

SOMNOMED LIMITED

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Appendix 4D and Half-Year Financial Report

31 December 2018

This half-year report is for the six months ended 31 December 2018. The previous corresponding period is the half-year ended 31 December 2017.

The information in this report should be read in conjunction with the most recent annual financial report.

Results for announcement to the market

Revenues from sale of goods and services, net of discounts	up	\$28,814,680 15%	to	\$24,959,285*
Revenues from ordinary activities	up	\$28,852,321 15%	to	\$25,004,788*
Operating profit/(loss) before corporate and business development expenses, non-cash items and income tax	up	\$4,541,017 32%	to	\$3,436,352*
Loss from ordinary activities after tax attributable to members	up	(\$12,432,104)	to	(\$5,620,376)
Net loss for the period attributable to members	up	(\$12,432,104)	to	(\$5,620,376)
Dividends		Amount per security		Franked amount per security
Final dividend		- ¢		- ¢
Interim dividend		- ¢		- ¢
Record date for determining entitlements to the dividend		Not applicable		
Brief explanation of any of the figures reported above:		Refer to comments in the attached Directors' Report.		
NTA Backing		31 December 2018		31 December 2017
Net tangible asset backing per share		18.08 cents		29.37 cents

* Restated. See page 7 – Consolidated Profit or Loss and Other Comprehensive Income.

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity consisting of SomnoMed Limited and the entities it controlled ("the consolidated entity") for the half-year ended 31 December 2018.

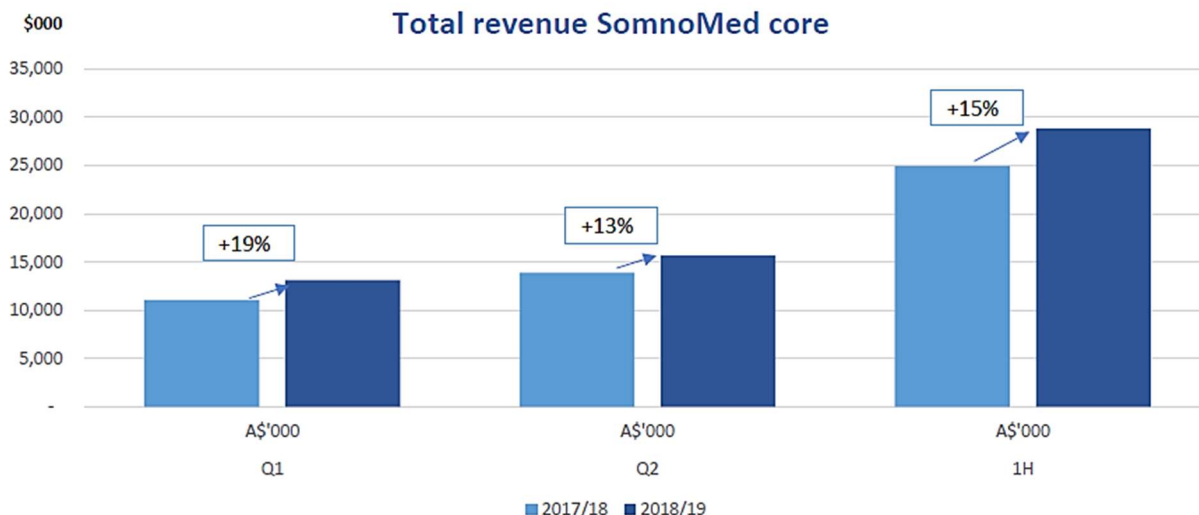
Directors

The names of directors who held office during or since the end of the half-year:

- Peter Neustadt
- Lee Ausburn
- Robert Scherini
- Hamish Corlett

Review of operations

SomnoMed posted revenues from its core business of \$28.8 million for the first half of financial year 2018/19, up by 15% over the prior year, same period. This revenue growth was driven primarily by APAC and Europe with 19% and 17% growth over prior year respectively. North America generated revenue growth of 12% for the first half.



The APAC region had an excellent first half with strong revenue growth, dominated by Australia. As a non-reimbursed OSA market, these results are very pleasing, while opportunity still remains within both South Korea and Japan's markets for further sales development and market penetration.

Revenue growth of 17% was generated in Europe, reflecting some softness in December but there are continuing positive signs for the future in this region. In this market, the ongoing adoption and acceptance of COAT™ over the less compliant CPAP and the reimbursement "noise" continues to gain momentum, providing confidence in the future. There are solid growth prospects in Europe, especially within the more mature markets in Benelux, Nordic Countries, France and the UK, which all continue to accelerate. The developing markets show increasing levels of awareness and it is believed this growth can be sustained for a significant time to come.

In North America the revenue growth of 12% for the half year is a step in the right direction, coming out of the RSS era. Both quarters in the first half for North America posted positive revenue growth, which indicates a trend of recovery for SomnoMed's core division. SomnoMed has a clinically proven product range that is not only comfortable for patients, but is also effective, durable and backed by our service and manufacturing capacity commitment that sets our company apart in that market. The Managed Care department's performance dealing directly with insurers is showing promising growth. The new sales and marketing channels identified and scoped should add to the North American business to help achieve consistent positive revenue growth for some time.

Review of operations (cont.)

SomnoMed's core business generated an EBITDA of \$1.3 million in the first half of the financial year 2018/19, after absorbing one-off corporate costs of \$300,000. The underlying profitability of the core business bodes well for the medium to long term profitability and potential of the business. Gross margin on MAS devices for the half year was maintained at 71% and the group gross margin, which includes other income, was also maintained at 59%. The result for the Renew Sleep Solutions ("RSS") business is reflected in the half yearly accounts as a discontinued operation. The cash costs to close the RSS operations are, as previously advised, expected to be between \$3-4 million.

Cash at the end of December 2018 was \$8.5m and a working capital facility is in place to support the business's growth plans.

Strong growth rates are continuing within the core business to date in the second half of the financial year. This, together with our activities in the US, managed care and very positive movements in many countries in Europe, allow the Company to look with great confidence into the future. The digital manufacturing initiative is close to being fully implemented and together with the impending 510k FDA clearance for a new product to be launched during 2019, should allow SomnoMed to deliver ongoing and consistent revenue growth.

The Company's vision is to strengthen our market leadership position and to continue building a profitable global medical device company specialising in the treatment of Obstructive Sleep Apnea. SomnoMed has a medically proven and effective alternative to CPAP and aims to further advance the acceptance of COAT™ and the support from medical specialists and insurers.

Principal Activity

The principal activity of the Consolidated Entity during the half year was the commercialisation of the SomnoDent® MAS for sleep related disorders and the "Direct to Patient" treatment channel through Renew Sleep Solutions centres in North America.

There were no other significant changes in the nature of the Consolidated Entity's principal activities during the half year.

Operating Results

The net loss before income tax expense for the half year ended 31 December 2018 was \$12,322,356. This loss includes a loss from discontinued operation of Renew Sleep Solutions ("RSS") of \$12,389,661 (2017: net loss of \$4,610,950).

Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

Significant Changes in State of Affairs

Other than as stated above and in the accompanying financial report, there were no significant changes in the state of affairs of the Consolidated Entity during the reporting period.

After Balance Date Events

The directors are not aware of any matter or circumstance that has arisen since the end of the half year to the date of this report that has significantly affected or may affect:

- (i) The operations of the company and the entities that it controls,
- (ii) The results of those operations,
- (iii) The state of affairs of the Consolidated Entity in subsequent years.

Future Developments

The Consolidated Entity will continue to produce and sell devices for the oral treatment of sleep related disorders in Australia and overseas.

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2018 is set out on page 19 of these half yearly accounts.

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

A handwritten signature in dark ink, appearing to read 'Peter Neustadt', is positioned above the printed name.

Peter Neustadt (Chairman)
Dated this 21st February 2019

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General information

The financial report covers SomnoMed Limited as a consolidated entity consisting of SomnoMed Limited and the entities it controlled during the period. The financial report is presented in Australian dollars, which is SomnoMed Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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

*Registered office and
principal place of business in Australia*

Level 3
20 Clarke Street
Crows Nest NSW 2065

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 21st February 2019.

SomnoMed Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31st December 2018

	Note	31.12.18 \$	31.12.17 \$ Restated*
Continuing operations			
Revenue from sale of goods and services, net of discounts	2	28,814,680	24,959,285
Cost of sales		(11,796,913)	(10,222,616)
Gross margin		17,017,767	14,736,669
Sales and marketing expenses		(7,407,552)	(6,749,520)
Administrative expenses		(5,069,198)	(4,550,797)
Operating profit before corporate, research and business development expenses, non-cash items and income tax		4,541,017	3,436,352
Corporate, research and business development expenses		(3,227,520)	(2,432,754)
Depreciation and amortisation		(727,040)	(550,560)
Share and option expense		(546,139)	(331,129)
Interest income	2	37,641	45,503
Interest expense		(41,283)	(20,144)
Net fair value loss on contingent consideration payable		-	(51,095)
Unrealised foreign exchange gain/(loss)		30,629	(100,766)
Profit/(loss) before income tax expense		67,305	(4,593)
Income tax expense		(109,748)	(1,914,373)
Loss after income tax expense for the half year from continuing operations		(42,443)	(1,918,966)
Discontinued operation			
Loss from discontinued operation	9	(12,389,661)	(4,610,950)
Net loss for the Group		(12,432,104)	(6,529,916)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		717,235	373,328
Other comprehensive income for the half-year, net of tax		717,235	373,328
Total comprehensive income for the half-year		(11,714,869)	(6,156,588)
Loss for the half-year is attributable to:			
Owners of SomnoMed Limited		(12,432,104)	(5,620,376)
Non-controlling interests		-	(909,540)
		(12,432,104)	(6,529,916)
Total comprehensive income for the half-year is attributable to:			
Owners of SomnoMed Limited		(11,714,869)	(5,247,048)
Non-controlling interests		-	(909,540)
		(11,714,869)	(6,156,588)
Earnings per share			
Basic earnings per share (cents)		(21.39)	(10.33)
Diluted earnings per share (cents)		(21.39)	(10.33)
Earnings per share – continuing operations			
Basic earnings per share (cents)		(0.07)	(3.53)
Diluted earnings per share (cents)		(0.07)	(3.53)
Earnings per share – discontinued operation			
Basic earnings per share (cents)		(21.32)	(8.47)
Diluted earnings per share (cents)		(21.32)	(8.47)

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

* See note 9

SomnoMed Limited
Consolidated Statement of Financial Position
As at 31st December 2018

	Note	31.12.18 \$	30.06.18 \$
ASSETS			
Current Assets			
Cash and cash equivalents		8,513,399	13,383,389
Trade and other receivables		12,891,982	13,581,962
Inventories		2,125,702	2,002,565
Total Current Assets		<u>23,531,083</u>	<u>28,967,916</u>
Non-Current Assets			
Trade and other receivables		531,845	478,623
Property, plant and equipment		4,290,679	6,610,154
Intangible assets	7	7,013,751	6,860,268
Deferred tax asset		3,208,583	2,780,670
Total Non-Current Assets		<u>15,044,858</u>	<u>16,729,715</u>
Total Assets		<u>38,575,941</u>	<u>45,697,631</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		10,053,654	8,380,629
Lease liabilities	8	423,524	398,160
Provisions		4,178,731	2,024,049
Current tax liability		751,565	737,400
Total Current Liabilities		<u>15,407,474</u>	<u>11,540,238</u>
Non-Current Liabilities			
Trade and other payables		149,867	-
Lease liabilities	8	1,065,770	1,036,841
Provisions		376,642	351,778
Total Non-Current Liabilities		<u>1,592,279</u>	<u>1,388,619</u>
Total Liabilities		<u>16,999,753</u>	<u>12,928,857</u>
Net Assets		<u>21,576,188</u>	<u>32,768,774</u>
EQUITY			
Issued capital	4	57,691,860	57,743,645
Reserves		7,426,133	6,134,830
Accumulated losses		(43,541,805)	(27,759,081)
Equity attributable to owners of SomnoMed Limited		<u>21,576,188</u>	<u>36,119,394</u>
Non-controlling interests	6	-	(3,350,620)
Total Equity		<u>21,576,188</u>	<u>32,768,774</u>

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

SomnoMed Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2018

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	57,743,645	6,134,830	(27,759,081)	36,119,394	(3,350,620)	32,768,774
Loss after income tax expense for the half-year	-	-	(12,432,104)	(12,432,104)	-	(12,432,104)
Other comprehensive income for the half-year, net of tax	-	717,235	-	717,235	-	717,235
Total comprehensive income for the half-year	-	717,235	(12,432,104)	(11,714,869)	-	(11,714,869)
<i>Transactions with owners in their capacity as owners:</i>						
Share option reserve on recognition of remuneration options	-	546,139	-	546,139	-	546,139
Share issuance costs	(51,785)	-	-	(51,785)	-	(51,785)
Acquisition of NCI (Note 6)	-	-	(3,350,620)	(3,350,620)	(3,350,620)	-
Capital reserve adjustment	-	27,929	-	27,929	-	27,929
Balance at 31 December 2018	57,691,860	7,426,133	(43,541,805)	21,576,188	-	21,576,188

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	46,937,360	4,415,906	(19,139,530)	32,213,736	(1,258,930)	30,954,806
Loss after income tax expense for the half-year	-	-	(5,620,376)	(5,620,376)	(909,540)	(6,529,916)
Other comprehensive income for the half-year, net of tax	-	373,328	-	373,328	-	373,328
Total comprehensive income for the half-year	-	373,328	(5,620,376)	(5,247,048)	(909,540)	(6,156,588)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	808,041	-	-	808,041	-	808,041
Share issuance costs	(53,881)	-	-	(53,881)	-	(53,881)
Share option reserve on recognition of remuneration options	-	331,129	-	331,129	-	331,129
Balance at 31 December 2017	47,691,520	5,120,363	(24,759,906)	28,051,977	(2,168,470)	25,883,507

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

SomnoMed Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2018

	31.12.18	31.12.17
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	31,296,806	28,328,619
Payments to suppliers and employees (inclusive of GST)	(35,107,185)	(34,589,364)
Interest received	30,966	34,038
Interest paid	(67,969)	(16,286)
Income tax paid	(457,296)	(175,738)
	<hr/>	<hr/>
Net cash outflow from operating activities	(4,304,677)	(6,418,731)
Cash flows from investing activities		
Final payment of contingent consideration	-	(25,547)
Payments for intangible assets	(32,000)	(100,883)
Payments for property, plant and equipment	(463,910)	(871,957)
Proceeds from disposal of assets	31,039	-
Acquisition of subsidiary	(47,786)	-
	<hr/>	<hr/>
Net cash outflow from investing activities	(512,658)	(998,387)
Cash flows from financing activities		
Payment of finance lease	(180,271)	(26,888)
Proceeds from exercise of share options	-	587,500
Proceeds from issue of shares	-	195,900
	<hr/>	<hr/>
Net cash (outflow)/inflow from financing activities	(180,271)	756,512
Net decrease in cash and cash equivalents		
	(4,997,607)	(6,660,606)
Cash at beginning of period	13,383,389	14,210,321
Effects of exchange rate changes on cash and cash equivalents	127,617	28,771
Cash at end of period	8,513,399	7,578,486
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The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

SomnoMed Limited
Notes to the financial statements
31 December 2018

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

	Consolidated	
Note 2. Revenue and other income	31.12.18	31.12.17
	\$	\$
		Restated*
Operating activities		
Revenue from sale of goods and services, net of discounts	28,814,680	24,959,285
Interest income	37,641	45,503
Total Revenue and other income	<u>28,852,321</u>	<u>25,004,788</u>

* See Note 9.

Note 3. Dividends

No dividends were paid during or subsequent to the half year ended 31st December 2018.

SomnoMed Limited
Notes to the financial statements
31 December 2018

Note 4. Share capital	31.12.18	30.06.18
	\$	\$
Issued and fully paid ordinary shares 62,804,168 (30 June 2018: 62,205,668) ordinary shares		
Balance of issued capital at the beginning of year	67,439,109	54,572,473
Shares issued during period:		
- 6,592 pursuant to acquisition of subsidiary at \$3.74 on 12 September 2017	-	24,642
- 250,000 pursuant to exercise of options \$2.35 on 4 October 2017	-	587,500
- 625,000 pursuant to issue of shares at \$3.61 on 4 October 2017	-	2,256,250
- 1,967,410 pursuant to issue of shares at \$3.00 on 27 February 2018	-	5,902,230
- 1,489,247 pursuant to issue of shares at \$3.00 on 22 March 2018	-	4,467,741
- 200,000 pursuant to issue of shares at \$1.67 on 19 November 2018	334,000	-
- 398,500 pursuant to issue of shares at \$1.87 on 19 November 2018	745,195	-
Less issue costs	(51,785)	(371,726)
Balance of issued capital at end of period	68,466,519	67,439,109
Less shares issued but not recorded in accounts		
- 900,334 shares issued at \$1.18	(1,050,594)	(1,050,594)
- 125,000 shares issued at \$1.03	-	-
- 15,000 shares issued at \$1.37	(20,550)	(20,550)
- 1,134,000 shares issued at \$2.09	(2,338,710)	(2,338,710)
- 50,000 shares issued at \$2.70	(135,000)	(135,000)
- 838,000 shares issued at \$2.40	(2,011,200)	(2,011,200)
- 40,000 shares issued at \$2.40	(72,000)	(72,000)
- 526,500 shares issued at \$3.44	(1,811,160)	(1,811,160)
- 625,000 shares issued at \$3.61	(2,256,250)	(2,256,250)
- 200,000 shares issued at \$1.67	(334,000)	-
- 398,500 shares issued at \$1.87	(745,195)	-
Total advances to executives to acquire shares in the Company	(10,774,659)	(9,695,464)
Issued share capital recorded in the Company accounts	57,691,860	57,743,645

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

At 31 December 2018 there were 5,267,334 (30 June 2018: 5,718,834) unissued ordinary shares for which options were outstanding (including 4,692,334 (30 June 2018: 4,093,834) issued ordinary shares which are treated as options in these accounts).

Note 5. Segment Information

Segment Information

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components if separately reported and monitored. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

Unallocated items

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives and foreign exchange gains and losses;
- interest income;
- corporate and business development expenses;
- income tax expense; and
- amortisation of intangible assets.

Information about reportable segments

Geographical location:	North America	Europe	Asia Pacific	SomnoMed Core	RSS	Group
2018	\$	\$	\$	\$	\$	\$
External sales revenue	9,734,590	16,637,510	2,442,580	28,814,680	3,905,128	32,719,808
Segment net profit/(loss) before tax	1,386,006	2,909,463	472,245	4,767,714	(6,966,065)	(2,198,351)
Unallocated expense items				(3,969,727)	(3,096,966)	(7,066,693)
Depreciation and amortisation	(118,446)	(115,336)	(493,258)	(727,040)	(318,564)	(1,045,604)
Asset impairment				-	(1,883,928)	(1,883,928)
Interest income				37,641	3,467	41,108
Interest expense				(41,283)	(127,605)	(168,888)
Profit/(Loss) before tax				67,305	(12,389,661)	(12,322,356)
Income tax expense				(109,748)	-	(109,748)
(Loss) after tax				(42,443)	(12,389,661)	(12,432,104)

Geographical location:	North America	Europe	Asia Pacific	SomnoMed Core	RSS	Group
2017	\$	\$	\$	\$	\$	\$
External sales revenue	8,698,277	14,202,564	2,058,444	24,959,285	6,614,655	31,573,940
Segment net profit/(loss) before tax	875,988	2,163,481	241,422	3,280,891	(4,412,468)	(1,131,577)
Unallocated expense items				(2,760,283)	-	(2,760,283)
Depreciation and amortisation	(204,524)	(69,971)	(276,065)	(550,560)	(185,548)	(736,108)
Interest income				45,503	126	45,629
Interest expense				(20,141)	(13,060)	(33,204)
(Loss) before tax				(4,593)	(4,610,950)	(4,615,543)
Income tax expense				(1,914,373)	-	(1,914,373)
(Loss) after tax				(1,918,966)	(4,610,950)	(6,529,916)

SomnoMed Limited
Notes to the financial statements
31 December 2018

Note 6. Non-controlling interests

	31.12.18	30.06.18
	\$	\$
Reconciliation		
Balance at beginning of reporting period	(3,350,620)	(1,258,930)
Loss after income tax	-	(2,091,690)
Acquisition of NCI*	3,350,620	-
Balance at end of reporting period	<u>-</u>	<u>(3,350,620)</u>
NCI breakdown by entity		
SomnoMed France	-	(392,158)
Renew Sleep Solutions	-	(2,958,462)
Balance at end of reporting period	<u>-</u>	<u>(3,350,620)</u>

On 1st July 2018, SomnoMed Limited purchased the outstanding 7.1% holding in SomnoMed France. The purchase price is 30,000 EUR (A\$47,786). SomnoMed France is a fully owned subsidiary of SomnoMed Limited after the acquisition.

In December 2018, SomnoMed Limited's interest in Renew Sleep Solutions (RSS) increased from 81.9% to 100% as a result of the acquisition / forfeiture of the minority interest holding for nominal consideration.

	31.12.18	30.06.18
	\$	\$
Note 7. Intangible assets		
Patents and trademarks – at cost	1,185,088	1,239,825
Accumulated amortisation	(732,227)	(792,160)
	<u>452,861</u>	<u>447,665</u>
Product development expenditure capitalised	462,944	462,944
Accumulated amortisation	(454,792)	(425,638)
	<u>8,152</u>	<u>37,306</u>
Goodwill	<u>6,552,738</u>	<u>6,375,297</u>
	<u>7,013,751</u>	<u>6,860,268</u>

Movements in patents and trademarks

Balance at beginning of reporting period	447,665	410,188
Additions	53,573	117,738
Amortisation expense	(56,861)	(95,352)
Foreign currency translation difference	8,484	15,091
Balance at end of reporting period	<u>452,861</u>	<u>447,665</u>

SomnoMed Limited
Notes to the financial statements
31 December 2018

Note 7. Intangible assets (continued) **31.12.18** **30.06.18**
\$ **\$**

Movements in product development expenditure capitalised

Balance at beginning of reporting period	37,306	51,682
Amortisation expense	(29,154)	(14,376)
Balance at end of reporting period	8,152	37,306

Movements in goodwill

Balance at beginning of reporting period	6,375,297	6,170,660
Impairment of goodwill SomnoMed Canada	-	(138,563)
Foreign currency translation difference	177,441	343,200
Balance at end of reporting period	6,552,738	6,375,297

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expenses per the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

Goodwill is allocated to cash generating units, which are based on the Group's geographic reporting segments.

Asia Pacific Segment	135,000	135,000
European Segment	6,275,530	6,099,990
North American Segment	142,208	140,307
	6,552,738	6,375,297

Note 8. Lease liabilities

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	31.12.2018	30.06.2018	31.12.2018	30.06.2018	31.12.2018	30.06.2018
	\$	\$	\$	\$	\$	\$
Less than one year	577,755	484,000	154,231	85,840	423,524	398,160
Between one year and five years	1,232,670	1,137,219	166,900	100,378	1,065,770	1,036,841
More than five years	-	-	-	-	-	-
	1,810,425	1,621,219	321,131	186,218	1,489,294	1,435,001

The lease agreements entered to finance implementation of ERP systems in Australia have a remaining term of 43 months with a weighted average annual interest rate of 3.30% (3.37%, June 2018). The total lease liability is \$660,031 at 31 December 2018 (\$621,959, 30 June 2018).

The lease agreements entered to finance purchasing of dental equipment for Renew Sleep Solutions in North America had a remaining term of 45 months with a weighted average annual interest rate of 16.2% (7.3%, 30 June 2018). The total lease liability was \$810,505 at 31 December 2018 (\$758,309, 30 June 2018).

SomnoMed Limited
Notes to the financial statements
31 December 2018

Note 9. Discontinued operation

In late 2018, it was decided to cease the business operations of Renew Sleep Solutions (RSS) and all centres were closed by 31st December 2018.

The net loss after tax of \$12,389,661 from RSS was recognised as one single amount on the face of the statement of profit or loss and other comprehensive income with the following costs fully recognised and provided in the half year accounts:

- Revenue and expenses from normal business operations from 1 July to 31 December 2018;
- Costs for closure of RSS which includes a provision for lease commitment for remaining 15 centres; and
- Loss from fixed asset impairment.

RSS was not a discontinued operation or classified as held for sale as at 31 December 2017 and the comparative statement of profit or loss and other comprehensive income has been represented to show the discontinued operation separately from continued operations.

	31.12.18	31.12.17
	\$	\$
Results of discontinued operation		
Revenue	3,905,128	6,614,655
Expenses	(11,382,904)	(11,225,605)
Results from operating activities	(7,477,776)	(4,610,950)
Income tax expense	-	-
Results from operating activities, net of tax	(7,477,776)	(4,610,950)
Asset impairment	(1,883,928)	-
Provision for lease costs	(1,928,449)	-
Provision for severance payments, legal and other costs*	(1,099,508)	-
Loss for the half year	(12,389,661)	(4,610,950)

*All RSS centres ceased operation on or before 31 December 2018. In compliance with accounting standards the above provision as at 31st December 2018 does not include future operational costs to be incurred in the collection of RSS receivables and associated with the sub-letting of premises, utility costs and various other related expenditure associated with the closure of the RSS business in the second half of the financial year.

	31.12.18	31.12.17
	\$	\$
Cash flows from discontinued operation		
Net cash outflow from operating activities	(6,016,348)	(6,908,550)
Net cash outflow from investing activities	(123,735)	(552,325)
Net cash outflow from financing activities	(85,565)	-
Net cash outflow for the half year	(6,225,649)	(7,460,875)

SomnoMed Limited
Notes to the financial statements
31 December 2018

Note 9. Discontinued operation (continued)

Carrying amount of assets and liabilities	31.12.18	30.06.18
	\$	\$
Total Assets	4,597,524	7,643,315
Total Liabilities**	36,072,340	24,570,634
Net Assets	(31,474,816)	(16,927,319)

** \$30,629,999 is payable to SomnoMed Limited and its subsidiaries at 31 December 2018 (June 2018: \$21,611,297).

Note 10. Working capital facility

In November 2018, SomnoMed Limited secured a \$5 million interim working capital facility. No amount had been drawn under the facility as at 31st December 2018. The interest rate payable under the facility until 30th June 2019 is 10% per annum and must be fully repaid by 31st December 2019.

SomnoMed Limited
Declaration by Directors

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Neustadt
Chairman

21st February 2019
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of SomnoMed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards



and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO

A handwritten signature in black ink, appearing to read 'Tim Aman', is written over a horizontal line.

Tim Aman
Partner

Sydney, 21 February 2019

DECLARATION OF INDEPENDENCE BY TIM AMAN TO THE DIRECTORS OF SOMNOMED LIMITED

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Partner
Tim Aman

BDO East Coast Partnership

Sydney, 21 February 2019