

ASX Market Announcements
ASX Limited
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525 Collins Street
Melbourne VIC 3000

INTERIM CONSOLIDATED FINANCIAL REPORT TO 31 DECEMBER 2015

Attached is Adherium Limited's Appendix 4D and Interim Consolidated Financial Report for the period to 31 December 2015. An explanation of results for the period is set out in the Director's report within the Interim Consolidated Financial Report.

Yours faithfully



Rob Turnbull
CFO & Joint Company Secretary

ASX: ADR**ABN**

24 605 352 510

Company Overview

Adherium is a global leader in digital health technologies which address sub optimal medication use in chronic disease.

Directors

Dr J Doug Wilson (Chair)
Mr Garth Sutherland (Group CEO)
Prof John Mills
Mr Jeremy Curnock Cook
Mr Bruce McHarrie
Mr Bryan Mogridge
Dr Bill Hunter

Joint Company Secretaries

Mr Rob Turnbull
Ms Bronwyn Le Grice

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Websites

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www.smartinhaler.com

Adherium Limited

ABN 24 605 352 510

Appendix 4D

Interim Consolidated Financial Report for the period ending 31 December 2015

1. Adherium Limited (“Adherium”, the “Company” or the “Group”) presents this financial report, including the interim financial statements, for the nine months ended 31 December 2015. The Group listed on the ASX in August 2015, and had previously reported to a 31 March balance date. The Group is now in the process of transitioning to a 30 June financial year end.

2. Results for announcement to the market

	31 Dec 2015 \$'000	31 Dec 2014 \$'000	% Change
2.1 Operating revenue	1,602	2,429	(34.0)%
2.2 Loss after tax from ordinary activities	(3,840)	(662)	(480)%
2.3 Net loss from ordinary activities	(3,840)	(662)	(480)%
2.4 Dividends and franked amount per security	nil	nil	n/a
2.5 Dividend record date	n/a	n/a	n/a
2.6 Explanation of results:	Please refer to the commentary in the Directors’ report contained in the attached Interim Consolidated Financial Report for the period ending 31 December 2015.		

The information required by ASX listing rule 4.2A is contained in both this Appendix 4D and the attached interim consolidated financial report. The interim information should be read in conjunction with the most recent annual financial report.

+ See chapter 19 for defined terms.

3. Net Tangible Assets per Security

	Current period	Comparative period
Net tangible assets per share	\$ 0.216	\$ 0.023

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 per share amounts for all periods presented.

4. Entities over which control has been gained or lost during the period:

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

5. Details of dividends

Not applicable.

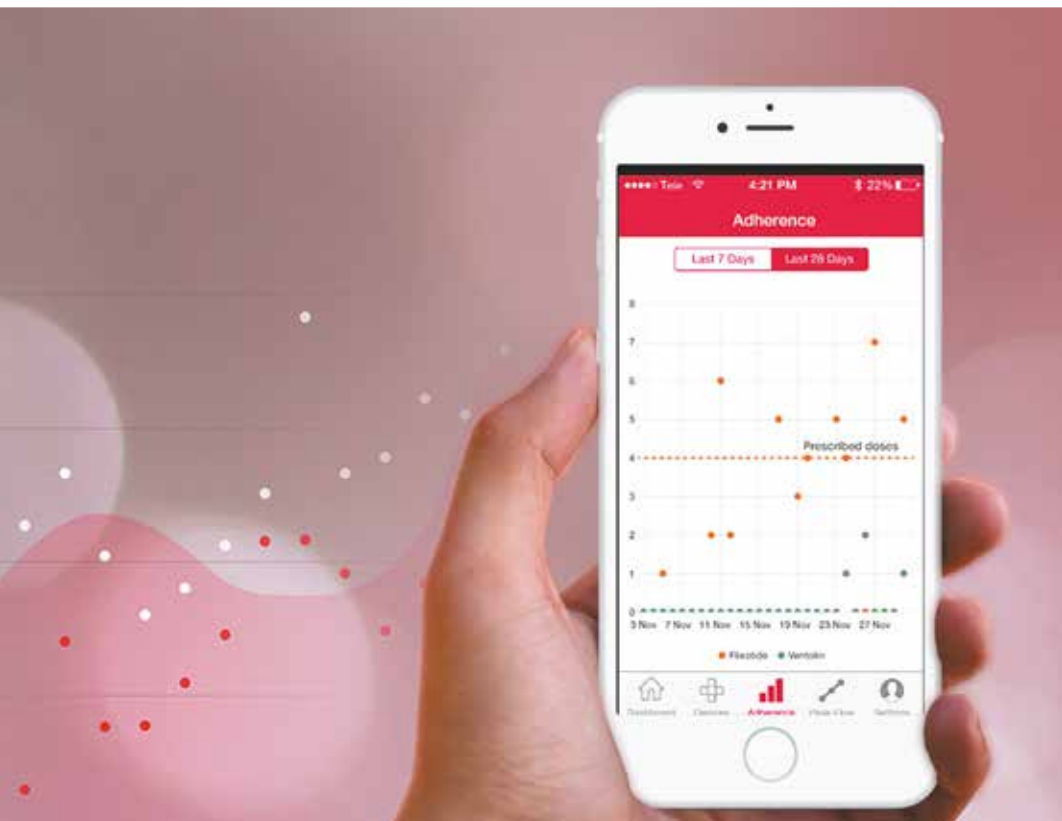
6. Details of dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

None.

⁺ See chapter 19 for defined terms.



ADHERIUM LIMITED INTERIM CONSOLIDATED FINANCIAL REPORT

ABN 24 605 352 510

**FOR THE PERIOD ENDED
31 DECEMBER 2015**

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DIRECTORS' REPORT

for the nine-month period ended 31 December 2015

Your Directors submit their report for the nine-month period ended 31 December 2015.

Directors

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

	<i>Appointed</i>	<i>Resigned</i>
Dr J Doug Wilson (Chair)	20 July 2015	
Mr Garth Sutherland (Group CEO)	20 July 2015	
Prof John Mills	20 July 2015	
Mr Jeremy Curnock Cook	17 April 2015 (incorporation)	
Mr Bruce McHarrie	20 July 2015	
Mr Bryan Mogridge	20 July 2015	
Dr Bill Hunter	17 December 2015	
Ms Bronwyn Le Grice*	17 April 2015 (incorporation)	20 July 2015
Mr Matthew McNamara*	17 April 2015 (incorporation)	20 July 2015

*appointment and resignation was part of an administrative process related to the structure and organisation of the Adherium® Group through the initial public offer and listing process.

Review of Operations

This is the first interim report to be lodged by Adherium® since our initial public offering on the Australian Securities Exchange in August 2015. We were extremely pleased with the level of interest in the IPO, which raised A\$35 million in an oversubscribed capital raising, and we thank all shareholders for their support both at the time of the IPO and since the listing.

As a Company, we believe that we can transform the lives of people living with chronic disease using digital technology and interventions. We undertook our IPO in 2015 so that we could execute on our plan for international growth and expansion as we look to take our technology to the world.

To do this we need to increase our capability in all areas of our business to expand our leadership in the digitisation of respiratory medicine with our market-leading Smartinhaler™ platform and then beyond that into new chronic diseases and drug delivery modalities. In turn, we will be able to become a provider of meaningful medication use data to the broader healthcare sector and thus have a profound impact on the lives of millions of people living with chronic disease.

This Interim Report shows the beginning of the building out of our business.

In the period 1 April 2014 to 31 December 2014, Adherium's operations were predominantly focused on the supply of devices and related support services to the clinical trials sector. In particular, two multinational clinical trials sponsored by AstraZeneca accounted for the majority of the 28,000 Smartinhaler™ devices sold in the period, with the remainder sold to hospital and investigator led studies and other healthcare customers.

During this period total operating revenue from the sales of Smartinhaler™ devices and related data subscriptions and support services was \$2,429,000. This reflects the higher price, lower volume nature of the clinical trial sales channel.

During 2015 the Company continued to sell devices into the clinical trial channel. However, having entered into commercial supply arrangements with AstraZeneca, increasing volumes of devices were sold under a lower price, high volume commercial pricing model.

As such, in the period 1 April to 31 December 2015, operating revenues of \$1,602,000 were generated via the sales of 48,000 Smartinhaler™ devices with the majority of these devices being for supply to AstraZeneca's commercial programme and accordingly at volume pricing.

Similarly, the shift to commercial supply was supported by a transfer of volume manufacturing operations to our Asian-based contract manufacturer, which resulted in a 32% reduction in manufacturing costs per device in the 2015 period. We expect further reductions in device manufacturing costs as volumes increase and the benefits of cost-down design programmes are implemented.

Moving forward with our plans for international growth and expansion necessarily requires investment across the business, resulting in an increase in our overall net loss from operating activities to \$3,840,000 in the current period, as compared to \$662,000 in the prior period, as expected. Beyond the general increase in the level of operations and resources, other contributing factors included:

- Increased quality and regulatory resources attributable to gaining approvals to support the commercial roll-out of the Company's Smartinhaler™ devices globally;
 - Expenditure relating to intellectual property protection, as the Company looks to deploy a more extensive intellectual property strategy following the IPO;
 - Expenses of \$784,000 associated with securing the AstraZeneca agreement, the ASX listing and establishment and maintenance of the share register;
 - Expensing of previously capitalised product development costs of \$166,000 related to development of a new Smartinhaler™ device following the initiation of a new product development project which superseded that device; and
 - Non-cash interest and fair value expenses of \$378,000 related to increments in borrowing and embedded derivative classifications of the Convertible Notes prior to conversion of those notes into shares in the Company.
-

Highlights of the Period

Highlights of the Company's activities since its IPO include:

- New independent clinical data showing 144% increase in adherence, restoration to 100% lung function and a 37% reduction in prescribed oral steroids in children using the Smartinhaler™ platform;
- The appointment of Dr Bill Hunter to the Board of Directors. Dr Hunter brings to the Board a wealth of experience in the commercialisation of medical technologies and the application of big data in healthcare;
- 31 new clinical projects secured, building on our existing database of more than 63 projects and 33 peer reviewed publications. Clinical projects underway involve the deployment of 89,000 devices over time;
- Securing the final certification necessary for clearance to market for the SmartTurbo™ device in China;
- Independent publication of a new validation study which found that SmartTurbo™ demonstrates a 99.7% accuracy level; and
- Confirmation of eight new registered designs in Australia including registrations for SmartHandy™ (for Boehringer Ingelheim's Handihaler®).

Outlook

Over the next 12 months Adherium will focus on continuing to execute on its international growth and expansion plan. There are three key elements to this:

1. Extend our market leadership in the digitisation of respiratory medicine via increasing sales of our Smartinhaler™ platform internationally;
2. Apply our technology and expertise to develop new technologies to address a similar unmet need in other chronic diseases, where the financial burden of treatment is high, and there is an opportunity to have a profound positive impact on patients; and
3. Capture, protect and analyse the data generated by Adherium devices, to provide meaningful, evidence-based medication use data to improve health outcomes for those with chronic disease.

The digitisation of respiratory medicine is moving swiftly

Since we announced the execution of the Master Supply and Development Agreement with AstraZeneca, the market activity relating to the digitisation of the respiratory market has increased substantially with Teva's acquisition of Gecko Health in September 2015, the announcement of a partnership between Novartis and Qualcomm in January 2016 and media coverage of a number of non-exclusive development partnerships. Consistent with this we have received a number of new enquiries from pharmaceutical companies.

For the first time we have seen the digitisation of an entire class of pharmaceuticals. At Adherium, we are focused on consolidating the market leadership of our Smartinhaler™ platform, via our relationship with AstraZeneca and other agreements of this type, and through developing our pipeline of sales opportunities across our key channels of pharmaceutical and medical device companies, clinical trials and payers.

Our independent clinical outcomes data sets us apart

Currently Adherium is the only company active in the digitisation of inhaled medications for respiratory disease that can point to robust, independent clinical outcomes data from studies of end users utilising the technology in a real world setting.

This data has shown that the Adherium Smartinhaler™ platform delivers:

- An increase in adherence of 59% in adults and up to 180% in children;
- A reduction in severe exacerbations in adults of 60%; and
- A reduction of the prescription of oral steroids (a clear marker of reduced exacerbations) in children of 37%.

The Company expects further independent clinical data relating to the use of the Smartinhaler™ platform to be published during 2016. This will further cement our position as the only company in our space which can point to a profound positive impact on health outcomes arising from use of this technology.

The Importance of Partnerships: The AstraZeneca Agreement

The Turbu+® program incorporates the Turbu+® device, manufactured for AstraZeneca by Adherium.

Starting in the first half of 2016, Adherium expects that AstraZeneca will begin expanding the commercial roll-out of the Turbu+ program into selected countries in Europe, North America and Asia.

In addition, across the Adherium business, there are active AstraZeneca driven projects spanning product development, supply chain management, regulatory and quality requirements, clinical operations and product internationalisation.

These projects include external and embedded devices for both new and existing inhalers and preparations for major new clinical studies in international markets.

Clinical Projects: Sales, Customers and Data

The clinical trials segment is important to the development of Adherium's business. It puts the Company's technology in the hands of patients and it is an important driver of sales, both in itself and in developing awareness with key opinion leaders and industry partners across the respiratory market. This provides the foundation for the securing of commercial agreements in the future.

Adherium is currently providing Smartinhaler™ devices, software and data management to 31 clinical projects and programs around the world, building on our existing database of more than 63 projects and 33 peer reviewed publications.

Projects currently underway involve the deployment of more than 89,000 devices over time and are supported by a variety of academic groups, hospitals, pharmaceutical clients and distributors around the globe.

Sponsors of clinical projects currently utilising the Adherium Smartinhaler™ technology include (but are not limited to):

- AstraZeneca (Global)
- GSK (USA)
- Philips (UK, USA)
- University of Western Australia (Australia)
- The Royal Brompton Hospital (UK)
- University of Calgary (Canada)
- Cincinnati Children's Hospital (USA)
- Canton Hospital (Switzerland)
- University of Auckland (New Zealand)
- Medical Research Institute of New Zealand (New Zealand)

Discussions are also underway for supply of Smartinhaler™ technology to a further 35 clinical projects.

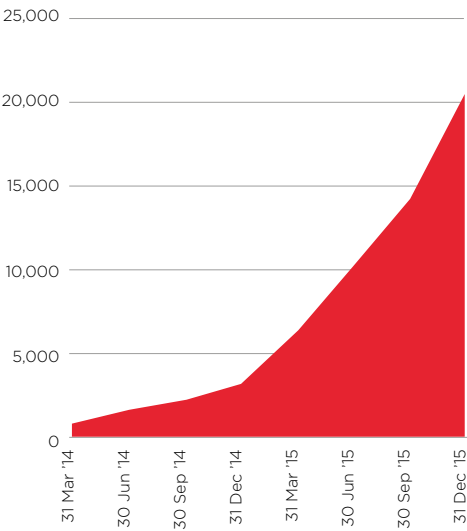
The Smartinhaler™ Platform – 59% per quarter growth

Sales volumes of the period increased on the prior period with 28,000 and 48,000 devices sold in 2014 and 2015 respectively.

Since 1 April 2014, 82,000 devices have been sold to customers. 57,000 of these were connected devices that generate data which is communicated to the SmartinhalerLive™ cloud. The remaining 25,000 devices comprised a low-cost, reminder only solution without data connectivity which were developed for a specific customer order.

A key metric which the Company uses to monitor the growth of the platform is the cumulative number of devices with data connectivity (connected devices) which have been 'activated' or registered with the SmartinhalerLive™ cloud.

Number of Devices Activated (Cumulative)



This measure allows us to monitor the expansion in the platform over time as customers deploy the devices into the hands of end users, as we recognise that there is a time lag between the sale of devices to a customer and when those devices make it into the hands of end users.

As at 31 December 2015, 20,338 of the 57,000 connected devices sold had been activated, with the number of activated devices growing at an average of 59% quarter on quarter over the period since 1 January 2014.

As the Company's commercial agreement with AstraZeneca expands, new commercial agreements are secured and the Company adds increasing numbers of clients in the clinical projects arena, we expect that the number of devices activated will continue to grow.

Maintaining leadership through technology innovation

High quality, scalable and cost-effective technologies and innovation are key drivers of Adherium's success and will continue to be critical elements as we look to consolidate our market leadership.

Specifically, over the next 12 months, Adherium's objectives are to:

- Develop new devices for AstraZeneca, and seek regulatory approval in required markets for these products;
- Deliver next generation devices for our current flagship products, demonstrating improved aesthetics and feature sets;
- Develop new devices for new inhalers entering the market, to ensure we remain the preferred provider for clinical trials where multiple medications are used;
- Commence beta testing of new embedded Smartinhaler™ technology, which will enable the Company to shift its technology inside the inhaler; and
- Expand the Company's intellectual property portfolio.

Broadening our sales and marketing capability

Adherium has been developing and progressing a broad and deep pipeline of sales opportunities, but has been limited in the human resources it can deploy to close these sales. The Company has appointed an international executive search and recruitment firm to recruit a number of senior sales and marketing executives to join the Company's international operations and to support the progress of sales within the pipeline.

The Company expects to announce key appointments for senior sales and marketing executives in major markets within the first half of 2016.

Valuing the support of our shareholders

Adherium has been through a substantial transformation since our IPO in August last year, and on behalf of the Board and staff, we thank our shareholders for their ongoing support.

Events subsequent to balance date

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Auditor's independence declaration

The Auditor's independence declaration is set out on page 9 and forms part of the Directors' report for the nine months ended 31 December 2015.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Dr J D Wilson', with a small horizontal line at the end.

Dr J D Wilson

Chairman

Dated this 26th day of February 2016

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the review of Adherium Limited for the nine month period ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Graeme Pinfold', with a horizontal line drawn underneath it.

Graeme Pinfold
Partner
PricewaterhouseCoopers

Auckland
26 February 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the nine-month period ended 31 December 2015

	31 Dec 2015	31 Dec 2014
Notes	\$'000	\$'000
Continuing Operations		
Sales	1,602	2,429
Cost of sales	(833)	(689)
Gross profit	769	1,740
Grants income	-	173
Manufacturing support	(394)	(377)
Research and development costs	(1,323)	(1,091)
Sales and marketing costs	(523)	(189)
Administrative expenses	(2,260)	(932)
Operating loss	(3,731)	(676)
Interest income	269	14
Interest expense	(378)	-
Finance income (cost) - net	(109)	14
Loss before income tax	(3,840)	(662)
Income tax expense	-	-
Loss for the period attributable to equity holders	(3,840)	(662)
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	83	15
Other comprehensive income for the period, net of tax	83	15
Total comprehensive loss for the period	(3,757)	(647)
Total comprehensive loss attributable to:		
Equity holders of Adherium Limited	(3,757)	(647)
Basic and diluted loss per share	3 3.7 cents	1.0 cent

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2015

		31 Dec 2015	31 Mar 2015
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		30,780	3,468
Trade and other receivables		454	334
Inventories		355	969
Deferred capital raising costs		-	477
Prepayments		110	12
Total current assets		31,699	5,260
Non-current assets			
Property, plant and equipment	4	244	166
Intangible assets	5	113	190
Total assets		32,056	5,616
LIABILITIES			
Current liabilities			
Trade and other payables		724	1,329
Income received in advance		251	1,296
Borrowings	6	-	1,501
Embedded conversion derivative	6	-	473
Total current liabilities		975	4,599
EQUITY			
Share capital	7	66,593	5,261
Accumulated deficit		(8,965)	(5,125)
Other reserves		(26,547)	881
Total equity		31,081	1,017
Total liabilities and equity		32,056	5,616

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the nine-month period ended 31 December 2015

	Share Capital	Accumulated Deficit
	\$000	\$000
Equity as at 1 April 2014	5,236	(3,870)
Loss for the period	-	(662)
Other comprehensive income	-	-
Total comprehensive loss	-	(662)
<i>Transactions with owners:</i>		
Shares issued on option exercise	17	-
Share option grants for services	-	-
Equity as at 31 December 2014	5,253	(4,532)

	Share Capital	Accumulated Deficit
	\$000	\$000
Equity as at 1 April 2015	5,261	(5,125)
Loss for the period	-	(3,840)
Other comprehensive income	-	-
Total comprehensive loss	-	(3,840)
<i>Transactions with owners:</i>		
Shares issued on Convertible Notes conversion	2,204	-
Shares issued in capital reorganisation	27,535	-
Shares issued in initial public offering	35,000	-
Share issue costs	(3,706)	-
Shares issued on option exercise	299	-
Share option grants for services	-	-
Equity as at 31 December 2015	66,593	(8,965)

The accompanying notes form part of the financial statements.

Share Option Compensation Reserve	Foreign Currency Translation Reserve	Merger Reserve	Total Equity
\$000	\$000	\$000	\$000
373	435	-	2,174
-	-	-	(662)
-	15	-	15
-	15	-	(647)
-	-	-	17
50	-	-	50
423	450	-	1,594

Share Option Compensation Reserve	Foreign Currency Translation Reserve	Merger Reserve	Total Equity
\$000	\$000	\$000	\$000
434	447	-	1,017
-	-	-	(3,840)
-	83	-	83
-	83	-	(3,757)
-	-	-	2,204
-	-	(27,535)	-
-	-	-	35,000
-	-	-	(3,706)
-	-	-	299
24	-	-	24
458	530	(27,535)	31,081

CONSOLIDATED STATEMENT OF CASH FLOWS

for the nine-month period ended 31 December 2015

	31 Dec 2015	31 Dec 2014
	\$000	\$000
Cash flows from operating activities:		
Receipts from customers	448	2,332
Receipts from grants	61	118
Interest received	269	14
Resident withholding tax paid	(7)	(1)
Payments to employees	(1,271)	(1,199)
Payments to suppliers	(3,715)	(2,086)
Net cash used in operating activities	(4,215)	(822)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(177)	(53)
Purchase of intangible assets	(111)	(72)
Net cash used in investing activities	(288)	(125)
Cash flows from financing activities:		
Proceeds from the issue of shares	35,000	-
Proceeds from the exercise of options	299	17
Payment of capital raising costs	(3,471)	(22)
Payment of convertible note issue costs	(43)	-
Net cash provided from financing activities	31,785	(5)
Net increase (decrease) in cash	27,282	(952)
Cash at the beginning of the period	3,468	1,893
Effect of exchange rate changes on cash balances	30	43
Cash at the end of the period	30,780	984

The accompanying notes form part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month period ended 31 December 2015

1. General information

Adherium Limited (the Company, Group or Adherium) is an Australian Securities Exchange listed company which develops, manufactures and supplies digital health technologies which address sub-optimal medication use and improve health outcomes in chronic disease.

Basis of Presentation

This general purpose consolidated condensed financial report for the nine months ended 31 December 2015 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

During the period 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.

This interim report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and operating, financing and investing activities of the consolidated entity as the full financial report. This interim financial report should be read in conjunction with the annual report of Adherium (NZ) Limited for the year ended 31 March 2015 and considered together with any public announcements made by Adherium Limited in accordance with the continuous disclosure obligations of the *ASX Listing Rules*.

Apart from the changes in accounting policy noted below, this interim financial report has been prepared using the same accounting policies as used in the annual financial statements of Adherium (NZ) Limited for the year ended 31 March 2015.

The Group is transitioning to a 30 June balance date, and accordingly its next annual report will be prepared as of 30 June 2016. These financial statements are prepared for the nine-month period from 1 April 2015 to 31 December 2015, with comparative information being from 1 April 2014 to 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month period ended 31 December 2015

Adherium has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to Adherium's accounting policies and had no effect on the amounts reported for the current or prior periods.

Changes in accounting policies

Adherium's financial statements have historically been presented in New Zealand dollars. In August 2015 Adherium completed an initial public offering and listed on the Australian Securities Exchange. To align its financial reporting with its listing market, the Company has adopted Australian dollars as its presentation currency effective 1 April 2015. The functional currency of Adherium Limited is Australian dollars, and the functional currency of Adherium (NZ) Limited continues to be New Zealand dollars. Accordingly, the financial results and position of Adherium (NZ) Limited are translated to Australian dollars for consolidated reporting purposes. Prior period comparative numbers in this interim financial report have been restated in Australian dollars in order to provide meaningful comparable information. The change in presentation currency has been applied from the earliest date practicable. Where necessary, certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

Given the reorganisation ahead of the initial public offering and listing, Adherium has adopted an accounting policy in relation to consolidation of subsidiaries. In preparing these interim financial statements, subsidiaries are fully consolidated from the date the Group gains control until the date on which control ceases. 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.

2. Segment Information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month period ended 31 December 2015

3. Earnings per share

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

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

	31 Dec 2015	31 Dec 2014
	\$000	\$000
Profit (loss) after income tax attributable to equity holders	(3,840)	(662)
Weighted average shares outstanding (basic)	102,585,566	64,915,225
Weighted average shares outstanding (diluted)	102,585,566	64,915,225
Basic and diluted loss per share	3.7 cents	1.0 cent

4. Property, plant and equipment

During the period, the Group acquired assets with a cost of \$159,000 (2014: \$61,000) mainly in relation to manufacturing related tooling and computer equipment.

5. Intangible assets

During the period, previously capitalised product development costs of \$166,000 (2014: nil) related to development of a new Smartinhaler device were expensed following the initiation of a new product development project which superseded that device.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month period ended 31 December 2015

6. Borrowings

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

The Convertible Note terms included the following conversion features:

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

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

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

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

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

The 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 7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month period ended 31 December 2015

Movements in borrowings during the period were as follows:

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

There were no transfers between the fair value hierarchy levels in 2014 or 2015.

7. Share capital

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month period ended 31 December 2015

	Ordinary shares	\$'000
<i>Adherium (NZ) Limited</i>		
Share capital as at 1 April 2015	65,236,795	5,261
Shares issued on Convertible Notes conversion	4,763,205	2,204
Shares acquired by Adherium Limited in reorganisation	70,000,000	7,465 (a)
<i>Adherium Limited</i>		
Shares issued to Adherium (NZ) Limited shareholders	70,000,000	35,000 (a)
Shares issued in initial public offering	70,000,000	35,000
Share issue costs	-	(3,706)
Shares issued on option exercise	3,161,230	299
Share capital as at 31 December 2015	143,161,230	66,593

(a) Capital Reorganisation

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

8. Related party transactions

Details of all related party transactions have been disclosed in the annual report for the year ended 31 March 2015. In addition, during the nine-month period to 31 December 2015, Dr Wilson received total compensation of NZ\$31,500 based on a daily rate for duties performed in the initial public offer process outside the scope of his role as Chairman. This cost is included in share issue costs in the period. There have been no other new significant related party transactions during the interim period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month period ended 31 December 2015

9. Contingencies and commitments

The Company had no contingencies or commitments to purchase any property, plant or equipment at 31 December 2015 (March 2015: nil).

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

	31 Dec 2015	31 Mar 2015
	\$000	\$000
Not later than one year	130	49
Later than one year and not later than five years	816	-
Later than five years	176	-
	1,122	49

10. Events occurring after the balance sheet date

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

DIRECTORS' DECLARATION

In the opinion of the Directors of Adherium Limited:

- (a) The financial statements and notes set out on pages 10 to 21 are in accordance with the Corporations Act, including:
 - (i) Giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the financial period ended on that date; and
 - (ii) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) There are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'J D Wilson', with a stylized flourish at the end.

Dr J D Wilson

Chairman

Dated this 26th day of February 2016



Independent auditor's review report to the members of Adherium Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Adherium Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2015, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the nine month period ended on that date, selected explanatory notes and the directors' declaration for Adherium Limited (the consolidated entity). The consolidated entity comprises both the company and the entities it controlled from time to time during the nine month period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the nine month period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Adherium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Adherium Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the nine month period ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'Graeme Pinfold'.

Graeme Pinfold
Partner

Auckland
26 February 2016

CORPORATE INFORMATION

ASX code: ADR

Directors

Dr J Doug Wilson (Chair)
Mr Garth Sutherland (Group CEO)
Prof John Mills
Mr Jeremy Curnock Cook
Mr Bruce McHarrie
Mr Bryan Mogridge
Dr Bill Hunter

Joint Company Secretaries

Mr Rob Turnbull
Ms Bronwyn Le Grice

Registered Office

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NZ Office

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Share Registry

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Solicitors

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

Auditors

PricewaterhouseCoopers
188 Quay Street
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