improve health outcomes in chronic disease.

The separate financial statements of the parent entity, Adherium Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The consolidated financial statements were authorised for issue by the Board on 16 September 2016.

2. Basis of Presentation

This general purpose consolidated financial report for the fifteen months ended 30 June 2016 has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001.

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 of 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 for the 12 months from 1 April 2014 to 31 March 2015.

(a) Compliance with International Financial Reporting Standards

These consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention as modified by certain policies below.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

Adherium's financial statements have historically been presented in New Zealand dollars. In August 2015 Adherium completed an initial public offering and listed on the Australian Securities Exchange. To align its financial reporting with its listing market, the Company has adopted Australian dollars as its presentation currency effective 1 April 2015. The functional currency of Adherium Limited is Australian dollars, and the functional currency of Adherium (NZ) Limited continues to be New Zealand dollars.

Accordingly, the financial results and position of Adherium (NZ) Limited are translated to Australian dollars for consolidated reporting purposes. Prior period comparative numbers in this financial report have been restated in Australian dollars in order to provide meaningful comparable information. The change in presentation currency has been applied from the earliest date practicable. Where necessary, certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

(d) Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Impairment of non-current assets

The Company reviews annually whether any property, plant and equipment have suffered any impairment in accordance with the accounting policy stated in note 3.10. In making this assessment, the extent of the likely future use of these assets is required to be estimated in determining if their value is impaired at the balance sheet date. The Company evaluates indicators of impairment, including expected future demand for devices, in relation to each type of asset at the balance sheet date.

(ii) Recognition of deferred tax assets

As at 30 June 2016, the Company has not recognised as an asset tax losses which could be offset against future taxable profits. These tax losses would only be recognised to the extent that it is expected that there will be future taxable profits and such losses will be available in the future (after shareholder continuity tests) to offset those future taxable profits. The Company has considered its future expected profitability and shareholder continuity and has concluded that sufficient certainty does not yet exist to recognise these tax losses as an asset.

(e) Rounding of amounts

The Company has applied the relief available to it under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Accordingly, amounts in the consolidated financial statements and Directors' Report have been rounded to the nearest $1,000.

3. Summary of significant accounting policies

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

3.1 Changes in accounting policy and disclosures

In conjunction with the reorganisation ahead of the initial public offering and listing, Adherium has adopted an accounting policy in relation to consolidation of subsidiaries.

Principles of consolidation: The consolidated financial statements incorporate all of the assets, liabilities and results of Adherium Limited and all subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it 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. A list of the subsidiaries is provided in note 20. All intercompany transactions are eliminated. The assets and liabilities of Group companies whose functional currency is not Australian dollars are translated into Australian dollars at the period-end exchange rate. The revenue and expenses of these companies are translated into Australian dollars at rates approximating those at the dates of the transactions. Exchange differences arising on this translation are recognised in the foreign currency translation reserve. On disposal or partial disposal of an entity, the related exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

3.2 Segment Reporting

The Company has considered the requirements for segmental reporting as set out in AASB 8: Operating Segments. The standard requires that operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer. The Company has determined that one segment exists for the Company's Smartinhaler business.

3.3 Foreign currency translation

(a) Transactions and balances

Foreign currency transactions are translated into the functional currency 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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(b) Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency is translated as follows:

- Assets and liabilities are translated at period end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

3.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. Amounts received from customers in accordance with contractual sales terms before these revenue recognition criteria are met are deferred and recorded as Income Received in Advance until such time as the criteria for recognition as revenue are met.

(a) Sales of devices

The Company manufactures and sells a range of inhaled medication monitoring devices and related equipment. Sales of products are recognised when they have been delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied. No element of financing is deemed present as the sales are made with a credit term of 30-60 days.

(b) Sales of licences and subscriptions to software
The Company sells licences and subscriptions to its device customers to enable access to data collected by purchased devices. Revenue is recognised in the accounting period to which the licence or subscription relates.

(c) Grants
Grants received for research and development are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

(d) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

3.5 Research and development
Research costs include direct and directly attributable overhead expenses for product invention and design. Research costs are expensed as incurred.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, development expenditure is recognised as a development asset within Intangible Assets when:
- a product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the existence of a market for the product or process can be demonstrated and the Company intends to produce and market the product or process;
- adequate resources exist, or their availability can be reasonably demonstrated to complete the project and market the product or process.

In such cases the asset is amortised from the commencement of commercial production of the product to which it relates on a straight-line basis over the years of expected benefit. Research and development costs are otherwise expensed as incurred.

3.6 Employee benefits
(a) Wages, salaries and annual leave
Liabilities for wages and salaries, bonuses and annual leave expected to be settled within 12 months of the reporting date are recognised in accrued liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(b) Share-based payments
The Company operates equity-settled share and option plans and awards certain employees, directors and consultants shares and options, from time to time, on a discretionary basis. The fair value of the services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share and option compensation reserve over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest and become exercisable. It recognises the impact of the revision of

original estimates, if any, in the Statement of Profit or Loss and Other Comprehensive Income, and a corresponding adjustment to equity over the remaining vesting period.

3.7 Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

3.8 Income tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income, except to the extent that it relates to items recognised in directly in equity. In this case, the tax is also recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company generated taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.9 Goods and Services Tax (GST)
The Statement of Profit or Loss and Other Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

3.10 Impairment of non-financial assets
Assets that are subject to amortisation and depreciation are reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount of an asset is considered impaired when its recoverable amount is less than its carrying value. In that event, a loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income based on the amount by which the carrying amount exceeds the recoverable amount.

3.11 Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and 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.

3.12 Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.14 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairments recognised. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Depreciation is determined principally using the diminishing value method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Manufacturing tooling equipment	4 years
Computer equipment	2 years
Office furniture, fixtures & fittings	4 years

3.15 Intangible assets

(a) Intellectual property

Costs in relation to protection and maintenance of intellectual property are expensed as incurred unless the project has yet to be recognised as commenced, in which case the expense is deferred and recognised as contract work in progress until the revenues and costs associated with the project are recognised.

Acquired patents, trademarks and licences have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost over the anticipated useful lives, which are aligned with the unexpired patent term or agreement over trademarks and licences.

(b) Acquired software

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (two years).

(c) Product development

Directly attributable product development costs that are capitalised in accordance with the research and development policy (3.5 above) include the associated direct external costs and employee costs.

3.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.17 Convertible Notes

The terms included in the convertible notes contract related to the conversion features, had they been a standalone contract, would have met the definition of a derivative. These are separated from the host contract because the terms are not considered closely related to the host and accounted for in the same way as a derivative and measured at fair value through profit or loss. The fair value of the embedded derivative is estimated based on market conditions prevalent at the issue date. The remainder of the proceeds are allocated to the loan instrument portion of the convertible note. Transaction costs are allocated to the liability and embedded derivative components in proportion to their initial carrying amounts.

The embedded derivative is subsequently re-measured to fair value at each reporting date and any movements in fair value are immediately recognised in the Statement of Profit or Loss and Other Comprehensive Income within 'interest expense'. Transaction costs associated with embedded derivatives are expensed to the Statement of Profit or Loss and Other Comprehensive Income when incurred.

The host loan instrument portion meets the definition of a financial liability and is subsequently carried at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value of the loan instrument being recognised in the Statement of Profit or Loss and Other Comprehensive Income in 'interest expense' over the period of the borrowings, using the effective interest method until extinguished on conversion or maturity of the notes.

3.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are deferred until the issue of the shares or options, and then shown in equity as a deduction, net of tax, from the proceeds.

3.19 Financial assets

(a) Financial assets recognised in the Statement of Financial Position include cash and cash equivalents, and trade and other receivables. The Company believes that the amounts reported for financial assets approximate fair value.

(b) Financial assets: Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the Statement of Financial Position. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

3.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

3.21 Comparative Information

Where necessary, certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

3.22 New Accounting Standards for application in future periods

The following standards have been issued but are not yet effective and have not yet been adopted:

AASB 9 Financial instruments

AASB 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces all previous versions of AASB 9 and completes the project to replace IAS 39 that relates to the classification and measurement of financial instruments. AASB 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no material changes to classification and measurement. AASB 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company intends to apply this standard from 1 July 2018 and has yet to assess its full impact.

AASB 15 Revenue from contracts with customers

AASB 15 is effective for periods commencing on or after 1 January 2018. The standard addresses recognition of revenue from contracts with customers and sets out a five step model for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in a way that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company has yet to assess AASB 15's full impact. The Company intends to apply this standard from 1 July 2018.

AASB 16 Leases

AASB 16 replaces the AASB 117 Leases. Under AASB 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under AASB 117, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). AASB 16 will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. The Company intends to apply this standard from 1 July 2019 and has yet to assess its full impact.

There are no other standards, amendments, or interpretations to existing standards that have been issued and yet to be adopted by the Company that are likely to have a material impact on the financial statements.

4. Segment Information

The chief operating decision maker is the Chief Executive Officer, who reviews financial information for the Company 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.

(a) Geographic segment information

The Company operates predominantly from New Zealand, with some manufacturing also undertaken by suppliers in Asia at which the Company locates equipment and tools:

Domicile of non-current assets	June 2016 $000	March 2015 $000
New Zealand and Australia	178	216
South-East Asian Countries	148	140
Other Countries	3	-
	329	**356**

The Company sells its products and services domestically and internationally. Revenues by customer region of domicile are:

Location of customer sales	June 2016 $000	March 2015 $000
New Zealand and Australia	331	45
Europe	1,970	2,730
North America	325	132
	2,626	**2,907**

b) Major customers

Revenues are derived from major external customers as follows:

Major customers	June 2016 $000	March 2015 $000
Customer A group entities	1,993	2,609
Customer B group entities	303	-

5. Expenses

Loss before income tax includes the following specific expenses:	June 2016 $000	March 2015 $000
Fees paid to PricewaterhouseCoopers for:		
- Audit of the financial statements	119	39
- Other services		
• Accounting advice	-	1
• Fees in respect of file review	1	1
Total fees to PricewaterhouseCoopers	120	41
Depreciation	152	75
Directors' remuneration		
- Fees	332	178
- Consulting	8	6
- Share option compensation	16	45
Total Directors' remuneration	356	229
Employee benefits expense		
- Wages and salaries	3,737	1,589
- Share option compensation	67	16
Total employee benefits expense	3,804	1,605
Foreign exchange (gain) loss	(121)	(35)
Operating lease costs	222	80

6. Income Tax

	June 2016 $000	March 2015 $000
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-

Numerical reconciliation of income tax expense to prima facie tax payable (receivable):		
Loss before income tax	(7,885)	(1,255)
Tax calculated at domestic tax rates	(2,249)	(351)
Tax effects of:		
Expenses not deductible for tax purposes	174	18
Under (over) provision in prior year	-	(54)
Deferred tax assets not recognised (note 16)	2,075	387
Income tax expense	-	-

The weighted average applicable tax rate was 28% (2015: 28%).

7. 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 set out in note 15 and the Convertible Notes set out in note 14) 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.

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

8. 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
	27,211	3,468

9. 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
	948	334

10. Inventories

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

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to $1,111,000 (2015: $807,000).

11. Property, plant and equipment

	Manufacturing Equipment $000	Computer Equipment $000	Fixtures & Fittings $000	Office Equipment $000	Total $000
As at 1 April 2014					
Cost	161	26	8	4	199
Accumulated depreciation	(26)	(9)	(1)	(1)	(37)
Net book value	135	17	7	3	162
Movements in the year ended 31 March 2015					
Opening net book value	135	17	7	3	162
Additions	100	8	1	-	109
Depreciation	(62)	(11)	(1)	(1)	(75)
Loss on disposal	(35)	-	-	-	(35)
Foreign currency translation	4	-	1	-	5
Closing net book value	142	14	8	2	166
As at 31 March 2015					
Cost	206	33	10	4	253
Accumulated depreciation	(64)	(19)	(2)	(2)	(87)
Net book value	142	14	8	2	166
Movements in the period ended 30 June 2016					
Opening net book value	142	14	8	2	166
Additions	191	55	29	6	281
Depreciation	(129)	(18)	(3)	(2)	(152)
Foreign currency translation	1	1	1	-	3
Closing net book value	205	52	35	6	298
As at 30 June 2016					
Cost	402	90	40	10	542
Accumulated depreciation	(197)	(38)	(5)	(4)	(244)
Net book value	205	52	35	6	298

12. Intangible assets

	Software $000	Product development costs $000	Total $000
As at 1 April 2014			
Cost	-	-	-
Accumulated amortisation	-	-	-
Net book value	-	-	-
Movements in the year ended 31 March 2015			
Opening net book value	-	-	-
Additions			
- External costs	-	101	101
- Employee costs	-	82	82
Amortisation	-	-	-
Foreign currency translation		7	7
Closing net book value	-	190	190
As at 31 March 2015			
Cost	-	190	190
Accumulated amortisation	-	-	-
Net book value	-	190	190
Movements in the period ended 30 June 2016			
Opening net book value	-	190	190
Additions			
- External costs	41	32	73
- Employee costs	-	57	57
Amortisation	(12)	-	(12)
Accumulated costs written off (net)	-	(270)	(270)
Foreign currency translation	2	(9)	(7)
Closing net book value	31	-	31
As at 30 June 2016			
Cost	43	-	43
Accumulated amortisation	(12)	-	(12)
Net book value	31	-	31

13. Trade and other payables

	June 2016 $000	March 2015 $000
Trade payables	591	1,223
Accruals	294	25
Employee benefits	509	81
	1,394	1,329

14. 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.

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 15).

Movements in borrowings during the periods were as follows:

	March 2015 $000	Fair value change $000	Interest $000	Foreign currency translation $000	Conversion to ordinary shares $000	June 2016 $000
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 $000	Fair value change $000	Interest $000	Foreign currency translation $000	March 2015 $000
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

There were no transfers between the fair value hierarchy levels in 2015 or 2016.

15. Share capital

Share numbers presented below have where applicable 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.

	Ordinary Shares	$000	
Adherium (NZ) Limited			
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	65,236,795	5,261	
Shares issued on Convertible Notes conversion	4,763,205	2,204	
Shares acquired by Adherium Limited in reorganisation	70,000,000	7,465	(a)
Adherium Limited			
Shares issued to Adherium (NZ) Limited shareholders	70,000,000	35,000	(b)
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	4,441,285	426	
Share capital as at 30 June 2016	151,219,925	66,720	

(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 securities 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.

(b) Ordinary Shares

The ordinary shares have no par value and all ordinary shares are fully paid-up and rank equally as to dividends and liquidation, with one vote attached to each fully paid ordinary share.

(c) Employee incentive plans

Adherium Employee Share Option Plan (Adherium ESOP)

In conjunction with the capital reorganisation Adherium Limited granted replacement options to Adherium (NZ) Limited option holders on equivalent terms. Other than to implement the roll-over of existing options in Adherium (NZ) Limited into Adherium (under the Adherium ESOP), no issue of any other options under the Adherium ESOP is contemplated.

The following presents the share option information on the basis that the Adherium ESOP was in place for all periods presented.

Exercise price range $0.075268 – 0.134039	Option	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (years)	Exercisable	Weighted Average Exercise Price	Weighted Average Share Price at Exercise
Outstanding at 1 April 2014	11,371,021	$ 0.1046	5.1	7,646,406	$ 0.0903	
Granted	-	$ -				
Exercised	(307,497)	$ 0.0753				$ 0.1340
Lapsed	(1,732,380)	$ 0.1340				
Outstanding at 31 March 2015	9,331,144	$ 0.1000	4.0	8,522,695	$ 0.0969	
Granted	173,238	$ 0.1340				
Exercised	(4,441,285)	$0.0959				$ 0.5749
Outstanding at 30 June 2016	5,063,097	$ 0.1049	3.5	5,063,097	$ 0.1049	

The weighted average fair value of options granted prior to the Company's IPO was determined using the Black-Scholes valuation model:

Significant Black-Scholes valuation model inputs	June 2016 $000	March 2015 $000
Weighted average share price at grant date	$0.1340	-
Exercise price	$0.1340	-
Volatility	75%	-
Dividend yield	0%	-
Expected option life	5 years	-
Annual risk-free interest rate	4.2%	-
Discount for lack of marketability	50%	-
Weighted average fair value of options granted	$0.0442	-

The options granted in the period ended June 2016 were granted before the Company listed on the ASX. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of listed peer companies over a six-year period prior to listing on the ASX. The Company has no legal or constructive obligation to repurchase or settle the options in cash. There were no options granted in the year ended 31 March 2015.

Adherium Employee Share Plans (Adherium ESP)

The Company operates employee share plans for employees, directors and consultants within the Group. Participants are invited by the Board of Directors and those who accept an offer of ESP shares are provided with an interest free loan from the Company to finance the whole of the purchase of the ESP shares they were invited to apply for (ESP Loan). The ESP Loans are provided to participants on a non-recourse basis and upon vesting must be repaid in order to remove trading restrictions on vested ESP shares. The term of the ESP Loan is five years, however participants may forfeit their ESP shares if they do not repay the ESP Loan or leave the Company. Awards typically vest one third annually over a three-year period, and are subject to restriction until vesting conditions are met.

The assessed weighted average fair value at grant date of the awards made during the 2016 financial period is 11.6 cents per award. The awards were priced using a Black-Scholes option pricing model that takes into account the exercise price, the term of the award, 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 award.

The following awards have been made under the Adherium ESP:

Grant date	Shares granted	Issue price	Vested as at 30 June 2016	Restricted as at 30 June 2016	Share price at grant date
16 May 2016	6,778,640	$0.50	-	6,778,640	$0.50

d) Other option issues

Pursuant to a capital advisory agreement with the Lead Manager to the Company's IPO, 1,400,000 options were granted with an exercise price of $0.665 per option prior to the Company's IPO. The grant was contingent upon The Company and the Lead Manager entering into the capital advisory agreement after the Company's IPO. The options are exercisable from 3 September 2016, and expire 3 September 2018. A fair value at grant date of $134,000 ($0.0956 per option) was determined using a Black-Scholes option pricing model, of which $115,000 has been recorded in the Statement of Profit or

Loss and Other Comprehensive Income for the period ended 30 June 2016. The significant inputs to the option pricing model were a grant date share price of $0.50, a 0% dividend yield, an expected option life of 1 year, an annual risk-free rate of 1.81%, and a volatility of 70.5%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of listed peer companies over a six-year period prior to listing on the ASX. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

16. Deferred income tax

Movements	**June 2016 $000**	**March 2015 $000**
Deferred tax asset (liability) at the beginning of the year	-	-
Credited (charged) to the income statement (note 6)	2,075	387
Change in unrecognised deferred tax assets	(2,075)	(387)
Deferred tax asset (liability) at the end of the year	-	-

The movement in deferred income tax assets and liabilities during the period is as follows:

	Deferred tax assets (liabilities)				
	Provisions and accruals $000	**Intangible assets $000**	**Convertible notes $000**	**Tax losses $000**	**Total $000**
As at 1 April 2014	-	-	-	-	-
Credited (charged) to the income statement	13	(34)	12	342	333
Under (over) provision in prior year	-	-	-	54	54
Effect of exchange rate changes	-	-	-	37	37
Change in unrecognised deferred tax assets	(13)	34	(12)	(433)	(424)
As at 31 March 2015	-	-	-	-	-
Credited (charged) to the income statement	97	107	(12)	1,883	2,075
Impact of loss of shareholder continuity	-	-	-	(1,697)	(1,697)
Effect of exchange rate changes	4	4	-	(10)	(2)
Change in unrecognised deferred tax assets	(101)	(111)	12	(176)	(376)
As at 30 June 2016	-	-	-	-	-

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable, or to the extent that they can be set off against deferred income tax liabilities. The Company did not recognise deferred income tax assets of $1,341,000 (2015: $1,166,000) in respect of losses amounting to $4,554,000 (2015: $4,165,000) that can be carried forward against future taxable income. The Company also did not recognise further deferred income tax assets of $232,000 (2015: $32,000) in respect of other timing differences amounting to $830,000 (2015: $115,000).

17. Related party transactions

(a) Key management and personnel

The key management personnel include the directors of the Company, the CEO, and senior executives responsible for the planning, directing and controlling of the Group's activities. Compensation for this group was as follows:

	June 2016 $000	March 2015 $000
Directors		
- fees and other short term benefits	361	184
- share option compensation	16	45
CEO and management		
- short-term benefits	750	343
- post-employment benefit contributions	36	12
- share and option compensation	11	8
	1,174	592

Key management personnel and their associates subscribed for share capital in the Company as follows:

	June 2016 Ordinary Shares	June 2016 $000	March 2015 Ordinary Shares	March 2015 $000
Shares in IPO	120,000	60	-	-
Shares on options exercised	1,212,666	152	173,238	14
	1,332,666	212	173,238	14

In addition, key management personnel and their associates subscribed for Convertible Notes in the Company (refer note 14) amounting to NZ$967,000 in the year ended 31 March 2015.

18. Financial instruments and risk management

(a) Categories of financial instruments

	2016 $000	2015 $000
Financial assets		
Loans and receivables classification:		
Cash and cash equivalents	27,211	3,468
Trade and other receivables	863	267
Total financial assets	28,074	3,735
Financial liabilities		
Measured at amortised cost:		
Trade and other payables	1,394	1,329
Convertible notes – liability component	-	1,501
Measured at fair value:		
Convertible notes – embedded conversion derivative	-	473
Total financial liabilities	1,394	3,303

(b) Risk management

The Company is subject to a number of financial risks which arise as a result of its activities.

Foreign exchange risk

During the normal course of business the Company enters into contracts with overseas customers or suppliers or consultants that are denominated in foreign currency. As a result of these transactions there is exposure to fluctuations in foreign exchange rates.

The Company does not utilise derivative financial instruments. It operates a policy of holding cash and cash equivalents in the currency of near-term estimated future supplier payments, however it does not designate formal hedges and as such remains unhedged against foreign currency fluctuations. A foreign exchange gain of $121,000 is included in results for the period ended 30 June 2016 (2015: $35,000 gain).

The carrying amounts of foreign currency denominated assets and liabilities are as follows:

	June 2016 $000	March 2015 $000
Assets		
New Zealand dollars	6,145	3,728
US dollars	670	1,885
UK pounds	30	3
Liabilities		
New Zealand dollars	936	3,779
US dollars	233	699
UK pounds	126	15
Hong Kong dollars	4	25

The following table details the Company's sensitivity to a 10% increase and decrease in each of the currencies noted against the Australian dollar as at the reporting date.

Decrease (increase) in loss after income tax	June 2016 $000	March 2015 $000
10% strengthening of Australian dollar against:		
New Zealand dollar	538	119
US dollar	7	(71)
UK pound	38	1
Hong Kong dollars	1	2
10% weakening of Australian dollar against:		
New Zealand dollar	(657)	(145)
US dollar	(8)	176
UK pound	(47)	(2)
Hong Kong dollars	-	(3)

Cash flow and fair value interest rate risk

The Company is exposed to interest rate risk as it holds cash and cash equivalents (refer note 8) and had borrowings (refer note 14).

Trade and other receivables and payables do not bear interest and are not interest rate sensitive.

The Company's interest bearing financial assets bear interest at deposit rates for up to 90 days and accordingly any change in interest rates would have an immaterial effect on reported loss after tax.

The Convertible Notes did not bear interest (see note 14) and were therefore not cash flow interest rate sensitive at 31 March 2015.

Credit risk

The Company incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The credit risk on financial assets of the Company, which have been recognised in the statement of financial position, is the carrying amount, net of any allowance for doubtful debts.

The Company does not require any collateral or security to support transactions with financial institutions or customers. The counterparties used for banking activities are financial institutions with an AA- credit rating (2015: AA-) and the Company assesses the credit quality of customers by taking into account their financial position, past experience and other factors. The credit quality of trade receivables can be assessed by reference to external credit ratings (if available) or to historical information about counter-party default rates:

	June 2016 $000	March 2015 $000
Counterparties with external credit rating:		
A-	556	161
Counterparties without external credit rating:		
existing customers (more than 6 months) with no defaults in the past	5	19
Total trade receivables	561	180

The Company is exposed to a concentration of credit risk as 99% of accounts receivable are with one counterparty (2015: 89%). The customer has an external credit rating of AA-.

Liquidity risk

The table below shows the Company's non-derivative financial liabilities by relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months $000	Between 3 months and 1 year $000
As at 30 June 2016		
Trade and other payables	1,394	-
As at 31 March 2015		
Trade and other payables	1,329	-
Borrowings (convertible notes)	-	1,932

Capital risk

The Company manages its capital to ensure that it is able to continue as a going concern. The capital structure of the Company consists of cash and cash equivalents, and equity comprising issued capital, reserves and accumulated deficit.

Fair value estimation

Financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

At 31 March 2015 the embedded conversion derivative with a fair value of $473,000 (note 14) was classified as subject to recurring fair value measurement within Level 3 of the hierarchy. There were no transfers between the fair value hierarchy levels in 2015 or 2016.

The Company has performed its own estimate of the fair value of the embedded conversion derivative recognised separately from the host convertible notes (see note 14) using a present value technique. The main inputs to the valuation are 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%. A reasonably possible change at 31 March 2015 of plus or minus 5 percentage points to the estimate of the probability of the notes converting would lead to an increase or decrease respectively in the valuation of the derivative of $32,000. A reasonably possible change to the discount rate applied would not have a material impact upon the valuation.

The Convertible Notes converted to shares in the Company during the period ended 30 June 2016 (refer note 14).

19. Parent entity information

Adherium Limited was incorporated on 17 April 2015, and its first financial report is to 30 June 2016.

	Parent June 2016 $000
Statement of Financial Position	
Current assets	22,479
Non-current assets	44,059
Total assets	66,538
Current liabilities	822
Non-current liabilities	-
Total liabilities	822
Net assets	65,716
Contributed equity	66,720
Accumulated deficit	(1,178)
Reserves	174
Total equity	65,716
Statement of Profit and Loss and Comprehensive Income	
Loss after tax	(1,178)
Total comprehensive loss	(1,178)

20. Interests in controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 3:

Name of Entity	Status	Country of incorporation	Percentage owned June 2016	Percentage owned March 2015
Adherium (NZ) Limited	Operating	New Zealand	100%	N/A
Adherium North America, Inc.	Operating	United States	100%	N/A
Adherium Europe Ltd	Operating	United Kingdom	100%	N/A
Nexus6 Limited	Dormant shell	New Zealand	100%	N/A

21. Contingencies and commitments

The Company had no contingencies or commitments to purchase any property, plant or equipment at 30 June 2016 (2015: nil).

During the period the Company entered into a six-year office lease commitment, with one two-year right of renewal. The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements.

	June 2016 $000	March 2015 $000
Not later than one year	199	49
Later than one year and not later than five years	797	-
Later than five years	67	-
	1,063	49

22. Events occurring after balance 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.

DIRECTORS' **DECLARATION**

The Directors declare that the financial statements and notes set out on pages 30 to 58 in accordance with the Corporations Act 2001:

(a) comply with Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
(b) as stated in note 2, the consolidated financial statements also comply with International Financial Reporting Standards; and
(c) give a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance for the fifteen months ended on that date.

In the Directors' opinion there are reasonable grounds to believe that Adherium Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and Chief Financial Officer to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ended 30 June 2016.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the board.

Thomas Lynch
Non-Executive Chairman

Melbourne
16 September 2016

Independent auditor's report to the members of Adherium Limited

Report on the financial report

We have audited the accompanying financial report of Adherium Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fifteen month period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Adherium Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at period's end or from time to time during the financial period.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion,

(a) the financial report of Adherium Limited is in accordance with the *Corporations Act 2001,* including:

i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the fifteen month period ended on that date; and

ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 2.

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Report on the Remuneration Report

We have audited the remuneration report included in pages 20 to 27 of the directors' report for the fifteen month period ended 30 June 2016. 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.

Auditor's opinion

In our opinion, the remuneration report of Adherium Limited for the fifteen month period ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Adherium Limited (the company) for the fifteen month period ended 30 June 2016 included on Adherium Limited's web site. The company's directors are responsible for the integrity of Adherium Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Graeme Pinfold
Partner

Auckland
19 September 2016

AUSTRALIAN SECURITIES EXCHANGE
ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The shareholder information set out below was applicable as at 8 September 2016.

(a) Distribution of equity securities

Ordinary share capital

As at 8 September 2016 there were 169,008,901 ordinary shares held by 471 shareholders. Of these, 133,686,097 ordinary shares were quoted on the ASX, and 35,322,804 ordinary shares were unquoted restricted securities subject to escrow until 26 August 2017. All issued ordinary shares carry one vote per share and carry the rights to dividends.

Range (size of holding)	Number of Ordinary Shares	Holders
1 - 1,000	8,705	18
1,001 - 5,000	280,562	87
5,001 - 10,000	845,107	92
10,001 - 100,000	6,975,448	194
100,001 and over	160,899,079	80
TOTAL	**169,008,901**	**471**

There were 25 shareholders holding less than a marketable parcel of ordinary shares at a price of $0.40, totalling 16,740 ordinary shares.

Unquoted options over ordinary shares

As at 8 September 2016 there were 6,463,097 options over ordinary shares held by 10 holders. Of these, 4,232,840 options over ordinary shares were restricted securities subject to escrow until 26 August 2017. 1,400,000 options over ordinary shares (21.7% of all options outstanding) are held by Bell Potter Securities Limited.

(b) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Substantial shareholders	Notification Date	Ordinary Shares Held
One Funds Management Limited <Asia Pacific Health Fund II A/C>	28/07/2016	23,823,832
FIL Limited	29/07/2016	16,726,595
Mr Garth Sutherland	01/08/2016	11,347,688
K One W One Ltd	26/07/2016	10,990,860
Regal Funds Management Pty Ltd	28/07/2016	10,235,108
I.G. Investment Management, Ltd and associates	01/09/2015	9,535,000
AstraZeneca PLC and its related bodies	26/08/2015	8,079,720
		90,738,803

(c) Twenty largest holders of quoted equity securities as at 8 September 2016

Shareholders	Ordinary Shares	
	Number	%
One Funds Management Limited <Asia Pacific Health Fund II A/C>	23,823,832	14.10
HSBC Custody Nominees (Australia) Limited	22,620,875	13.38
Citicorp Nominees Pty Limited	12,833,119	7.59
K One W One Ltd	10,990,860	6.50
Mr Garth Sutherland	10,275,171	6.08
UBS Nominees Pty Ltd	8,343,806	4.94
AstraZeneca AB	8,079,720	4.78
Adherium ESP Trustee Limited	6,858,807	4.06
National Nominees Limited	6,133,807	3.63
Ice Angels Nominees Ltd	5,893,113	3.49
NZVIF Investments Limited	4,483,383	2.65
Cure Kids Ventures Ltd	3,461,417	2.05
J P Morgan Nominees Australia Limited	2,747,289	1.63
CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd 11 A/C>	2,469,479	1.46
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	2,374,450	1.40
National Nominees Limited <DB A/C>	2,223,857	1.32
Bennamon Pty Ltd	2,168,000	1.28
HSBC Custody Nominees (Australia) Limited - A/C 3	1,846,425	1.09
Mogridge & Associates Ltd	1,500,000	0.89
Ross Alan Sutherland + Valerie Mary Sutherland + Garth Campbell Sutherland	1,072,517	0.63
Total top 20 holders of ordinary shares	**140,199,927**	**82.95**

(d) Use of cash as at listing for business objectives

Since the time of admission to the Official List of the ASX, the Company has used the cash that it had at the time of admission in a way consistent with its business objectives.

(e) Voting Rights

On a show of hands, every shareholder present in person or by proxy holding stapled securities in the Company shall have one vote and upon a poll each stapled security shall have one vote.

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CORPORATE **INFORMATION**

ASX code: ADR

Directors

Mr Thomas Lynch (Chair)
Mr Garth Sutherland (Group CEO)
Prof John Mills
Mr Jeremy Curnock Cook
Mr Bruce McHarrie
Mr Bryan Mogridge
Dr William Hunter

Joint Company Secretaries

Mr Rob Turnbull
Mr Mark Licciardo

Investor Relations Contact

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Share Registry

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Abbotsford, Victoria 3067, Australia

Solicitors

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

Auditors

PricewaterhouseCoopers
188 Quay Street
Auckland 1142, New Zealand

Shareholder Enquiries

1300 850 505 (+61 3 9415 4000)

Shareholders requiring clarification of holdings, or requesting changes of name or address should contact Computershare Investor Services directly on the above number. Shareholders wishing to create an online account with Computershare should visit https://www.investorcentre.com

Annual General Meeting

The inaugural Adherium Limited Annual General Meeting will be held at 11.00am on 27 October 2016 at the offices of K&L Gates, Level 25 South Tower, 525 Collins Street, Melbourne VIC 3000, Australia.

www.adherium.com