SomnoMed®
The Leader In COAT™
(Continuous Open Airway Therapy)

3rd May 2016

Dear SomnoMed Shareholder

SomnoMed Limited ("SomnoMed" or the "Company") is pursuing an exciting new growth opportunity, involving the rollout of a network of US based treatment centres which will provide Obstructive Sleep Apnea ("OSA") patients with direct access to SomnoMed's world leading oral devices.

This initiative, which creates a new sales channel in addition to the established dental and medical channels, has the potential to enhance the growth of SomnoMed in the medium term.

We are offering you the opportunity to participate in an accelerated non-renounceable entitlement issue of 2 new ordinary shares in SomnoMed for every existing 25 shares held at an issue price of $2.50 per share. The funds raised from the entitlement offer will be $10.5 million which will be utilised to provide working capital for the Company and any capital investment associated with SomnoMed's new Direct To Patient business, Sleep Centres America Inc. ("SCA").

Sleep Centres America Inc.

SCA and its potential benefits to SomnoMed are further described in an investor presentation lodged with the Australian Securities Exchange on 3 May 2016.

SomnoMed has obtained an exclusive worldwide license (excluding the State of Texas) from Simple Sleep Services LLC. ("S3"), a company based in Texas, to roll out their successful concept of providing treatment predominantly to the large pool of US patients who cannot or do not want to use Continuous Positive Airway Pressure ("CPAP") therapy as treatment for their chronic OSA condition.

S3 has developed a very successful business in the State of Texas and they have grown to become one of our largest US customers. S3 performs the following functions:

- Advertises directly to the large pool of mostly diagnosed but untreated patients;
- Assists those patients in receiving their reimbursement approvals from their health insurer;
- Updates their diagnosis if necessary;
- Treats them in dedicated, easy to reach treatment centres using SomnoDent® devices wherever suitable.

S3 is a proven business, showing high growth in patient numbers since commencing operations in mid-2013 and generating attractive profit margins in CY2014 and CY2015.

Sleep Centres America Inc. (cont.)

The founders of S3 have entered into a three year consulting agreement with SomnoMed and have joined the board of SCA to contribute to the successful roll out of the business. SCA is a newly formed SomnoMed subsidiary and is 84% owned by SomnoMed and 16% owned by S3 and its founders.

The addition of SCA's "Direct To Patient" model offers a third distribution channel in addition to our established medical and dental channels in the US. We believe that the volume of SomnoDent® device sales which are expected to come from SCA over the next three to four years will be significant. Besides increasing device sales, revenues and profits for SomnoMed North America, SCA itself is expected to be highly profitable and contribute to our Company's future profits.

Based on current plans, SCA aims to open at least five treatment centres by the end of FY2017 and to have 15 treatment centres open by the end of FY2018. Expansion of the network of treatment centres is expected to continue throughout the USA in 2019 and beyond.

We also believe SomnoMed's existing dental and medical channels will continue to deliver high growth for many years to come as Continuous Open Airway Therapy™ ("COAT™") is more widely adopted as an effective, more comfortable, highly compliant and economical treatment alternative to CPAP.

Guidance FY2016

Previous guidance given for FY2016 was for sales volume of 62,000 units, revenues of $42 million and an EBITDA of $3.0 million. Based on our current estimates and trends for Q4 and taking the start-up costs of SCA into consideration, the expectations for this year have been adjusted as follows:

- Unit sales volume is likely to be between 58,000 and 60,000 units;
- Revenue of $44-45 million, representing a growth of 28-30% over the prior year;
- Underlying EBITDA of $2.0 to $2.4 million, representing growth of approximately 150% over the prior year; and
- Underlying EBITDA excludes set up costs of approximately $0.7m associated with the SCA.

The reduction in FY2016 unit volumes guidance by approximately 3,000 to 4,000 units is largely due to the rapid decline in our sales of licensee kits to third party dental labs operating in the US and Canada. We have also built into our expectations for Q4 slightly lower direct sales (growth of around 25% instead of the 28% YTD) in the US than previously anticipated, due to increased insurance premiums and deductibles of US patients lowering patient flow. We expect that effect to wash out by the middle of this year.

Our direct sales have shown pleasing growth in the first nine months of the year, above 20% globally, increasing in North America by 28% and in Europe by over 20%, however, this growth could not compensate fully for the drop of 43% YTD in our sales to licensees. We now assume that licensee sales will further drop further in the last quarter ending the year around 3,500 units lower than in the previous year.

Guidance FY2016 (cont.)

Going forward, sales through licensees will further reduce over the next two years but the impact on our overall growth will diminish as licensees represent a smaller percentage of our overall business (we expect licensee sales in FY2016 to represent about 3% of our global sales or around 7% of our North American sales). At the same time, we expect a strong first half of FY2017 in our direct sales in the US as patient flow is generally expected to return to normal.

We expect to exceed our revenue guidance for FY2016, even with the slightly lower sales volumes. The main revenue drivers have been the higher share of direct sales in our business vis a vis lower sales of licensee kits and higher managed care revenue in the US and Europe. Managed care revenues are still largely non margin generating. They are in process of transforming from a mere pass through of payments from health insurers for dental services to an income generating payment, which includes the administration and management of patients and their insurance reimbursement.

Despite the higher than expected revenue for FY2016, the lower unit sales volumes discussed above will result in lower than expected gross margin for the year. As a result, we now expect Underlying EBITDA for FY2016 of between $2.0 to $2.4 million, about 150% higher the prior year. In addition we expect set up costs of approximately $700,000 will be incurred in FY2016 associated with SCA.

Entitlement Issue

Wilson HTM Corporate Finance Ltd has been appointed Lead Manager to the issue.

To the extent that there is a shortfall in entitlements taken up compared to the target total capital raising of $10.5 million, TDM Asset Management Pty Ltd ("TDM") has agreed to subscribe for any shortfall not taken up by the bookbuild process.

Conclusion

The growth in our global direct sales is consistent and gathering speed. It is proof of our expectation that COAT™ is increasingly being adopted by medical specialists, insurers and patients in developed countries as a mainstream treatment for mild and moderate OSA. The gain of market share of patients treated with COAT™ vs CPAP is a fact and unlikely to slow down.

We are very excited about the prospects of the significant enlargement of our US business through the addition of SCA delivering even higher growth in volume, revenues and profits in the future. I believe that the potential for SomnoMed to increase its value now exceeds what could have been otherwise expected based on the existing high growth business.

I would like to thank you, our shareholders, for your trust and support in the past and encourage you to consider the offer to participate in this issue.

Yours sincerely,

Dr. Peter Neustadt
Executive Chairman