Annual Report

for the year ended 30 June 2017

Adherium Limited

ABN 24 605 352 510

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 a patient's 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.

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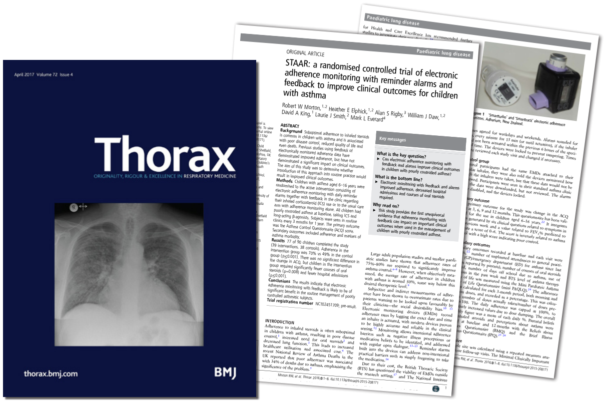
Chairman's Statement

Adherium continues to make solid progress. In November last year new health outcomes data was released that showed our Smartinhaler™ technology generates a five-fold reduction in hospital re-admission in children with poorly controlled asthma. This data was published in the world leading respiratory journal Thorax, having been through an intensive peer-review process and we believe these results to be unrivalled.



Thorax article 'STAAR: a randomised controlled trial of electronic adherence monitoring with reminder alarms and feedback to improve clinical outcomes for children with asthma' was published on 4 Nov 2016

Adherium's relationship with its primary pharmaceutical partner AstraZeneca continues to strengthen, and in the last year AstraZeneca has distributed Adherium's sensor for their dry powder inhaler into multiple new G7 markets. Adherium is also Astra Zeneca's strategic supplier of intelligent device innovation, and Adherium has developed new sensors for AstraZeneca's main aerosol inhaler platform, and recently achieved clearance from the US FDA for these sensors.

SmartTouch for Symbicort® device achieved US FDA 510(k) approval.

With our pharmaceutical distribution model operating and gaining momentum, we recently achieved a milestone of manufacturing and selling 100,000 Smartinhaler devices.

During the year Adherium completed a strategic review to carefully select new channels to market for its broad range of sensors across all major asthma and COPD medications.

Two channels to market are now being targeted in addition to our business with AstraZeneca. These are:

- Direct to consumer: enabling people to effectively manage their own asthma and COPD and also their children's or elderly parents'; and
- Payor & Provider: supplying to the healthcare system to reduce chronic care costs.

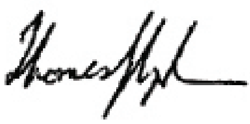
This strategy will increase the total number of channels to market Adherium has to five: Pharmaceutical, Provider, Payor, Patient, and Projects (clinical trials).

2017 has been an unprecedented year for investment into the digital health sector, with US$6.5 billion being invested in the first half. Our Thorax data demonstrates the proposition for investment, indicating that Adherium's Smartinhaler technology could save the US healthcare system US$17 billion per annum in asthma alone.

The US market represents just under half of the world's healthcare spend, and so is critical to Adherium's future. In June 2017 we appointed Arik Anderson as our US-based Group CEO. Arik has a background of 25 years in medical technologies working for global medical technology companies. In his last role at Terumo, he was responsible for global sales of more than US$300 million per annum in medical technologies for chronic care. An immediate task for Arik is to build out our commercial operations from our Silicon Valley office to support expansion into the US market across all of our channels.

Our CEO rightly pays tribute to the achievements of our founder, Garth Sutherland, who conceived, built and led Adherium over the past 17 years. It has been a pleasure working with Garth in my first year as Chair and I look forward to his continuing contribution to building Adherium.

We appreciate the support of all shareholders. We have commenced a programme to improve investor engagement with regular update calls and meetings. As part of this, I am happy to receive, and will respond to your questions as we build Adherium together.



Thomas Lynch
Non-executive Chairman

CEO's Report

I am Arik Anderson, Adherium's Group CEO, and it is my pleasure to provide you with an update on Adherium as I complete my first 100 days.

My view of Adherium so far is that the Company's Smartinhaler™ technology represents the best medication adherence monitoring solution in the world, and accordingly I can see why AstraZeneca selected Adherium as its strategic partner based on their due diligence across the market. Secondly, Adherium has by far the most compelling clinical data demonstrating the effectiveness of its Smartinhaler™ technology in medication adherence monitoring. Thirdly, Adherium has a great pharmaceutical partner in AstraZeneca, and we can see that this collaboration has a multi-year head start on other initiatives in the market. Finally, Adherium also has the most extensive set of international regulatory approvals, and the broadest range of patents and trademarks. These are the reasons I chose to join the Adherium team.

Adherium wins "Most Innovative Hi-Tech Hardware Product Award' at the 2017 NZ High Tech Awards

At Adherium, our vision is to become *the* adherence company. We are positioned strategically within a very large market opportunity. Each year there are just under a billion asthma or COPD inhalers manufactured to serve the world's half-a-billion people who have chronic respiratory diseases - and these diseases are increasing in prevalence. However, despite the broad availability of effective medications, including inhaled steroids, between 40% and 50% of patients poorly control in their respiratory health in the G7 countries. The underlying cause of this poor control is widely understood to be due to sub-optimal medication adherence to available maintenance medications. This is where Adherium's innovative approach of using connected digital technology has been proven in numerous peer reviewed journal articles to be effective at improving adherence. Adherence monitoring technology will become ubiquitous in the care of respiratory patients, and Adherium is at the heart of that transformation in chronic disease management and remote patient monitoring.

The Company's Smartinhaler™ technology represents the best medication adherence monitoring solution in the world

I have hit the ground running with a strategic and operating plan approved by our board of directors. In the coming year we will build out our Silicon Valley office in the US as our global headquarters and commercial hub, and I have recently appointed Tim Marcotte as Adherium's new CFO to help me with that task. Our other key priorities that you will hear me continue to report throughout the year because they are critical to our success are:

- continued successful rollouts of our technology with AstraZeneca as they enter new geographies, and we anticipate this will amount to at least 25,000 devices delivered in fiscal 2018. The ongoing rollouts must continue to be successful to grow that momentum, and that will allow Adherium and AstraZeneca to realize the potential of adherence for Symbicort® and other treatments. Already this year we have released our new Model 4 version of the Turbu+ device and gained US FDA 510(k) approval for our SmartTouch for Symbicort® device to support these rollouts;

Adherence monitoring technology will become ubiquitous in the care of respiratory patients, and Adherium is at the heart of that transformation in chronic disease management and remote patient monitoring.

- launch our direct-to-consumer channel, initially with a successful pilot in New Zealand defined as adding 1,300 active users by June 2018, followed by a launch in the US in the second half of fiscal 2018; and

- development of our payer and provider relationships, including developing relationships with large self insured companies, leveraging our amazing clinical data and direct-to-consumer evidence to enable these entities to achieve healthcare cost savings while improving the quality of life of their customers and employees.

Top: Adherium at the 2017 ERS Conference in Italy
Bottom: Testing devices at our Asia-based manufacturing plant

I would like to take this opportunity to thank Garth Sutherland, Adherium's asthmatic founder, for the 17 years heavy lifting Garth has admirably completed, including 5 rounds of capital raising totalling more than $50 million, the AstraZeneca partnership, and the team, technology, and manufacturing partnerships Garth put in place.

I am also excited to be working closely with our refreshed board, with Thomas Lynch as Chairman following his appointment in September 2016.

Finally, I would like to thank all of Adherium's employees, supporters, shareholders, partners and customers, I am very much looking forward to working with you all during this very exciting time.

Arik Anderson
Group CEO

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 year ended 30 June 2017, together with the independent auditor's report thereon.

Directors

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

Mr Thomas Lynch, BSc, FCA. Age 61.
Independent Non-Executive Chairman
Appointed as a Director and Chairman on 1 September 2016.

Mr Lynch has extensive capital markets experience in the internationalisation of the healthcare sector. 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. Mr Lynch is currently a Chairperson at several notable organisations, including Evofem Holdings, Evofem, Dublin Academic Medical Centre, Sigmoid Pharma, Molecular Medicine Ireland and the Queen's University of Belfast Foundation. Mr Lynch also 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.

Mr Jeremy Curnock Cook, MA. Age 68.
Non-Executive Director
Appointed as a Director on incorporation of Adherium Limited on 17 April 2015.

Mr Curnock Cook was formerly 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. He is currently Managing Director of BioScience Managers (manager of a major shareholder in Adherium), Chairperson of Avena Therapeutics and AmpliPhi Biosciences and sits on the board of Avita Medical, Rex Bionics Pty and acts as an alternative director for Sea Dragon Ltd. Mr Curnock Cook was previously a director of Bioxyne Limited and Phylogica Limited. He has held no other Australian public company directorships in the last three years.

Dr William Hunter, MD. Age 54.
Independent Non-Executive Director
Appointed as a Director on 17 December 2015.

Dr Hunter has extensive experience in commercialising medical device technologies. He co-founded Angiotech Pharmaceuticals in 1992 and assumed the position of CEO 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-investor, including 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. Combined, these products have generated revenues of over $12 billion and have helped the lives of over 6 million patients globally. He is currently President and CEO of Cardiome Pharma Corp (NASDAQ: CRME), a Director of Rex Bionics, Co-Founder of Canary Medical and is an Industry Expert Advisor for BioScience Managers (manager of a major shareholder in Adherium). He has previously served as a director of Epirus Biopharmaceuticals (NASDAQ: EPRS) and Union Medtech. Dr Hunter completed his BSc from McGill University and a MSC and MD from the University of British Columbia. Dr Hunter served as a practising physician in British Columbia for five years. Dr Hunter held no other Australian public company directorships in the last three years.

As noted, as an Industry Expert Advisor for BioScience Managers, Dr Hunter has an association with a significant shareholder of the Company. The board of directors is of the opinion that this does not compromise Dr Hunter's independence as to the best of the board's knowledge he is not involved in decision making by BioScience Managers and the value of the advisory services provided is not material.

Mr Bruce McHarrie, B.Com, FCA, GAICD. Age 59.
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 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 Telethon Kids, 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 and healthcare companies. Outside his role at Adherium, he is currently an advisor to BioScience Managers (manager of a major shareholder in Adherium), a director at AusCann (Australasian Medical Cannabis) and an independent consultant. Bruce is a Fellow of the Institute of Chartered Accountants Australia and New Zealand. He holds a Bachelor of Commerce 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.

As noted, as an advisor to BioScience Managers, Mr McHarrie has an association with a significant shareholder of the Company. The board of directors is of the opinion that this does not compromise Mr McHarrie's independence as to the best of the board's knowledge he is not involved in decision making by BioScience Managers and the value of the advisory services provided is not material.

Professor John Mills, AO, SB, MD, FACP, FIDSA, FRACP. Age 77.
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 US 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., executive chairman of a Swedish biotechnology company, Cavidi AB and non-executive director of a further ASX listed company, Phosphagenics Corp. Ltd. Thirteen years ago he co-founded a boutique anatomic pathology practice, TissuPath Specialist Pathology. Before taking his current position as Director of R&D at TissuPath, he served as Managing Director for three years. He is currently an investment committee member at an Australian venture capital firm, GBS Venture Partners. 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 71.
Independent Non-Executive Director
Appointed as a Director on 20 July 2015.

Mr Mogridge has been a successful public company director for over 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 is currently Chairperson of Rakon Ltd and sits on the Board as a Director of Mainfreight, Clearspan, BUPA ANZ and Thinxtra. He also recently joined as a director of Auckland Regional Amenities Funding Board. Mr Mogridge also has significant involvement in philanthropy, chairing one of New Zealand's most successful charities (The Starship Foundation) for 20 years, helping to transform sick children's lives through New Zealand's national children's hospital "The Starship". Mr Mogridge is currently a Trustee for The Starship Foundation. He has previously held directorships at Yealands Wine Group, Momentum Energy, Waitakere City Holdings, Enterprise Waitakere, Pyne Gould Corporation. Mr Mogridge has also 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 deputy chair of UBS NZ and chair of ASX-listed Lantern Hotel Group having resigned in June 2015 and held no other Australian public company directorships in the last three years.

Mr Garth Sutherland, MSc, MAICD. Age 51.
Executive Director
Appointed as a Director on 20 July 2015.

Mr Sutherland founded Adherium in 2001 (formerly known as Nexus6). Having had asthma all his life he wanted a solution for automatically tracking his asthma medication use to improve his asthma management. He is an inventor of 13 patent families related to the Smartinhaler™ platform and a contributor to over 70 registered designs and several trademarks registered or used by Adherium. Prior to Adherium, Mr Sutherland worked in a variety of commercial, marketing and engineering roles. He has spent over 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 has held no other Australian public company directorships in the last three years.

Dr Doug Wilson, MB, ChB, FRACP, FRCPA was a Director and Chairman of Adherium until his resignation on 1 September 2016.

Joint Company Secretaries

Rob Turnbull, B.Com, CA. Age 50.
VP Finance & Business Services and Joint Company Secretary
Appointed 21 August 2015.

Mr Turnbull has over 25 years' corporate experience, starting his career with PricewaterhouseCoopers where he worked in Auckland, Toronto, and London; and has over 15 years' experience with technology and life-sciences companies. Mr Turnbull has also been 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 has been 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 53.
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 (2004-07) 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 & Remumeration Committee Meetings	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
T Lynch	10	10	-	-	3	3
J Curnock Cook	13	12	6	4	5	5
W Hunter	13	11	-	-	-	-
B McHarrie	13	13	6	6	-	-
J Mills	13	13	6	6	5	4
B Mogridge	13	13	1	1	5	5
G Sutherland	13	13	6*	3*	5*	3*
D Wilson	3	3	-	-	2	2

**In attendance ex-officio.*

Committees of the Board

The Company has established the following committees of the board, with membership in the year to 30 June 2017 as noted:

Committee	Membership
Audit & Risk	Bruce McHarrie (Chair), Non-Executive Director Jeremy Curnock Cook, Non-Executive Director (resigned September 2017) John Mills, Non-Executive Director Brian Mogridge, Non-Executive Director (appointed February 2017)
Nomination & Remuneration	Brian Mogridge (Chair), Non-Executive Director Jeremy Curnock Cook, Non-Executive Director John Mills, Non-Executive Director Thomas Lynch, Non-Executive Director (appointed December 2016) Doug Wilson, Non-Executive Director (resigned September 2016)

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 year ended 30 June 2017 was $12,810,000.

No dividends were paid, declared or recommended during the year ended 30 June 2017.

Review of Operations

During the 2016 fiscal period Adherium transitioned its financial year end from March to June. Accordingly, the 2016 comparatives presented are for a fifteen-month period whereas this report is for the twelve-month period to 30 June 2017.

Revenue this year was $2,347,000, up 12% on 2016 on a twelve-month (versus fifteen-month) basis with the delivery of 18,000 Smartinhaler™ devices and related mobile app and cloud services, mostly to our major commercial partner AstraZeneca in relation to:

- AstraZeneca's ongoing deployments of our monitoring technology into Europe;
- the Australian commercial pilot programme involving over 130 respiratory clinicians and several channels to distribute the Smartinhaler™ asthma management solution to consumers; and
- the BreatheMate COPD study across a number of US sites using Adherium's SmartTouch™ for Symbicort® with supporting services provided by Adherium.

In the latter part of fiscal 2017 this included delivery of 10,000 new Turbu+ devices (based on a new version of Adherium's SmartTurbo) and software license updates to AstraZeneca for launches and expansion in key global markets including Australia, Austria, Italy, The Netherlands, and Switzerland.

In addition, milestones were completed with the Medical Research Institute of New Zealand for two international studies being run with Adherium's Smartinhaler™ platform during fiscal 2017.

Revenue of $2,626,000 in the comparative fifteen months was generated on the supply of 30,000 Smartinhaler™ devices, mostly as an initial market launch volume to AstraZeneca's commercial programme.

Sales and marketing expenses were $3,312,000 for the year (2016: $2,148,000), reflecting the expansion of the global business development team in the current and previous period, and formal market research projects undertaken in the year related to new sales channels for Adherium. The Company also attended, presented, and exhibited at a number of global respiratory industry meetings, including European Respiratory Society (ERS) and American Thoracic Society (ATS).

Research and development expenses for the year to 30 June 2017 of $4,242,000 (2016: $2,713,000) included:

- development of the new version of Adherium's SmartTurbo™, distributed as Turbu+ by AstraZeneca for their block-buster drug Symbicort® Turbuhaler, incorporating new sensor technology that generates more data for enhancing medication adherence and user experience. This device completed development, was transferred to manufacturing, and launched into multiple new markets by AstraZeneca;
- grant by the US Patent and Trademark Office (USPTO) of a key patent covering medication adherence monitoring devices that include an optical dose counter, further strengthening the Company's growing intellectual property portfolio;
- preparation and submission of an FDA 510(k) application for Adherium's SmartTouch™ for Symbicort®. Clearance of this by the US FDA was received in September 2017;
- development of the next generation of our mobile apps (iOS and Android) and cloud software platform, enabling self-enrolment by patients.

Adherium's research and development activities are subsidized by grant income received from a New Zealand Government (Callaghan Innovation) Growth Grant. The increase in grant income from $290,000 in fiscal 2016 to $409,000 was reflective of increased research and development activities in fiscal 2017.

Administrative expenses of $6,260,000 (2016: $3,906,000) included hires in the roles of Chairman, Chief Executive Officer, Chief Operating Officer, and Head of Corporate Development in the year, and the assistance of global consulting company Arthur D. Little in the development of the Company's strategic plan to target new markets for the Smartinhaler™ technology.

Non-cash costs in the year included share and option compensation expense of $478,000 (2016: $198,000), and depreciation and amortisation expenses of $270,000 (2016: $164,000). The 2016 period also included 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 their conversion to Adherium shares, and the expensing of previously capitalised product development costs of $270,000.

Cash reserves at 30 June 2017 were $22,779,000 (2016: $27,211,000), a net use of funds of $4,432,000 reflecting the operations discussed above together with an $8m share placement to Fidelity International Limited, one of the world's leading investment institutions.

There was increased activity across all areas of Adherium's business following its IPO in August 2015, enabling the Company to support AstraZeneca's global distribution of Adherium's technology. This relationship has evolved from development and clinically focused to commercially focused, and continues to be an important strategic cornerstone of our business, in both potential revenue generation and technology validation. The Company's intention is now to add to this segment of its business by distributing its technology through direct to consumer, and payer and provider channels. In preparation for this, a critical review of activities and resources was undertaken at the end of fiscal 2017 for alignment with the Company's revised strategy. Salaries and wages at $6.8m in 2017 (2016: $3.7m) was the Company's largest expense, with the increase representing a full financial year after building the internal resource needed to meet expected demand post-IPO and focus on new business development opportunities. As a result of the strategic review, a reorganisation and consolidation of staffing was implemented. In relation to this, approximately $3m of costs recorded in fiscal 2017 as salaries and wages and other administrative costs relate to roles removed or costs that will not be incurred in fiscal 2018.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the Group during the financial year ended 30 June 2017.

Events since the end of the Financial Year

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs in future years.

Likely Developments and Expected Results

Commentary on the Group's strategic direction and plan is set out in the CEO's Report on pages 3 to 4.

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 2017 is:

Director	Ordinary Shares	Options over Ordinary Shares
T Lynch	600,000	-
J Curnock Cook	380,000	-
W Hunter	300,000	-
B McHarrie	300,000	-
J Mills	340,000	-
B Mogridge	9,613,023 *	-
G Sutherland	11,869,055	866,190

** relevant interest includes 7,813,023 ordinary shares held in the Director's capacity 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	Expiry Date
$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	542,952	542,952	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	1,400,000	3 September 2018
Outstanding at 30 June 2017	5,795,401	5,795,401	

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.

No options were granted to the Directors of the Company or other key management personnel of the Group in the year to 30 June 2017.

Details of fully paid ordinary shares issued on exercise of options in the year to 30 June 2017 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.

The fees paid to PricewaterhouseCoopers for other services set out in note 5 of the Group's financial statements for the year ended 30 June 2017 related to independent assurance services provided pursuant to the Group's claims for reimbursement under governmental research and development grant programmes. The directors are satisfied that the provision of these services during the year by the auditor did not impair the auditors' independence as the amounts paid were not significant and the services provided were assurance related.

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 year 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 2017 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 and bonuses
(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 year ended 30 June 2017.

(i) Non-Executive and Executive Directors

- Thomas Lynch — Non-Executive Chairman (appointed 1 September 2016)
- Doug Wilson — Non-Executive Chairman (appointed 20 July 2015; resigned 1 September 2016)
- 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)
- Garth Sutherland — Executive Director (appointed 20 July 2015) and Founder (Group CEO until 9 June 2017)

(ii) Non-Executive and Executive Directors

- Arik Anderson — Group Chief Executive Officer (appointed 9 June 2017)
- Rob Turnbull — Joint Company Secretary (appointed 21 August 2015) and VP Finance & Business Services (Chief Financial Officer until 11 September 2017)
- Mark Licciardo — Joint Company Secretary (appointed 10 May 2016)
- Ross Bradding — Chief Operating Officer (appointed 1 August 2016)

(iii) Changes since the end of the reporting period

In the period after 30 June 2017 and up to the date of this report the following changes to key management personnel were:

- On 31 August 2017 Mr Ross Bradding resigned as Chief Operating Officer; and
- On 11 September 2017 Mr Tim Marcotte joined the Group as Chief Financial 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, representing between 0% and 50% of base salary. 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 targets and KPIs selected are chosen to align executive performance with the Group's annual business objectives set by the board and encompassing business development, research & development, and cash management.

The STI achievement is calculated and paid annually. The Nomination and Remuneration Committee in conjunction with the CEO assesses the extent to which targets and KPIs have been achieved at a Company and individual performance level to determine the STI to be paid. Measurement of achievement of the business objectives does not involve comparison with factors external to the Company.

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. To date all shares have been issued at the Company's initial public offering price of A$0.50 per share;
- 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 directors and executives on delivering long-term shareholder returns.

Share awards issued under the Plans generally 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 year ended 30 June 2017 the Group incurred a loss after tax of $12,810,000 (7.6 cent loss per share). In the year to 30 June 2017 the Company's shares traded between 12.5 and 50 cents per share. Given the stage of the Group's commercial development, 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 2017.

(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. Non-Executive Chairman and Director fees were approved at the 2016 Annual General Meeting at $100,000 per annum for the Non-Executive Chairman (previously $80,000 per annum) and $50,000 for each Non-Executive Director (previously $40,000 per annum). Legislative superannuation contributions are also paid where applicable.

A Non-Executive Director may be paid fees or other amounts as the board determines 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 year ended 30 June 2017	Short Term Benefits		Post Employment Benefits
	Salaries & Fees $	Cash Bonus $	Superannuation $
Directors' remuneration			
Thomas Lynch [1]	80,000	-	-
Jeremy Curnock Cook	46,667	-	-
William Hunter	46,667	-	-
Bruce McHarrie	46,667	-	4,196
John Mills	46,667	-	4,196
Bryan Mogridge	46,667	-	-
Doug Wilson [1]	13,333	-	-
Sub-total Directors	326,668	-	8,392
Executives' remuneration			
Arik Anderson [2]	44,181	-	-
Garth Sutherland [2]	264,474	79,342	14,047
Ross Bradding [3]	212,130	-	6,364
Mark Licciardo [4]	44,628	-	-
Rob Turnbull	207,801	49,983	7,796
Sub-total executives	773,214	129,325	28,207
Total key management personnel	1,099,882	129,325	36,599

1. Doug Wilson resigned 1 September 2016. At that time Thomas Lynch was appointed a Director and Chairman.
2. Arik Anderson joined Adherium as Chief Executive Officer on 9 June 2017. At that time, former Chief Executive Officer, Garth Sutherland, transitioned to the role of Founder.
3. Ross Bradding joined Adherium as Chief Operating Officer on 1 August 2016.

Remuneration for the fifteen months ended 30 June 2016		Short Term Benefit		Post Employment Benefits
Directors' remuneration		Salaries & Fees $	Cash Bonus $	Superannuation $
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	-	3,483
William Hunter [1]	- Adherium Limited	20,000	-	-
John Mills	- Adherium Limited	40,000	-	3,483
Bryan Mogridge	- Adherium Limited	40,000	-	-
Matt McNamara [2]	- Adherium (NZ) Limited	15,019	-	-
Maxine Simmons [2]	- Adherium (NZ) Limited	14,162	-	-
Sub-total Directors		345,251	-	6,966
Executives' remuneration				
Garth Sutherland		312,638	22,105	13,390
Bronwyn Le Grice [3]		181,186	-	16,002
Mark Licciardo [4]		5,718	-	-
Rob Turnbull		234,101	-	7,023
Sub-total executives		733,643	22,105	36,415
Total key management personnel		1,078,894	22,105	43,381

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 and resigned as Head of Commercial Development and Corporate Affairs on 22 April 2016, and as Joint Company Secretary 10 May 2016.

Share-based Payments			
Value of Options/ Loan Funded Shares[5] $	Total $	Performance Related Renumeration $	Fixed Renumeration $
12,200	92,200	13%	87%
6,100	52,767	12%	88%
6,100	52,767	12%	88%
6,100	56,963	11%	89%
6,100	56,963	11%	89%
6,100	52,767	12%	88%
-	13,333	-	100%
42,700	377,760		
-	44,181	-	100%
19,165	377,028	26%	74%
21,652	240,146	9%	91%
-	44,628	-	-
27,125	292,705	26%	74%
67,942	998,688		
110,642	1,376,448		

4. A company of which Mr Licciardo is a director received fees from the Company for company secretarial and corporate governance consulting services.
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.

Share-based Payments			
Value of Options/ Loan Funded Shares[5] $	Total $	Performance Related Renumeration $	Fixed Renumeration $
-	80,000		
5,678	47,586	4%	96%
-	40,000		
3,407	17,569	6%	94%
-	43,483	-	-
-	20,000	-	-
-	43,483	-	-
-	40,000	-	-
3,407	18,426	18%	82%
3,407	17,569	19%	81%
15,899	368,116		
7,658	355,791	8%	92%
-	197,188	-	-
-	5,718	-	-
3,585	244,709	1%	99%
11,243	803,406		
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.

(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	Base Salary [2]	Termination Payments [3]
Arik Anderson, Group Chief Executive Officer	No fixed term	1 month by Company; 3 months by executive	US$400,000	6 months
Garth Sutherland, Founder	No fixed term	3 months [1]	NZ$280,000	6 months
Ross Bradding, Chief Operating Officer	No fixed term	2 months [1]	NZ$245,000	2 months
Rob Turnbull, VP Finance & Business Services (Chief Financial Officer until 11 September 2017)	No fixed term	1 month [1]	NZ$220,000	1 month

1. The notice period applies without cause equally to either party.
2. Base salaries quoted are annual as at 30 June 2017; they are reviewed annually by the Nomination and Remuneration Committee.
3. Base salary payable if the Group terminates the employee 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, and any shares issued on exercise are fully paid and rank pari passu with existing ordinary shares.

During the period to 30 June 2017 and to the date of this report:

- 173,238 options held by Garth Sutherland in relation to the 2010 financial year lapsed; and
- 150,000 options over ordinary shares were exercised by Rob Turnbull during the year to 30 June 2017. The options had a value of $144 at the time of exercise.

Loan funded Employee Share Plan

The board has established the loan funded Adherium Employee Share Plans (Plans). Offers of allocations under the plans were made to, and acceptances received from, key management personnel during the year ended 30 June 2017 as follows:

Name	Grant date	Number of shares	Loan funded purchase price at $0.50 per share	Loan maturity date	Fair value of award
Thomas Lynch	8 November 2016	600,000	$300,000	8 November 2021	$31,140
Jeremy Curnock Cook	8 November 2016	300,000	$150,000	8 November 2021	$15,570
Bruce McHarrie	8 November 2016	300,000	$150,000	8 November 2021	$15,570
William Hunter	8 November 2016	300,000	$150,000	8 November 2021	$15,570
John Mills	8 November 2016	300,000	$150,000	8 November 2021	$15,570
Bryan Mogridge	8 November 2016	300,000	$150,000	8 November 2021	$15,570
Garth Sutherland	8 November 2016	521,367	$260,684	8 November 2021	$60,565
Ross Bradding	23 August 2016	459,145	$229,573	23 August 2021	$41,583

All awards vest one third annually over three years of continued employment from the grant date. After vesting the participant may take title to the shares by repaying to the Company the proportion of the loan related to those shares.

The fair value of the awards of loan funded shares are calculated at the date of grant using a Black-Scholes pricing model, which are being allocated over the vesting periods as share based compensation.

(i) Equity instruments held by key management personnel

Shareholdings

The numbers of ordinary shares in the Company held during the period to 30 June 2017 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
Thomas Lynch	-	-	600,000 [1]	600,000
Jeremy Curnock Cook	80,000	-	300,000 [1]	380,000
Bruce McHarrie	-	-	300,000 [1]	300,000
William Hunter	-	-	300,000 [1]	300,000
John Mills	40,000	-	300,000 [1]	340,000
Bryan Mogridge	8,358,807	-	300,000 [1] 954,216 [2]	9,613,023 [2]
Doug Wilson	1,039,428	-	-	1,039,428 [4]
Garth Sutherland	11,347,688	-	521,367 [1]	11,869,055
Ross Bradding	-	-	459,145 [1]	459,145
Mark Licciardo	-	-	-	-
Rob Turnbull [2]	409,645	-	150,000 [3]	559,645

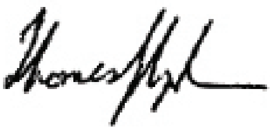
1. Award of loan funded shares under the Company's Employee Share Plan.
2. Ordinary shares held jointly with the VP Finance & Business Services in their capacity as trustees of the Company's Employee Share Plan. At 30 June 2017 7,813,023 ordinary shares were held in this capacity.
3. Exercise of options to acquire ordinary shares.
4. Holding as at the date of resignation.

(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

Sydney
26 September 2017

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Adherium Limited for the year ended 30 June 2017, 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.

Jonathan Skilton
Partner
PricewaterhouseCoopers

Auckland
29 September 2017

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 Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Notes	June 2017 $000	June 2016 $000
Continuing Operations			
Sales		2,347	2,626
Cost of sales		(1,186)	(1,336)
Gross profit		1,161	1,290
Grants income		409	290
Manufacturing support		(1,179)	(879)
Research and development costs		(4,242)	(2,713)
Sales and marketing costs		(3,312)	(2,148)
Administrative expenses		(6,260)	(3,906)
Operating loss		(13,423)	(8,066)
Interest income		613	560
Interest expense	7	-	(379)
Finance income (cost) - net		613	181
Loss before income tax		(12,810)	(7,885)
Income tax expense	6	-	-
Loss for the period attributable to equity holders		(12,810)	(7,885)
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		22	203
Other comprehensive income for the period, net of tax		22	203
Total comprehensive loss for the period		(12,788)	(7,682)
Total comprehensive loss attributable to: Equity holders of Adherium Limited		(12,788)	(7,682)
Basic and diluted loss per share	8	7.6 cents	6.6 cents

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position as at 30 June 2017

	Notes	June 2017 $000	June 2016 $000
ASSETS			
Current assets			
Cash and cash equivalents	*9*	22,779	27,211
Trade and other receivables	*10*	826	948
Inventories	*11*	726	418
Prepayments		78	49
Total current assets		24,409	28,626
Non-current assets			
Property, plant and equipment	*12*	417	298
Intangible assets	*13*	265	31
Total assets		25,091	28,995
LIABILITIES			
Current liabilities			
Trade and other payables	*14*	2,382	1,394
Income received in advance		4	104
Total current liabilities		2,386	1,498
EQUITY			
Share capital	*15*	74,278	66,720
Accumulated deficit		(25,820)	(13,010)
Other reserves		(25,753)	(26,253)
Total equity		22,705	27,457
Total liabilities & equity		25,091	28,955

The accompanying notes form part of the financial statements.

Consolidated Statement of Changes in Equity for the year ended 30 June 2017

	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 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
Loss for the year	-	(12,810)	-	-	-	(12,810)
Other comprehensive income	-	-	-	22	-	22
Total comprehensive loss	-	(12,810)	-	22	-	(12,788)
Transactions with owners:						
Shares issued in private placement	8,023	-	-	-	-	8,023
Share issue costs	(511)	-	-	-	-	(511)
Shares issued on option exercise	46	-	-	-	-	46
Shares issued in initial public offering	-	-	478	-	-	478
Equity as at 30 June 2017	74,278	(25,820)	1,110	672	(27,535)	22,705

The accompanying notes form part of the financial statements.

Consolidated Statement of Cash Flows for the year ended 30 June 2017

	Notes	June 2017 $000	June 2016 $000
Cash flows from operating activities:			
Receipts from customers		2,363	1,124
Receipts from grants		506	82
Interest received		601	560
Resident withholding tax refunded (paid)		(9)	(15)
Payments to employees		(6,333)	(3,284)
Payments to suppliers		(8,709)	(6,380)
Net cash provided from (used in) operating activities		(11,581)	(7,913)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(362)	(297)
Purchase of software	*13*	(202)	(41)
Product development costs incurred	*13*	-	(102)
Net cash used in investing activities		(564)	(440)
Cash flows from financing activities:			
Proceeds from the issue of shares	*15*	8,023	35,000
Proceeds from the exercise of options	*15*	46	426
Payment of capital raising costs		(511)	(3,471)
Payment of convertible note issue costs		-	(43)
Net cash provided from financing activities		7,558	31,912
Net increase (decrease) in cash		(4,587)	23,559
Cash at the beginning of the year		27,211	3,468
Effect of exchange rate changes on cash balances		155	184
Cash at the end of the year	*9*	22,779	27,211
Reconciliation with loss after income tax:			
Loss after income tax		(12,810)	(7,885)
Non-cash items requiring adjustment:			
Depreciation of property, plant and equipment	*12*	234	152
Amortisation of intangible assets	*13*	36	12
Product development costs expensed	*13*	-	270
Interest accrued to borrowings	*7*	-	378
Share and option compensation expense		478	198
Foreign exchange (gain)		(74)	(121)
Changes in working capital:			
Trade and other receivables		80	(630)
Inventories		(303)	522
Trade and other payables		875	327
Income received in advance		(97)	(1,136)
Net cash provided from (used in) operating activities		(11,581)	(7,913)

The accompanying notes form part of the financial statements.

Notes to the financial statements for the year ended 30 June 2017

1. General Information

Adherium Limited (the Company or Adherium) is a company domiciled in Australia. The address of the Company's registered office is Collins Square, Tower Four, Level 18, 727 Collins Street, Melbourne, VIC 3008. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 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 26 September 2017.

2. Basis of Presentation

This general purpose consolidated financial report for the twelve months ended 30 June 2017 has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001.

The consolidated financial statements have been prepared on a going concern basis, meaning the Group has the intention to continue its business for the foreseeable future, without the need to significantly curtail activity.

As of June 30, 2017, the Group had net cash of $ 22,779,000 (2016: $27,211,000) and operating cash outflows of $11,581,000 (2016: $7,913,000).

The Directors have approved forecasts that indicate the Group can manage its operating requirements beyond 12 months from the date of authorization of these financial statements. The directors considered the achievability of the assumptions underlying the forecast, and as with any forecast, there are uncertainties within the assumptions required to meet the Group's expectations. Whether the Group can secure sufficient cash flows from new revenue streams over the next 12 months and beyond, and/or it can execute plans to reduce costs and/or raise additional capital, represent material uncertainties that cast significant doubt over the Group's ability to continue as a going concern. If revenue forecasts from new sales initiatives are not met over the next 12-24 months, cash reserves could reduce to a level where the Group is unable to meet its obligations in the normal course of business. Despite these uncertainties, the Directors are of the view that the underlying assumptions in forecasting the performance and cash flows of the Group for the next year are reasonable and adoption of the going concern basis is appropriate from the date of approval of these financial statements.

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

These financial statements are prepared for the year ended 30 June 2017, the comparative information is for the fifteen-month period from 1 April 2015 to 30 June 2016. During the period to 30 June 2016, the Group transitioned to a 30 June balance date.

(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.

(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 2017, 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 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 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 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 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 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 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, 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 or 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 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 to three 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 comprehensive income with 'interest expense'. Transaction costs associated with embedded derivatives are expensed to the statement of 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 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 ategories 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 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'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 2017 $000	June 2016 $000
New Zealand and Australia	546	178
South-East Asian Countries	111	148
Other Countries	25	3
	682	329

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

Location of customer sales	June 2017 $000	June 2016 $000
New Zealand and Australia	462	331
Europe	1,829	1,970
North America	56	325
	2,347	2,626

b) Major customers

Revenues are derived from major external customers as follows:

Major customers	June 2017 $000	June 2016 $000
Customer A group entities	1,762	1,993
Customer B group entities	303	303

5. Expenses

Loss before income tax includes the following specific expenses:	June 2017 $000	June 2016 $000
Fees paid to PricewaterhouseCoopers for:		
Audit of the financial statements	110	119
Other services		
- Fees in respect of grant review	21	1
Total fees to PricewaterhouseCoopers	131	120
Depreciation and amortisation	270	164
Directors' remuneration		
- Fees	335	332
- Consulting	-	8
- Share option compensation	43	16
Total Directors' remuneration	378	356

Employee benefits expense		
- Wages and salaries	6,787	3,737
- Share option compensation	416	67
Total employee benefits expense	7,203	3,804
Foreign exchange (gain) loss	(74)	(121)
Operating lease costs	459	222

6. Income tax

	June 2017 $000	June 2016 $000
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-
Numerical reconciliation of income tax expense to prima facie tax payable (receivable):		
Loss before income tax	(12,810)	(7,885)
Tax calculated at domestic tax rates	(3,697)	(2,249)
Tax effects of:		
Expenses not deductible for tax purposes	139	174
Under (over) provision in prior year	(84)	-
Deferred tax assets not recognised (note 16)	3,642	2,075
Income tax expense	-	-

The weighted average applicable tax rate was 29% (2016: 28%).

7. Interest

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.

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 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).

Interest expense related to the component was as follows:

	June 2016 $000
Fair value change on conversion of embedded derivative	163
Interest expense	216
Total interest expense on Convertible Notes	379

8. 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 7) 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 2017 $000	June 2016 $000
Profit (loss) after income tax attributable to equity holders	(12,810)	(7,885)
Weighted average shares outstanding (basic)	169,431,030	119,606,316
Weighted average shares outstanding (diluted)	169,431,030	119,606,316
Basic and diluted loss per share	7.6 cents	6.6 cents

9. Cash and cash equivalents

	June 2017 $000	June 2016 $000
Cash at bank and on hand	138	111
Deposits at call	22,641	27,100
	22,779	27,211

10. Trade and other receivables

	June 2017 $000	June 2016 $000
Trade receivables and accruals	449	561
Grant income accrued	203	302
GST and other taxes receivable	135	85
Security deposits	39	-
	826	948

11. Inventories

	June 2017 $000	June 2016 $000
Raw materials and components	277	197
Finished goods	449	221
	726	418

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to $591,000 (2016: $1,111,000).

12. Property, plant and equipment

	Manufacturing Equipment $000	Computer Equipment $000	Fixtures & Fittings $000	Office Equipment $000	Total $000
As at 1 April 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
Movements in the period ended 30 June 2017					
Opening net book value	205	52	35	6	298
Additions	101	88	152	24	365
Disposals	-	(2)	(5)	-	(7)
Depreciation	(158)	(52)	(18)	(6)	(234)
Foreign currency translation	(4)	(2)	1	-	(5)
Closing net book value	144	84	165	24	417
As at 30 June 2017					
Cost	499	174	188	34	895
Accumulated depreciation	(355)	(90)	(23)	(10)	(478)
Net book value	144	84	165	24	417

13. Intangible assets

	Software	Product development costs	Total
	$000	$000	$000
As at 1 April 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
Movements in the year ended 30 June 2017			
Opening net book value	31	-	31
Additions			
- External costs	270	-	270
Amortisation	(36)	-	(36)
Foreign currency translation	-	-	-
Closing net book value	265	-	265
As at 30 June 2017			
Cost	313	-	313
Accumulated amortisation	(48)	-	(48)
Net book value	265	-	265

14. Trade and other payables

	June 2017 $000	June 2016 $000
Trade payables	1,020	591
Accruals	196	294
Employee benefits	1,166	509
	2,382	1,394

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 in August 2015. Similarly, amounts have been presented in Australian dollars following the change in presentation currency in the period to 30 June 2016.

	Ordinary Shares (b)	$000	
Adherium (NZ) Limited			
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	
Adherium Limited			
Shares issued to Adherium (NZ) Limited shareholders	70,000,000	35,000	(a)
Shares issued in initial public offering	70,000,000	35,000	
Share issue costs	-	(3,706)	
Shares issued in employee share plans	6,778,640	-	
Shares issued on option exercise	4,441,285	426	
Share capital as at 30 June 2016	151,219,925	66,720	
Ordinary share issued	16,046,097	8,023	
Share issue costs	-	(511)	
Shares issued in employee share plans	4,797,095	-	
Cancellation of shares issued in employee share plan	(708,383)	-	
Shares issued on option exercise	494,458	46	
Share capital as at 30 June 2017	171,849,192	74,278	

(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. No further issue of options under the Adherium ESOP are contemplated.

Exercise price range $0.075268 – 0.134039	Options	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 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	
Granted	-	$ -				
Exercised	(494,458)	$ 0.0931				$ 0.1609
Lapsed	(173,238)	$ 0.0752				
Outstanding at 30 June 2017	4,395,401	$ 0.1083	2.8	4,395,401	$ 0.1083	

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 $**
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

There were no options granted in the year ended 30 June 2017. 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.

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 2017 financial period is 6.3 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 2017	Restricted as at 30 June 2017	Share price at grant date
16 May 2016	6,778,640	$0.50	2,257,287	4,521,353	$0.50
23 August 2016	1,742,879	$0.50	-	1,742,879	$0.48
8 November 2016	2,621,367	$0.50	-	2,621,367	$0.35
23 December 2016	432,849	$0.50	-	432,849	$0.26

(d) Other option issues

There were no other options granted in the year ended 30 June 2017. Pursuant to a capital advisory agreement with the Lead Manager to the Company's IPO, 1,400,000 options with an exercise price of $0.665 were granted in the period to 30 June 2016. The grant was contingent upon The Company and the Lead Manager entering into the capital advisory agreement after the Company's IPO. The options were 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 $19,000 has been recorded in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017 (2016: $115,000). 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

	June 2017 $000	June 2016 $000
Movements		
Deferred tax asset (liability) at the beginning of the year	-	-
Credited (charged) to the income statement (note 6)	3,642	2,075
Change in unrecognised deferred tax assets	(3,642)	(2,075)
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 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	-	-	-	-	-
Credited (charged) to the income statement	(26)	147	-	3,521	3,642
Effect of exchange rate changes	-	1	-	(11)	(10)
Change in unrecognised deferred tax assets	26	(148)	-	(3,510)	(3,632)
As at 30 June 2017	-	-	-	-	-

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 $4,851,000 (2016: $1,341,000) in respect of losses amounting to $16,821,000 (2016: $4,554,000) that can be carried forward against future taxable income. The Company also did not recognise further deferred income tax assets of $355,000 (2016: $232,000) in respect of other timing differences amounting to $1,262,000 (2016: $830,000).

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 2017 $000	June 2016 $000
Directors		
- fees and other short term benefits	336	361
- share and option compensation	43	16
CEO and management		
- short-term benefits	907	750
- post-employment benefit contributions	29	360
- share and option compensation	67	11
	1,382	1,174

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

	June 2017 Ordinary Shares	June 2017 $000	June 2016 Ordinary Shares	June 2016 $000
Shares in IPO	-	-	120,000	60
Shares through options exercised	150,000	20	1,212,666	152
	150,000	$ 20	1,332,666	$ 212

18. Financial instruments and risk management

(a) Categories of financial instruments

	June 2017 $000	June 2016 $000
Financial assets		
Loans and receivables classification:		
Cash and cash equivalents	22,779	27,211
Trade and other receivables	652	863
Total financial assets	23,431	28,074
Financial liabilities		
Measured at amortised cost:		
Trade and other payables	2,382	1,394
Convertible notes – liability component	-	-
Measured at fair value:		
Convertible notes – embedded conversion derivative	-	-
Total financial liabilities	2,382	1,394

The Convertible Notes did not bear interest (see note 7) and were therefore not cash flow interest rate sensitive prior to their conversion in August 2015.

(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 $166,000 is included in results for the period ended 30 June 2017 (2016: $121,000 gain).

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

	June 2017 $000	June 2016 $000
Assets		
New Zealand Dollars	4.524	6,145
US dollars	1,120	670
UK pound	146	30
Liabilities		
New Zealand Dollars	1,516	936
US dollars	513	233
UK pound	30	126
European euros	19	-
Hong Kong dollars	2	4
Japanese Yen	5	-

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 2017 $000	June 2016 $000
10% strengthening of Australian dollar against:		
New Zealand Dollars	768	538
US dollars	48	7
UK pound	38	38
Hong Kong dollars	-	1
Japanese Yen	1	-
10% weakening of Australian dollar against:		
New Zealand Dollars	(939)	(657)
US dollars	(59)	(8)
UK pound	(46)	(47)
Hong Kong dollars	-	-
Japanese Yen	(1)	-

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 9) and had borrowings.

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 7) and were therefore not cash flow interest rate sensitive prior to their conversion in August 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 (2016: 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 counterparty default rates:

	June 2017 $000	June 2016 $000
Counterparties with external credit rating:		
• AA-	374	556
Counterparties without external credit rating:		
• existing customers (more than 6 months) with no defaults in the past	75	5
Total trade receivables	449	561

The Company is exposed to a concentration of credit risk as 83% of accounts receivable are with one counterparty (2016: 99%). 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 2017		
Trade and other payables	2,382	-
As at 30 June 2016		
Trade and other payables	1,394	-

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 30 June 2016 the embedded conversion derivative with a fair value of $473,000 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 2016 or 2017.

In the period to 30 June 2016, the Company performed its own estimate of the fair value of the embedded conversion derivative recognised separately from the host convertible notes (see note 7) 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 30 June 2016 a probability of 75% of the convertible notes converting was applied together with a discount rate of 8.45%. A reasonably possible change at 30 June 2016 of plus or minus 5 percentage points to the estimate of the probability of the notes converting would have led 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 immediately prior to its listing on the ASX in August 2015.

19. Parent entity information

The following details information related to the legal parent, Adherium Limited as at 30 June 2017. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	Parent June 2017 $000	Parent June 2016 $000
Statement of Financial Position		
Current assets	19,347	22,479
Non-current assets	51,520	44,059
Total assets	70,867	66,538
Current liabilities	570	822
Non-current liabilities	-	-
Total liabilities	570	822
Net assets	70,297	65,716
Contributed equity	74,278	66,720
Accumulated deficit	(4,677)	(1,178)
Reserves	696	174
Total equity	70,297	65,716
Statement of Profit and Loss and Comprehensive Income		
Loss after tax	(3,288)	(1,178)
Total comprehensive loss	(3,288)	(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 2017	June 2016
Adherium (NZ) Limited	Operating	New Zealand	100%	100%
Adherium North America, Inc.	Operating	United States	100%	100%
Adherium Europe Ltd	Operating	United Kingdom	100%	100%
Nexus6 Limited	Dormant shell	New Zealand	100%	100%

21. Contingencies and commitments

The Company had no contingencies or commitments to purchase any property, plant or equipment at 30 June 2017 (2016: nil).

The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements.

	June 2017 $000	June 2016 $000
Not later than one year	373	199
Later than one year and not later than five years	973	797
Later than five years	-	67
	$ 1,346	$ 1,063

22. Events occurring after balance date

There were no events occurring after balance date which require disclosure .

Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 20 to 42 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 2017 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 year ended 30 June 2017.

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

On behalf of the board.

Thomas Lynch
Non-Executive Chairman

Sydney
26 September 2017

Independent auditor's report

To the shareholders of Adherium Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Adherium Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

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

What we have audited

The financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Material uncertainty related to going concern

Without modifying our opinion, we draw attention to Note 2 of the Basis of Preparation within the consolidated financial statements, which indicates the Group incurred a net loss of $12,810,000 (2016: $7,885,000) and operating cash outflow of $11,581,000 (2016: $ 7,913,000) during the year ended 30 June 2017. The cash balance at 30 June 2017 was $22,779,000 (2016: $27,211,000).

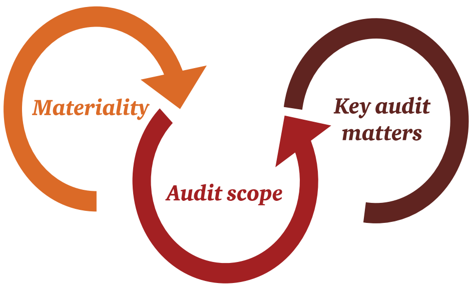
The Group's ability to continue as a going concern is dependent on its ability to fund its operations until such time as it can secure sufficient cash flows from new revenue streams. If the Group is unable to secure sufficient cash flows from these new revenue streams over the next 15 months, and/or it cannot execute other plans to reduce costs, and/or raise additional capital, cash reserves could reduce to a level where the Group is unable to meet its obligations as they fall due, after that period.

These conditions along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
• For the purpose of our audit we used overall Group materiality of $149,500, which represents approximately 1% of the Group's expenses. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of	• Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	• We have determined that there are no Key Audit Matters to communicate.

misstatements on the financial report as a whole.

- We chose Group expenses because, the Group is in a start-up phase and has not been profitable for the past two years. Total expenses are a generally acceptable benchmark for start-up entities.
- We selected 1% based on our professional judgement and it is within the range of commonly acceptable expense related thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We have determined that there are no Key Audit Matters to communicate. We refer you to the material uncertainty in relation to going concern disclosed above.

Other information

The directors are responsible for the other information. The other information comprises the Company Overview, Chairman's Statement, CEO's Report, Directors' Report (including Remuneration Report) and Australian Securities Exchange Additional Information, included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Company/Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company/Group or to cease operations, or has no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar*.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 11 to 17 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Adherium Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Jonathan Skilton

Jonathan Skilton
Partner
Auckland, New Zealand
29 September 2017

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 13 September 2017.

(a) Distribution of equity securities

Ordinary share capital

As at 13 September 2017 there were 171,849,192 ASX quoted ordinary shares held by 769 shareholders. 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	7,352	20
1,001 - 5,000	396,282	116
5,001 - 10,000	1,183,600	137
10,001 - 100,000	15,440,493	366
100,001 and over	154,821,465	130
Total	171,849,192	769

There were 141 shareholders holding less than a marketable parcel of ordinary shares at a price of $0.095, totalling 429,446 ordinary shares.

Unquoted options over ordinary shares

As at 13 September 2017 there were 5,795,401 options over ordinary shares held by 10 holders. 1,400,000 options over ordinary shares (24.2% 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	11,869,055
K One W One Ltd	26/07/2016	10,990,860
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
		81,025,062

(c) Twenty largest holders of quoted equity securities as at 13 September 2017

	Ordinary Shares	
Shareholders	**Number**	**%**
HSBC Custody Nominees (Australia) Limited	28,455,392	16.56
One Funds Management Limited <Asia Pacific Health Fund II A/C>	23,823,832	13.86
K One W One Ltd	10,990,860	6.40
Mr Garth Sutherland	10,275,171	5.98
Adherium ESP Trustee Limited	8,113,023	4.72
AstraZeneca AB	8,079,720	4.70
Citicorp Nominees Pty Limited	5,559,834	3.24
NZVIF Investments Limited	4,483,383	2.61
Cure Kids Ventures Ltd	3,461,417	2.01
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	3,057,158	1.78
National Nominees Limited	2,604,884	1.52
Bennamon Pty Ltd	2,168,000	1.26
UBS Nominees Pty Ltd	2,161,016	1.26
Doctor Iain Arthur McCormick	1,622,000	0.94
Mogridge & Associates Ltd	1,500,000	0.87
Popeye Investments Pty Ltd <Popeye Investment A/C>	1,206,060	0.70
K M Fitzpatrick & Associates Pty Ltd <KM Fitzpatrick Family A/C>	1,077,000	0.63
Ross Alan Sutherland + Valerie Mary Sutherland + Garth Campbell Sutherland	1,072,517	0.62
Dr John Douglas Wilson	1,039,428	0.60
Mr John Leonard Walley + Mrs Lynn Walley + Walley Trustee Ltd	999,445	0.58
Total top 20 holders of ordinary shares	121,750,140	70.85

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

In the year ended 30 June 2017, 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.

Corporate Information

ASX code: ADR

Directors

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

Joint Company Secretaries

Mr Rob Turnbull
Mr Mark Licciardo

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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
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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 visithttps://www.investorcentre.com

www.adherium.com