



InhaleRx Limited

ACN 611 845 820

Annual Report – 31 December 2022

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InhaleRx Limited
Corporate directory
31 December 2022

Directors	Sean Williams Dr Andrew Saich Dr John Crock
Company secretaries	Nova Taylor Elizabeth Spooner
Registered office	Level 5 126 Phillip Street, Sydney NSW 2000 Ph : 03 8395 5446
Principal place of business	Level 5 126 Phillip Street, Sydney NSW 2000
Share register	Automic Legal Pty Ltd Level 5 126 Phillip Street, Sydney NSW 2000 Ph : 03 9415 5000
Auditor	HLB Mann Judd (Vic Partnership) Level 9 550 Bourke Street Melbourne VIC 3000
Stock exchange listing	InhaleRx Limited shares are listed on the Australian Securities Exchange (ASX code: IRX)
Corporate Governance Statement	Refer to inhalerx.com.au

InhaleRx Limited
Chairman's letter
31 December 2022

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present the Annual Report of InhaleRx Limited (**IRX** or **Company**) for the financial year ended 31 December 2022.

During the 2022 financial year IRX continued its transition from a medical technology company to a healthcare company focused on developing unique medicinal drug-device products to address unmet medical needs.

In particular, important progress was made during the year with respect to the company's drug-device applications for pain management and mental health.

Complex Regional Pain Syndrome (CRPS) is a form of chronic pain that usually affects an arm or a leg. CRPS typically develops after an injury, a surgery, a stroke or a heart attack. The pain is out of proportion to the severity of the initial injury. CRPS is a significant cause of disability globally. No drugs have been specifically approved for CRPS and patients often resort to a combination of opioids, lyrica and atypical antidepressants. There remains a significant need for additional therapies to improve the therapeutic outcome for these patients as the sudden onset of pain and time to analgesic effect from current treatments is mismatched.

Panic Disorder (**PD**) refers to the experience of recurrent and disabling panic attacks which last up to a few minutes and are accompanied by physical symptoms such as heart palpitations, shaking, shortness of breath, and dizziness. There are currently no effective treatments for PD with sufferers forced to rely on atypical antidepressants (SSRI), sedatives (benzodiazapines) and anti-convulsants (gabapentin).

During the year, IRX developed novel cannabinoid based drug device combinations of THC (CRPS) and CBD (PD) in pressurised metered dose inhalers (**pMDI**) for rapid onset symptomatic relief. IRX's ultimate objective is to achieve a New Drug Approval (**NDA**) for these indications as time efficiently and cost effectively as possible.

The novel drug device combinations are designed to treat individuals with CRPS and PD with the following aims:

- Faster onset pain relief and relief from panic attacks;
- Reduce concomitant opioid and anti-depressant usage; and
- More convenient alternative to inhaling heated THC or CBD.

It is envisaged that these solutions will help to improve the quality of life of CRPS and PD sufferers. Furthermore, the novel drug device combinations will improve the administrative efficiency and dose metering compared to smoking, vaping or oral administration of cannabinoids.

In the case of each treatment, IRX has now completed the following:

- Development of novel drug formulations and the completion of stability testing;
- Drafting of clinical trial Protocols and Investigator Brochures;
- Identified and procured the necessary Active Pharmaceutical Ingredients (**API**) and pMDI device componentry;
- Commissioned the manufacturing of the trial drugs; and
- Completed an international tender for the selection of a Clinical Research Organisation (CRO) to oversee the clinical trial programmes.

In addition, the IRX team has also continued to make significant progress in the company's journey towards opening an Investigational New Drug (**IND**) application with the US Food & Drug Administration (**FDA**) for each indication via the FDA's 505(2)(b) NDA pathway. This pathway allows an IND to reference previously conducted studies which saves time and cost. There is also greater flexibility in the application process and the regulatory approval process is not as burdensome as the standard NDA pathway.

Significantly, during the year IRX completed a pre-IND meeting with the FDA covering its plans for the development of its Cannabidiol (**CBD**) drug device combination for the treatment of PD – which was a very informative and affirming meeting. It is expected that Phase 2 trials for PD will commence in the September 2023 quarter in Melbourne.

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IRX has also progressed an Ethics Committee submission in preparation for the planned Phase 1 clinical trial of its Tetrahydrocannabinol (THC) based drug-device combination for the treatment of CRPS to be conducted in Melbourne over the coming months. A pre-IND meeting with the FDA for this treatment has also been scheduled for 30th March 2023.

These planned clinical trial programmes will be some of the first clinical trials involving inhaled cannabinoid medications for treating pain and anxiety related conditions. Furthermore, we expect that they will also be the first clinical trials for inhaled cannabinoid treatments for CRPS and panic disorder to be completed anywhere in the world. The IRX board and management team are very excited about the prospect of getting the clinical trial programmes underway and are very optimistic about where these programmes may lead.

IRX's progress across 2022 was supported by a capital raise of \$1,200,000 in October 2022 which enabled the company to complete its drug formulation work, procurement and trial drug manufacturing priorities. The costs associated with the capital raised for the year were \$101,619.

The financial loss for the consolidated entity after providing for income tax and non-controlling interests amounted to \$1,927,049 up 73.4% compared to previous period (31 December 2021: \$1,111,129).

Revenue from the sale of Medihale devices was \$24,800 for the year compared to the previous period of \$167,301.

The sale of inhalation devices for use in prescription medicines has continued to provide IRX with important patient insights into the effectiveness of cannabinoid medications in the treatment of a range of medical conditions. Following extensive market research and customer feedback, the Company made the decision to review the design and functionality of the Medihale 1.0 medicinal inhalation device system. This review also encompassed an evaluation of available new device designs with the result that the company has decided to launch Medihale 2.0 using a C-cell inhalation device model. A formal launch of Medihale 2.0 is expected once a review of logistical and dispensing arrangements has been completed. There were no sale of Medihale devices reported for the year and Medihale 1.0 inventory has now been written down to \$nil.

The winding-up of IRX's German subsidiaries was completed during 2022 with these entities having ceased operations in 2020.

On 26th September 2022, the company announced that Dr John Crock, a highly experienced plastic surgeon with over 40 year clinical experience, would be joining the board. At the same time, Mr Darryl Davies agreed to resign as a director allowing him to focus his energies on the CEO role and specifically the delivery of IRX's clinical development programme. This change also reinforced the separation in governance within the company between the board and the executive.

At around that time, the company also welcomed the appointment of Dr Rob Jenny, a biochemist by training with experience in R&D, commercialisation and pharma manufacturing, as Chief Scientific Officer. Mr Davies and Dr Jenny, together with the company's Medical Science Consultant, Dr Sud Agarwal have formed a small, but highly effective team, allowing the company to accelerate its clinical development and regulatory approval activities. With this team in place, the company is well placed for the delivery of its clinical pathway strategy over the next 18-24 months.

Finally, I would like to thank our shareholders for their support over the year. Your Board looks forward to an exciting and productive 2023 and to keeping everyone informed of developments as they occur.

Sean Williams
Chairman

InhaleRx Limited
Directors' report
31 December 2022

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of InhaleRx Limited (referred to hereafter as 'IRX', the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2022.

Directors

The following persons were directors of InhaleRx Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Sean Williams – Non-Executive Chairman
Dr Andrew Saich – Non-Executive Director
Dr John Crock – Non-Executive Director (appointed 26th September 2022)
Darryl Davies – Executive Director (resigned 26th September 2022)

Principal activities

The principal activities of the consolidated entity during the period were focused on developing and commercializing medical drug delivery systems and the development of registrable inhaled drug formulations. The consolidated entity's devices and drug formulations aim to bring fast, safe and effective relief to sufferers of pain and anxiety related illnesses.

Our Business Model and Objectives

The consolidated entity's strategy is to continue to develop and commercialise its integrated prescription only drug inhaler systems in Australia and New Zealand and to develop registerable novel inhaled medicinal drug formulations for the treatment of illnesses for which there is currently no effective treatments.

The consolidated entity's objective is to deliver increases in shareholder value, by delivering against the key elements of the strategy and business model.

There is a clear orientation towards growing the existing businesses within the consolidated entity, however, a disciplined approach to evaluating other investment opportunities will be maintained.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$1,927,049 (31 December 2021: \$1,111,129).

At 31 December 2022, the consolidated entity had cash and cash equivalents of \$2,133,387 (2021: \$2,803,480), a net working capital surplus of \$1,889,016 (2021: \$2,654,567) and overall net assets of \$1,902,761 (2021: \$2,677,844).

Refer to the Chairman's letter that comes directly before this Directors' Report.

Significant changes in the state of affairs

In October 2022, the company issued 17,500,000 fully paid ordinary shares at 6 cents per share raising \$1,050,000 before costs. A further 2,500,000 fully paid ordinary shares were issued at 6 cents per share to related party, Cannvalate Pty Ltd (\$150,000) following approval by shareholders at an extraordinary general meeting held on 17th February 2023. In addition, the company issued 1,300,000 fully paid ordinary shares, valued at 6 cent per share, to the lead manager as consideration for capital raising fees.

During the year, the company completed the liquidation of its three German subsidiaries.

Matters subsequent to the end of the financial year

On 1 March 2023, the company issued 2,500,000 fully paid ordinary shares valued at 6 cents per share raising the \$150,000. The amount was received before 31 December 2022, but the issue of the shares was subject to shareholder approval. For this reason the amount was recognised as a liability, refer to note 10.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

Due to the nature of legalisation of Medical and Recreational Cannabis the company continues to monitor the fast-changing regulatory environment and is well poised to pursue new markets as the regulatory environments change. The consolidated entity's operations are not affected by other environmental regulation.

Information on directors

Name: Sean Williams
Title: Non-Executive Chairman
Qualifications: Sean graduated from Swinburne University with a Bachelor's Degree in Business (accounting) and was admitted to the Institute of Chartered Accountants in Australia and New Zealand in 1993.
Experience and expertise: Sean has over 30 years experience in senior executive and finance roles across the pharmaceutical, healthcare, investment management and supply chain sectors. Having commenced his career with an international accounting firm, Sean has held a number of senior roles including General Manager, Finance for Symbion Pharmacy (Australia's largest pharmaceutical wholesaler). He also headed up Symbion's market leading hospital pharmacy and dental divisions and was responsible for Independent Pharmacy Solutions (a short-line wholesale business). Sean has worked as an investment director in private equity and as a senior executive in private equity backed ventures. He has also led management buy-outs and been involved in founding start-up businesses within the supply chain sector. Most recently, Sean was CEO of a \$500m investment management business specialising in Australian agricultural investments.
Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 200,000 fully paid ordinary shares
Interests in options: 2,000,000 options over ordinary shares

Name: Dr John Crock
Title: Non- Executive Director (appointed 26th September 2022)
Qualifications: MBBS FRACS MD DA MAHSS
Experience and expertise: Dr Crock is a highly experienced plastic surgeon with over 40 years of clinical experience. He has received multiple awards over the course of his career. He is the founder of Aussie Health Abroad, an international aid organisation that focuses on training surgeons in developing nations, but also interfaces with many other disciplines of medicine in the global community - particularly in the USA and Europe. Dr Crock has completed an MD thesis which has been published in international journals and has been presented at major scientific forums in the USA, UK and Australia.
Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 1,082,902 fully paid ordinary shares
Interests in options: Nil

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Name: Darryl Davies
Title: Executive Director (resigned 26th September 2022)
Experience and expertise: Darryl has over 15 years experience in psychology, healthcare and harm minimisation. He has a background in substance misuse treatment and social work, and has experience in scaling up a wellness device start-up before entering the medicinal cannabis industry in 2017. Darryl co-founded private medicinal cannabis service provider, Cannvalate Pty Ltd - best known for award-winning patient access programs, end-to-end distribution solutions and its cannabinoid and psychedelic Clinical Research Organisation. Cannvalate Pty Ltd is a substantial shareholder of IRX and currently holds an interest in 19.9% of the shares of the Company.

Other current directorships: N/A
Former directorships (last 3 years): N/A
Interests in shares: N/A
Interests in options: N/A

Name: Dr Andrew Saich
Title: Non-Executive Director
Qualifications: Andrew is a UK trained physician with a degree in physiology and a degree in medicine from the University of London, who completed his post-graduate Royal College of Physicians examinations and specialised in Emergency Medicine.
Experience and expertise: Andrew joined the pharmaceutical industry over 20 years ago. He has worked in both large and small pharmaceutical companies and has extensive experience of international management, medicines commercialisation and pharmaceutical R&D. Andrew is currently Chief Medical Officer of Sapient Therapeutics, an early-stage UK pharmaceutical company and a co-founder of Diligenc. Capital, a cannabinoid prescription medicines investment group and Diligenc. Pathways, a consultancy comprising senior cannabinoid specialists from the ex-GW Pharmaceuticals team. In 2016 Andrew created and led the GW Pharmaceuticals International Medical organisation in preparation for the launch of Epidyolex (cannabidiol) for the treatment of rare and debilitating drug resistant epilepsies. GW Pharmaceuticals (acquired by Jazz Pharmaceuticals) was the world leader in the development of cannabinoid medicines and Andrew was a senior member of the international management team, the strategic launch team, the Clinical Development Committee and the Corporate Drug Safety team.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: Nil
Interests in options: Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretaries

Nova Taylor has over 5 years experience working in company secretary and assistant company secretary roles for listed entities. She previously worked for Computershare Investor Services Pty Ltd in various roles for over 10 years and has a Bachelor of Law from Deakin University.

Ms Elizabeth Spooner is an experienced governance and compliance professional who has worked closely with a number of boards of listed and unlisted public companies. She holds a double degree in Bachelor of Business Administration and Bachelor of Arts (Human Resources) and a Graduate Diploma of Applied Corporate Governance from the Governance Institute.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 31 December 2022, and the number of meetings attended by each director were:

	Full Board Attended	Held
Sean Williams	13	13
Darry Davies	10	10
Dr Andrew Saich	12	13
Dr John Crock	3	3

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The remuneration policy of IRX has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The Board of IRX believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the consolidated entity, as well as creating goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the consolidated entity is as follows:

- The remuneration policy is to be developed by the Board;
- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives;
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- The Board reviews KMP packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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Directors' report
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The Board which performs the functions and responsibilities of the Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for directors and executives. The performance of the consolidated entity depends on the quality of directors and executives.

The performance of KMP is measured against criteria agreed biannually with each executive and is based predominantly on the achievement of specific goals and clinical development programme milestones, as well as, forecast growth of the consolidated entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP do not receive any other retirement benefits other than any applicable statutory superannuation.

Upon retirement, KMP are paid employee benefit entitlements accrued to the date of retirement.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 30 May 2017, where the shareholders approved a maximum annual aggregate remuneration of \$300,000.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has three components:

- base pay and non-monetary benefits
- short-term performance incentives
- other remuneration such as superannuation and long service leave

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the IRX Board based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, clinical development pathway milestones, leadership contribution and product management.

Performance-based remuneration

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the consolidated entity and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the consolidated entity's goals and shareholder wealth, before the KPIs are set for the following year.

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In determining whether or not a KPI has been achieved, the company bases the assessment on audited figures; however, where the KPI involves comparison of the consolidated entity, or a division within the consolidated entity, to the market, independent reports are obtained from organisations such as Standard & Poor's.

Consolidated entity performance and link to remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The method applied to achieve this aim, was a performance-based bonus based on KPIs. The company believes this policy will be effective in increasing shareholder wealth.

Use of remuneration consultants

No remuneration consultant was engaged to assess remuneration this period.

Voting and comments made at the company's 2021 Annual General Meeting ('AGM')

At the 31 May 2022 AGM, 99.18% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2021.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Post employment benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Termination	Equity-settled	
2022	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
S Williams	84,506	-	-	-	-	13,514	98,020
D Davies *	111,543	-	-	-	-	7,480	119,023
A Saich	45,000	-	-	-	-	-	45,000
Dr J Crock (appointed 26 th September 2022)	13,042	-	-	-	-	-	13,042
<i>Other Key Management Personnel:</i>							
D Davies *	37,293	-	-	-	-	6,034	43,327
R Jenny **	38,076	-	-	3,998	-	5,217	47,291
	329,460	-	-	3,998	-	32,245	365,703

* Resigned from the board on 26th September 2022, but continued as the company's Chief Executive Officer.

** Appointed Chief Science Officer on 26th September.

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2021	Short-term benefits			Post-employment benefits	Post employment benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Termination	Equity-settled	
	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
R Hannington (resigned 26th July 2021)	49,182	-	-	-	-	-	49,182
F Cannavo (resigned 20th July 2021)	31,942	-	-	-	-	-	31,942
J Stedwell (resigned 20th July 2021)	23,193	-	-	-	-	-	23,193
S Williams (appointed 26th July 2021)	37,851	-	-	-	-	-	37,851
D Davies (appointed 20th July 2021)	23,463	-	-	-	-	-	23,463
A Saich (appointed 20th July 2021)	18,750	-	-	-	-	-	18,750
<i>Other Key Management Personnel:</i>							
M Golden *	212,187	-	-	19,242	-	-	231,429
	396,568	-	-	19,242	-	-	415,810

* Represents remuneration from 1 January 2021 to 22 December 2021.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
<i>Non-Executive Directors:</i>						
F Cannavo (resigned 20th July 2021)	-	100%	-	-	-	-
S Williams (appointed 26th July 2021)	86%	100%	-	-	14%	-
D Davies (appointed 20th July 2021)*	94%	100%	-	-	6%	-
A Saich (appointed 20th July 2021)	100%	100%	-	-	-	-
R Hannington (resigned 26th July 2021)	-	100%	-	-	-	-
J Stedwell (resigned 20th July 2021)	-	100%	-	-	-	-
Dr J Crock (appointed 26th September 2022)	100%	-	-	-	-	-
<i>Other Key Management Personnel:</i>						
M Golden	-	100%	-	-	-	-
D Davies *	86%	-	-	-	14%	-
Rob Jenny **	89%	-	-	-	11%	-

* Resigned from the board on 26th September 2022, but continued as the company's Chief Executive Officer.

** Appointed Chief Science Officer on 26th September.

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Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Sean Williams
 Title: Non-Executive Chairman
 Agreement commenced: 26th July 2021
 Term of agreement: \$76,650 per annum plus superannuation

Name: Dr Andrew Saich
 Title: Non-Executive Director
 Agreement commenced: 20th July 2021
 Term of agreement: \$45,000 per annum plus superannuation

Name: Darryl Davies
 Title: Executive Director and then Chief Executive Officer from 26th September 2022
 Agreement commenced: 24th December 2021
 Term of agreement: \$135,000 per annum plus superannuation

Name: Dr John Crock
 Title: Non-Executive Director
 Agreement commenced: 26th September 2022
 Term of agreement: \$45,000 per annum plus superannuation

Name: Dr Rob Jenny
 Title: Chief Scientific Officer
 Agreement commenced: 9th August 2022
 Term of agreement: \$108,000 per annum plus superannuation

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2022.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
S Williams	2,000,000	14 December 2022	14 December 2024	14 December 2025	\$0.2000	\$0.029
D Davies	2,000,000	14 December 2022	14 December 2024	14 December 2025	\$0.2000	\$0.029
R Jenny *	1,000,000	14 November 2022	30 June 2023	12 February 2025	\$0.2000	\$0.009

* These options were formally issued on 13 February 2023, but were considered granted for accounting purposes before 31 December 2022.

Options granted carry no dividend or voting rights.

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The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 31 December 2022 are set out below:

Name	Number of options granted during the year 2022	Number of options granted during the year 2021	Number of options vested during the year 2022	Number of options vested during the year 2021
S Williams	2,000,000	-	-	-
D Davies	2,000,000	-	-	-
R Jenny *	1,000,000	-	-	-

* These options were formally issued on 13 February 2023, but were considered granted for accounting purposes before 31 December 2022.

Additional information

The earnings of the consolidated entity for the five years to 31 December 2022 are summarised below:

	2022 \$	2021 \$	2020 \$	2019 \$	2018 \$
Sales revenue	24,800	167,301	12,557	46,599	345,788
Loss after income tax	(1,927,049)	(1,111,129)	(1,205,276)	(2,387,735)	(1,722,629)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2022	2021	2020	2019	2018
Share price at financial year end (\$)	0.060	0.090	0.077	0.030	0.060
Basic earnings per share (cents per share)	(1.114)	(0.663)	(1.215)	(3.080)	(2.220)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Held at time of appointment	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Sean Williams	200,000	-	-	-	200,000
Darryl Davies *	33,524,924	-	-	-	33,524,924
John Crock**	-	1,082,092	-	-	1,082,092
	<u>33,724,924</u>	<u>1,082,092</u>	<u>-</u>	<u>-</u>	<u>34,807,016</u>

* Held indirectly through Cannvalate Pty Ltd.

** Appointed as a director on 26th September 2022.

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Directors' report
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Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Sean Williams	-	2,000,000	-	-	2,000,000
Darryl Davies	-	2,000,000	-	-	2,000,000
Rob Jenny *	-	1,000,000	-	-	1,000,000
	-	<u>5,000,000</u>	-	-	<u>5,000,000</u>

* These options were granted for accounting purposes during the year but were not formally issued until 13th February 2023.

Other transactions with key management personnel and their related parties

There have been no other transactions involving equity instruments apart from those disclosed in the above tables. There have been no other options granted to key management personnel over unissued shares during or since the end of the reporting period. There have also been no loans made to key management personnel during or since the end of the reporting period.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of InhaleRx Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
14 December 2022	14 December 2025	\$0.2000	4,000,000
13 February 2023	12 February 2025	\$0.2000	<u>1,000,000</u>
			<u><u>5,000,000</u></u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate. No options have been granted over unissued shares during or since the end of the reporting period.

Shares issued on the exercise of options

There were no ordinary shares of InhaleRx Limited issued on the exercise of options during the year ended 31 December 2022 and up to the date of this report.

Indemnity and insurance of officers

The consolidated entity has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

InhaleRx Limited
Directors' report
31 December 2022

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the company who are former partners of HLB Mann Judd

There are no officers of the company who are former partners of HLB Mann Judd.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

HLB Mann Judd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Sean Williams
Director

30 March 2023

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of InhaleRx Limited for the year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to InhaleRx Limited and the entities it controlled during the year.



HLB Mann Judd
Chartered Accountants

Melbourne
30 March 2023



Nick Walker
Partner

hlb.com.au

HLB Mann Judd (VIC Partnership) ABN 20 696 861 713

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InhaleRx Limited
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General information

The financial statements cover InhaleRx Limited as a consolidated entity consisting of InhaleRx Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is InhaleRx Limited's functional and presentation currency.

InhaleRx Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5
126 Phillip Street, Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 March 2023. The directors have the power to amend and reissue the financial statements.

InhaleRx Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2022

	Note	Consolidated 2022 \$	2021 \$
Revenue	4	24,800	181,740
Gain on liquidation of German subsidiaries		10,924	-
Interest revenue		16,127	334
Expenses			
Cost of goods sold		-	(115,232)
Directors' fees and costs		(279,467)	(188,132)
Employee benefits expense		(47,471)	(228,106)
Depreciation and amortisation expense		(521)	(1,814)
Consulting costs		(366,960)	(378,593)
Corporate expenses		(192,747)	(143,131)
Marketing expenses		(33,883)	(52,345)
Product development expenditure		(977,137)	(116,990)
Other expenses		(80,714)	(68,860)
Loss before income tax expense		(1,927,049)	(1,111,129)
Income tax expense	5	-	-
Loss after income tax expense for the year attributable to the owners of InhaleRx Limited		(1,927,049)	(1,111,129)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(706)	18,820
Other comprehensive income for the year, net of tax		(706)	18,820
Total comprehensive loss for the year attributable to the owners of InhaleRx Limited		<u>(1,927,755)</u>	<u>(1,092,309)</u>
		Cents	Cents
Basic earnings per share	24	(1.114)	(0.663)
Diluted earnings per share	24	(1.114)	(0.663)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

InhaleRx Limited
Statement of financial position
As at 31 December 2022

	Note	Consolidated 2022 \$	2021 \$
Assets			
Current assets			
Cash and cash equivalents	6	2,133,387	2,803,480
Trade and other receivables	7	31,684	19,138
Inventories		-	20,605
Other	8	79,263	64,689
Total current assets		<u>2,244,334</u>	<u>2,907,912</u>
Non-current assets			
Property, plant and equipment		-	9,707
Intangibles		13,745	13,570
Total non-current assets		<u>13,745</u>	<u>23,277</u>
Total assets		<u>2,258,079</u>	<u>2,931,189</u>
Liabilities			
Current liabilities			
Trade and other payables	9	205,139	228,545
Contract liabilities		-	24,800
Employee benefits		179	-
Other	10	150,000	-
Total current liabilities		<u>355,318</u>	<u>253,345</u>
Total liabilities		<u>355,318</u>	<u>253,345</u>
Net assets		<u>1,902,761</u>	<u>2,677,844</u>
Equity			
Issued capital	11	13,927,516	12,901,135
Reserves	12	(298,865)	(968,991)
Accumulated losses		<u>(11,725,890)</u>	<u>(9,254,300)</u>
Total equity		<u>1,902,761</u>	<u>2,677,844</u>

The above statement of financial position should be read in conjunction with the accompanying notes

InhaleRx Limited
Statement of changes in equity
For the year ended 31 December 2022

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2021	10,454,902	(987,811)	(8,143,171)	1,323,920
Loss after income tax expense for the year	-	-	(1,111,129)	(1,111,129)
Other comprehensive income for the year, net of tax	-	18,820	-	18,820
Total comprehensive income for the year	-	18,820	(1,111,129)	(1,092,309)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 11)	2,446,233	-	-	2,446,233
Balance at 31 December 2021	<u>12,901,135</u>	<u>(968,991)</u>	<u>(9,254,300)</u>	<u>2,677,844</u>
Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2022	12,901,135	(968,991)	(9,254,300)	2,677,844
Loss after income tax expense for the year	-	-	(1,927,049)	(1,927,049)
Other comprehensive loss for the year, net of tax	-	(706)	-	(706)
Total comprehensive loss for the year	-	(706)	(1,927,049)	(1,927,755)
Transfer to profit and loss on derecognition of foreign currency liquidated subsidiaries (note 21)	-	94,046	-	94,046
Transfer relating to liquidated subsidiaries (note 21)	-	576,768	(576,768)	-
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 11)	1,026,381	-	-	1,026,381
Share-based payments (note 25)	-	32,245	-	32,245
Transfer relating to expired options	-	(32,227)	32,227	-
Balance at 31 December 2022	<u>13,927,516</u>	<u>(298,865)</u>	<u>(11,725,890)</u>	<u>1,902,761</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

InhaleRx Limited
Statement of cash flows
For the year ended 31 December 2022

	Note	Consolidated 2022 \$	Consolidated 2021 \$
Cash flows from operating activities			
Receipts from customers		-	117,879
Payments to suppliers and employees		(1,862,294)	(1,281,220)
		(1,862,294)	(1,163,341)
Interest received		15,995	334
Other revenue		-	14,439
Net cash (used in) operating activities	23	(1,846,299)	(1,148,568)
Cash flows from investing activities			
Payments for property, plant and equipment		-	(11,521)
Payments for intangibles		(175)	(13,570)
Net cash (used in) investing activities		(175)	(25,091)
Cash flows from financing activities			
Proceeds from issue of shares		1,200,000	2,271,042
Share issue transaction costs		(23,619)	(13,139)
Net cash from financing activities		1,176,381	2,257,903
Net increase/(decrease) in cash and cash equivalents		(670,093)	1,084,244
Cash and cash equivalents at the beginning of the financial year		2,803,480	1,719,479
Effects of exchange rate changes on cash and cash equivalents		-	(243)
Cash and cash equivalents at the end of the financial year	6	<u>2,133,387</u>	<u>2,803,480</u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The consolidated entity has adopted the revised Conceptual Framework from 1 January 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements.

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred a loss from ordinary activities of \$1,927,049 for the year ended 31 December 2022 (2021 : \$1,111,129). In addition, the consolidated entity had negative cash from operating activities of \$1,846,299 (2021: \$1,148,568).

- The consolidated entity had a net working capital surplus of \$1,889,016 at 31 December 2022 (2021: \$2,654,567);
- The consolidated entity continues to proactively manage operating cash flow requirements in line with available resources; and
- The company has the ability to raise additional capital under its general placement capacity. The board is confident that the company will be able to raise additional capital as and when needed.

Accordingly, the directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report. In the event that the consolidated entity is unsuccessful in implementing the above-stated initiatives, a material uncertainty exists, that may cast significant doubt on the consolidated entity's ability to continue as a going concern and its ability to recover assets and discharge liabilities in normal course of business and at the amounts shown in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Note 1. Significant accounting policies (continued)

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 20.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of InhaleRx Limited ('company' or 'parent entity') as at 31 December 2022 and the results of all subsidiaries for the year then ended. InhaleRx Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Board of Directors being the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is InhaleRx Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. The exchange difference from the translation of any net investment in foreign entities and of borrowings and other financial instruments so designated as hedges of such investments, is recognised in other comprehensive income.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Note 1. Significant accounting policies (continued)

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity:

- identifies the contract with a customer;
- identifies the performance obligations in the contract;
- determines the transaction price which takes into account estimates of variable consideration and the time value of money;
- allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
- recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 1. Significant accounting policies (continued)

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.

Trade and other receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	10 years
---------------------	----------

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Intangible assets

Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less accumulated amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and not amortised as they are not said to have a finite life.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 1. Significant accounting policies (continued)

Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and directors in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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 option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employee or director to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of InhaleRx Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 1. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2022. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into one operating segments: being development of unique medicinal drug-device products to address unmet medical needs. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

InhaleRx Limited
Notes to the financial statements
31 December 2022

Note 4. Revenue

	Consolidated	
	2022	2021
	\$	\$
<i>Revenue from contract with customers</i>		
Sales of services	-	19,829
Sales of goods	24,800	147,472
	<u>24,800</u>	<u>167,301</u>
<i>Other revenue</i>		
Other revenue	-	14,439
	<u>-</u>	<u>14,439</u>
Revenue	<u>24,800</u>	<u>181,740</u>

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2022	2021
	\$	\$
<i>Major revenue streams</i>		
Medihale	24,800	147,472
Other	-	19,829
	<u>24,800</u>	<u>167,301</u>
<i>Geographical regions</i>		
Australia	<u>24,800</u>	<u>167,301</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	24,800	147,472
Services transferred over time	-	19,829
	<u>24,800</u>	<u>167,301</u>

Note 5. Income tax expense

	Consolidated	
	2022	2021
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(1,927,049)	(1,111,129)
Tax at the statutory tax rate of 25% (2021: 26%)	(481,762)	(288,894)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non deductible costs	253,994	22,503
Tax effect of German subsidiary results	(2,730)	19,888
Less deductible and non assessable items	-	(19,961)
Tax losses not brought to account	230,498	266,464
	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>

InhaleRx Limited
Notes to the financial statements
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Note 5. Income tax expense (continued)

	Consolidated	
	2022	2021
	\$	\$
<i>Australian tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	6,781,528	5,859,533
Potential tax benefit @ 25%	1,695,382	1,464,883

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

All of the company's German subsidiaries have now been formally wound-up. For this reason the consolidated entity will not benefit from any of the tax losses incurred by these three companies.

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	2022	2021
	\$	\$
Cash at bank	122,326	2,803,480
Cash on deposit	2,011,061	-
	<u>2,133,387</u>	<u>2,803,480</u>

Note 7. Current assets - trade and other receivables

	Consolidated	
	2022	2021
	\$	\$
Other receivables	-	61,714
Less: Allowance for expected credit losses	-	(54,201)
	-	7,513
Interest receivable	132	-
GST receivable	31,552	11,625
	<u>31,684</u>	<u>19,138</u>

Refer to note 14 for information about the impairment of trade receivables.

Allowance for expected credit losses

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	2022	2021
	\$	\$
Opening balance	54,201	83,760
Reversal of provision	(54,201)	(29,559)
Closing balance	-	54,201

InhaleRx Limited
Notes to the financial statements
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Note 8. Current assets - other

	Consolidated	Consolidated
	2022	2021
	\$	\$
Prepayments	79,263	63,611
Other current assets	-	1,078
	<u>79,263</u>	<u>64,689</u>

Note 9. Current liabilities - trade and other payables

	Consolidated	Consolidated
	2022	2021
	\$	\$
Trade payables *	122,661	73,355
Other payables *	82,478	155,190
	<u>205,139</u>	<u>228,545</u>

Refer to note 14 for further information on financial instruments.

* all trade and other payables are unsecured

Note 10. Current liabilities - other

	Consolidated	Consolidated
	2022	2021
	\$	\$
Funds received ahead of the issue of shares	<u>150,000</u>	<u>-</u>

The above amount has been received with the shares not yet issued subject to shareholder approval which was obtained on 17th February 2023. The related shares were issued on 1 March 2023, refer to note 22.

Note 11. Equity - issued capital

	2022	2021	Consolidated	Consolidated
	Shares	Shares	2022	2021
			\$	\$
Ordinary shares - fully paid	<u>187,266,957</u>	<u>168,466,957</u>	<u>13,927,516</u>	<u>12,901,135</u>

InhaleRx Limited
Notes to the financial statements
31 December 2022

Note 11. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 January 2021	134,773,493		10,454,902
Issue of shares	5 January 2021	22,363,891	\$0.0700	1,565,472
issue of shares	19 January 2021	11,329,573	\$0.0700	793,070
Reversal of prior year accrual in relation to cost of capital raised		-	\$0.0000	100,830
Less cost of capital raised		-	\$0.0000	(13,139)
Balance	31 December 2021	168,466,957		12,901,135
Issue of shares	3 October 2022	17,500,000	\$0.0600	1,050,000
Issue of shares to lead manager	3 October 2022	1,300,000	\$0.0600	78,000
Less cost of capital raised		-	\$0.0000	(101,619)
	31 December 2022	<u>187,266,957</u>		<u>13,927,516</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to focus on the development of unique medicinal drug-device products to address unmet medical needs .

The capital risk management policy remains unchanged from the 31 December 2021 Annual Report.

Note 12. Equity - reserves

	Consolidated	
	2022	2021
	\$	\$
Foreign currency reserve	-	(93,340)
Share-based payments reserve	32,245	32,227
Other reserves	-	(576,768)
Non-controlling interest derecognised	(331,110)	(331,110)
	<u>(298,865)</u>	<u>(968,991)</u>

InhaleRx Limited
Notes to the financial statements
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Note 12. Equity - reserves (continued)

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Other reserves

This reserve is used to account for commonly controlled acquisitions, and the reserve represents the excess of the purchase price over the identifiable fair value of net assets acquired from German subsidiaries.

Non-controlling interest derecognised

This reserve is used to recognise the non-controlling interest at the time of gaining a 100% ownership interest in a subsidiary.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	NCI derecognised \$	Foreign currency \$	Share-based payments \$	Other \$	Total \$
Balance at 1 January 2021	(331,110)	(112,160)	32,227	(576,768)	(987,811)
Foreign currency translation	-	18,820	-	-	18,820
Balance at 31 December 2021	(331,110)	(93,340)	32,227	(576,768)	(968,991)
Foreign currency translation	-	(706)	-	-	(706)
Transfer to accumulated losses	-	-	(32,227)	-	(32,227)
Share based payments	-	-	32,245	-	32,245
Transfer to profit and loss on derecognition of FX subsidiaries	-	94,046	-	-	94,046
Transfer relating to liquidated subsidiaries	-	-	-	576,768	576,768
Balance at 31 December 2022	<u>(331,110)</u>	<u>-</u>	<u>32,245</u>	<u>-</u>	<u>(298,865)</u>

Note 13. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 14. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by the board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits.

The consolidated entity's financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables, all of which are recognised at amortised cost.

Note 14. Financial instruments (continued)

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. The consolidated entity does not hedge.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity is not exposed to any significant foreign exchange risk.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2022 \$	2021 \$	2022 \$	2021 \$
US dollars	-	-	138,747	-
Euros	-	16,185	-	109,626
	<u>-</u>	<u>16,185</u>	<u>138,747</u>	<u>109,626</u>

Consolidated - 2022	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity			
USD	10%	<u>(13,875)</u>	<u>(13,875)</u>	10%	<u>13,875</u>	<u>13,875</u>

Consolidated - 2021	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity			
Euro	10%	<u>-</u>	<u>(9,344)</u>	10%	<u>-</u>	<u>9,344</u>

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity is exposed to interest rate risk in relation to its cash holdings, but has no interest bearing liabilities.

Consolidated - 2022	Basis points change	Basis points increase Effect on profit before tax		Basis points change	Basis points decrease Effect on profit before tax	
		Effect on equity	Effect on equity			
Cash at bank	100	<u>21,334</u>	<u>21,334</u>	100	<u>(21,334)</u>	<u>(21,334)</u>

Consolidated - 2021	Basis points change	Basis points increase Effect on profit before tax		Basis points change	Basis points decrease Effect on profit before tax	
		Effect on equity	Effect on equity			
Cash at bank	100	<u>28,035</u>	<u>28,035</u>	10	<u>(28,035)</u>	<u>(28,035)</u>

Note 14. Financial instruments (continued)

The applicable weighted average effective interest rate was .2% (2021 : 0.01%)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a small number of reliable customers and has not experienced any issues with collectability of trade receivables. All cash balances are held with reputable financial institutions.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year. An impairment of \$null (2021: \$29,559) was recognised in relation to other receivables.

The consolidated entity's exposure to credit risk for receivables at the end of each reporting period per region is summarised below:-

	Consolidated	
	2022	2021
	\$	\$
Germany	-	<u>6,855</u>

Liquidity risk

Liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents).

The consolidated entity manages liquidity risk by maintaining adequate cash reserves continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Refer to note 1 going concern for details of how the board is managing the consolidated entity's liquidity risk.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2022	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	205,139	-	-	-	205,139
Total non-derivatives		<u>205,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,139</u>

InhaleRx Limited
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Note 14. Financial instruments (continued)

Consolidated - 2021	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	228,545	-	-	-	228,545
Total non-derivatives		<u>228,545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228,545</u>

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

None of the consolidated entity's financial instrument have been restated at fair value after initial recognition.

Note 15. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2022	2021
	\$	\$
Short-term employee benefits	329,460	396,568
Post-employment benefits	3,998	19,242
Share-based payments	32,245	-
	<u>365,703</u>	<u>415,810</u>

Note 16. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by HLB Mann Judd, the auditor of the company:

	Consolidated	
	2022	2021
	\$	\$
<i>Audit services - HLB Mann Judd</i>		
Audit or review of the financial statements	<u>54,900</u>	<u>48,950</u>

Note 17. Contingent asset and liabilities

The consolidated entity had no contingent assets and liabilities at the end of the current or prior financial year.

Note 18. Commitments

The consolidated entity had no commitments at the end of the current or prior financial year.

Note 19. Related party transactions

Parent entity

InhaleRx Limited is the parent entity.

InhaleRx Limited
Notes to the financial statements
31 December 2022

Note 19. Related party transactions (continued)

Subsidiaries

Interests in subsidiaries are set out in note 21.

Key management personnel

Disclosures relating to key management personnel are set out in note 15 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2022	2021
	\$	\$
Payment for goods and services:		
Services from received from Cannvalate Pty Ltd (an entity related to Darryl Davies)	-	21,411
Other transactions:		
Prepayment of expense with Cannvalate Pty Ltd (an entity related to Darryl Davies)	-	28,589

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2022	2021
	\$	\$
Current payables:		
Fees payable to directors	31,846	7,500

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 20. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2022	2021
	\$	\$
Loss after income tax	<u>(1,937,973)</u>	<u>(1,063,738)</u>
Total comprehensive loss	<u>(1,937,973)</u>	<u>(1,063,738)</u>

InhaleRx Limited
Notes to the financial statements
31 December 2022

Note 20. Parent entity information (continued)

Statement of financial position

	Parent	
	2022	2021
	\$	\$
Total current assets	2,233,509	2,891,725
Total assets	2,247,255	2,915,003
Total current liabilities	355,318	143,719
Total liabilities	355,318	143,719
Equity		
Issued capital	13,927,515	12,901,134
Share-based payments reserve	32,245	32,227
Accumulated losses	(12,067,823)	(10,162,077)
Total equity	<u>1,891,937</u>	<u>2,771,284</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has provided no guarantees in relation to the debts of its subsidiaries during the year.

Contingent liabilities

The parent entity had no contingent liabilities as at the end of the current and prior financial year.

Contractual commitments

The parent entity had no commitments as at the end of the current and prior financial year.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.

Note 21. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022	2021
		%	%
Body Tel GmbH *	Germany	-	100.00%
Lifespot AG *	Germany	-	100.00%
Seng-Vital Pty Ltd	Australia	100.00%	100.00%
Seng-Vital GmbH *	Germany	-	100.00%
Seng-Vital Asia Ltd.	Hong Kong	100.00%	100.00%

* These companies were liquidated during the year.

Significant restrictions

There are no significant restrictions over the consolidated entity's ability to access or use assets, and settle liabilities of the consolidated entity.

InhaleRx Limited
Notes to the financial statements
31 December 2022

Note 22. Events after the reporting period

On 1 March 2023, the company issued 2,500,000 fully paid ordinary shares valued at 6 cents per share raising the \$150,000. The amount was received before 31 December 2022, but the issue of the shares was subject to shareholder approval. For this reason the amount was recognised as a liability, refer to note 10.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 23. Reconciliation of loss after income tax to net cash (used in) operating activities

	Consolidated	
	2022	2021
	\$	\$
Loss after income tax expense for the year	(1,927,049)	(1,111,129)
Adjustments for:		
Depreciation and amortisation	9,707	1,814
Share-based payments	32,245	-
Derecognition of deferred consideration liability	-	4,302
Gain on liquidation of subsidiaries	(10,924)	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(12,546)	55,262
Decrease/(increase) in inventories	20,605	(20,605)
Decrease/(increase) in other operating assets	(14,574)	41,151
Increase/(decrease) in trade and other payables	80,858	(55,902)
Decrease in contract liabilities	(24,800)	(60,138)
Increase/(decrease) in employee benefits	179	(3,323)
Net cash (used in) operating activities	<u>(1,846,299)</u>	<u>(1,148,568)</u>

Note 24. Earnings per share

	Consolidated	
	2022	2021
	\$	\$
Loss after income tax attributable to the owners of InhaleRx Limited	<u>(1,927,049)</u>	<u>(1,111,129)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>173,051,066</u>	<u>167,570,844</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>173,051,066</u>	<u>167,570,844</u>
	Cents	Cents
Basic earnings per share	(1.114)	(0.663)
Diluted earnings per share	(1.114)	(0.663)

Note 25. Share-based payments

During the year 4,000,000 options were issued to directors as part of their remuneration under the company's employee share option plan. An overall share based payment expense of \$27,028 was recognised over the options vesting period.

InhaleRx Limited
Notes to the financial statements
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Note 25. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

	Number of options 2022	Weighted average exercise price 2022	Number of options 2021	Weighted average exercise price 2021
Outstanding at the beginning of the financial year	2,000,000	\$0.2000	2,000,000	\$0.2000
Granted	5,000,000	\$0.2000	-	\$0.0000
Expired	<u>(2,000,000)</u>	\$0.2000	<u>-</u>	\$0.0000
Outstanding at the end of the financial year	<u>5,000,000</u>	\$0.2000	<u>2,000,000</u>	\$0.2000
Exercisable at the end of the financial year	<u>-</u>	\$0.0000	<u>2,000,000</u>	\$0.2000

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2022 Number	2021 Number
05/06/2019	05/06/2022	-	2,000,000
14/12/2022	14/12/2025	4,000,000	-
14/11/2022	12/02/2025	<u>1,000,000</u>	<u>-</u>
		<u>5,000,000</u>	<u>2,000,000</u>

Rob Jenny was formally issued 1,000,000 options on 13 February 2023, but these were considered granted for accountancy purposes before 31 December 2022.

For the options granted during the year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
14/12/2022	14/12/2025	\$0.0810	\$0.2000	86.68%	-	2.86%	\$0.029
14/11/2022	12/02/2025	\$0.0550	\$0.2000	84.78%	-	3.17%	\$0.009

The weighted average remaining life of options was 2.79 years (2021: 0.43 years).

InhaleRx Limited
Directors' declaration
31 December 2022

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, based on the factors outlined in note 1 going concern to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Sean Williams
Director

30 March 2023

Independent Auditor's Report to the Members of InhaleRx Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of InhaleRx Limited ("the Company") and its controlled entities ("the Group"), which comprises the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration for the Company and the Group.

In our opinion, the accompanying financial report of InhaleRx Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2022 and of their financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of the Company and 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material Uncertainty Regarding Going Concern

We draw attention to Note 1 Going Concern in the financial report, which indicates that the Group incurred a net loss of \$1,927,049 during the year ended 31 December 2022 (2021: \$1,111,129) and, as of that date, had negative cash from operating activities of \$1,846,299 (2021: \$1,148,568). As stated in Note 1 Going Concern, these events or conditions, along with other matters as set forth in Note 1 Going Concern, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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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 of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We did not identify any additional key audit matters other than In the matter described in the *Material Uncertainty Related to Going Concern* section above.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2022, 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 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 and the 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 or the Group or to cease operations, or have no realistic alternative but to do so.

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 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 13 of the directors' report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of InhaleRx Limited for the year ended 31 December 2022 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.



HLB Mann Judd
Chartered Accountants

Melbourne
30 March 2023



Nick Walker
Partner

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InhaleRx Limited
Shareholder information
31 December 2022

The shareholder information set out below was applicable as at 7 March 2023.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares	
	Number of holders	% of total shares issued
1 to 1,000	29	-
1,001 to 5,000	93	0.18
5,001 to 10,000	132	0.58
10,001 to 100,000	240	4.88
100,001 and over	134	94.36
	<u>628</u>	<u>100.00</u>
Holding less than a marketable parcel	<u>1,542,887</u>	<u>0.81</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
CANNVALATE PTY LTD	36,024,924	18.98
10 BOLIVIANOS PTY LTD	22,267,452	11.73
PYXIS HOLDINGS PTY LTD (THE MAPLETREE A/C)	10,800,000	5.69
BNP PARIBAS NOMS PTY LTD (DRP)	10,033,902	5.29
SUPERHERO SECURITIES LIMITED (CLIENT A/C)	9,299,640	4.90
MCANN INVESTMENTS PTY LTD	8,000,000	4.22
PARIM SINGH HARMAN SINGH	6,249,999	3.29
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	5,074,905	2.67
BLISS ON BANKSIA HAIRDRESSING PTY LTD (THE STEFANEST EGG SFUND A/C)	4,200,340	2.21
BAY PRIVATE EQUITY INC	3,333,333	1.76
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,311,339	1.74
DR DAVID JAMES WALLAND	3,172,961	1.67
MR NIV DAGAN	2,782,013	1.47
MR SEAN CHRISTOPHER REEVES	2,567,818	1.35
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	2,528,281	1.33
APERTUS CAPITAL PTY LTD	2,000,000	1.05
MR PIPER BELESPRIT MADISON	1,800,038	0.95
MR DANIEL RICHARD EVANS	1,770,990	0.93
MR MICHAEL JAMES REID	1,653,478	0.87
NETWEALTH INVESTMENTS LIMITED (WRAP SERVICES A/C)	1,604,351	0.85
	<u>138,475,764</u>	<u>72.95</u>

Unquoted equity securities

A total of 4,000,000 options are on issue to 2 current directors and an employee.

InhaleRx Limited
Shareholder information
31 December 2022

Substantial holders

The number of shares held by substantial shareholders and their associates, as disclosed in substantial holder notices are set out below:

	Ordinary shares	
	Number held	% of total shares issued
CANNVALATE PTY LTD	36,024,924	18.98
10 BOLIVIANOS PTY LTD	22,267,452	11.73
PYXIS HOLDINGS PTY LTD (THE MAPLETREE A/C)	10,800,000	5.69
BNP PARIBAS NOMS PTY LTD (DRP)	10,033,902	5.29

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options

Option holders have no voting rights.