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

2019 ANNUAL REPORT

Treatment focused

Technology driven

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SOMNOMED LIMITED
CHAIRMAN'S LETTER

Dear SomnoMed Shareholder,

The financial year 2019 turned out to be arguably the most difficult year in the history of SomnoMed Limited. However, where there is shade there is sunshine. The Board took decisive steps during the course of the first half, culminating in the appointment of a new Global CEO, Mr Verdal-Austin, and the closure of Renew Sleep Solutions ("RSS"). We have seen positive results and encouraging trends produced in the second half, which allows us to look confidently to the future of our Company.

In my Chairman's address at last year's Annual General Meeting I informed you whilst we believed that RSS could increase the acceptance and use of COAT™ in the USA to rates experienced in other markets, significant reductions in the amounts reimbursed by insurers in several US States where RSS operated adversely impacted patient numbers and resulted in far greater start-up losses and potentially larger on-going investment than originally foreseen. We therefore took the hard decision to close RSS after only two years of operation in December 2018. On behalf of our Board, I apologised to you, our shareholders, in November and promised swift action to minimise further losses and a return to basics focusing on the strong growth potential SomnoMed's core business has in most of our markets. This, I am pleased to report to you, has happened.

Since the appointment of Mr Verdal-Austin as CEO in November last year, our management's objective was to refocus our US operation, re-invigorate our marketing and sales programs and regain US customers we had lost over the last two years. I am very happy to report that growth in Q4 in the US was impressive and higher than anything we have seen for some time. Many customers, who had perceived RSS as a competitor to their own business and had either moved to a different supplier or reduced their purchases from us, have returned and contributed to the growth we have seen over the last several months.

We continue to see further positive trends in a number of European countries. COAT™ usage in some countries has grown over the last years to between 10% and 30% of diagnosed patients suffering from obstructive sleep apnoea. This trend encourages us that the adoption of COAT™ could eventually reach similar treatment levels currently experienced in Holland and Sweden, where about half the sleep apnoea patients are being treated with an oral appliance. The group of "developing" European countries currently showing very positive trends include the potentially largest markets, France, Germany and the United Kingdom. Further evidence of this increased adoption of COAT™ is the contract we have recently entered into with one of the largest German insurers, which is likely to significantly enhance our growth in that market. This is the first time a public health insurer in Germany has entered into a contract with a provider of COAT™. That insurer is advising its patients to use COAT™ if they cannot accept CPAP and has agreed to the reimbursement of a substantial part of the treatment cost.

After several years of subdued growth in the non-reimbursed Australian market, we were able to see new positive movements leading to a growth in revenues of 16% compared to the previous year. Behind this were successful new marketing and sales programs aiming to raise the acceptance of COAT™ by Australian sleep specialists as an effective alternative to CPAP.

Since the appointment of Mr Verdal-Austin as Global CEO, important organisational changes have been implemented to improve the quality and control of our global operations. This included the appointment of a new Chief Financial Officer and of a Global Marketing Director based in our Sydney head office. At the beginning of the new financial year changes to the senior management structure were also implemented in the US mirroring the organisation structure we have successfully used in Europe for some time.

SOMNOMED LIMITED
CHAIRMAN'S LETTER (CONTINUED)

Further strengthening our expectations for 2020 and beyond are the launch of our patented, new digitally produced device, Somnodent Avant™, which was approved by the FDA in May 2019. This new device achieved superior results in trials by a number of key opinion leaders in several countries and is being launched in the first quarter of the new financial year. We also plan to launch during the new financial year, initially in the US, an internet application facilitating the co-operation between medical and dental sleep specialists treating OSA patients. The greater role for technology in production as well as in customer service, education and marketing has been set as a priority by our new CEO.

We believe the positive growth trends we could see in the second half of the financial year will continue in the current year and beyond helped by the abovementioned changes made to our organisation and our management team. It is pleasing to report that despite the disruptions caused by RSS and all the subsequent changes made to our organisation our core business continued to perform well. We look forward to the year ahead with confidence.

Allow me to conclude by thanking you for your loyalty through this tough period we have experienced in the past two years and promising you our best efforts to continue building the value of your investment in SomnoMed in 2020 and beyond.

Yours sincerely,

Dr Peter Neustadt
Chairman

SOMNOMED LIMITED
CEO'S REPORT

Dear SomnoMed Shareholder,

The 2018/19 fiscal year was a difficult one for SomnoMed as we managed significant change throughout the year. Whilst there were many positive accomplishments and some important milestones to be very proud of, the overall year was challenging.

In November 2018, SomnoMed announced that we would be closing our "direct to patient" US business Renew Sleep Solutions ("RSS") effective from 31 December 2018. At the same time, I was appointed as CEO of your company and we embarked on a new way forward. As this is my first report to shareholders since that appointment let me express how honoured I am to be in this role. I am committed to building a company that works closely with all healthcare professionals to provide a clinically sound treatment to their patients suffering from obstructive sleep apnea, while providing our staff with secure career opportunities and rewarding our shareholders.

Our SomnoMed core business continued to grow and generated revenues of $59m for FY19, despite the RSS closure and the cessation of business of our largest US customer Simple Sleep Services, LLC ("S3") in March 2019, which operated a similar business model and faced similar issues to RSS. The EBITDA* profit margin also grew by 27% to just under $5m and at that run rate, augurs well for the future. We remain optimistic that our core business is strong and that we will continue to see the turnaround in the North American market as we regain the trust from that community through a consistent, quality product delivery and service offering.

SomnoMed's large opportunity

The opportunity to help treat the millions of sufferers of Obstructive Sleep Apnea ("OSA") remains large and growing. Treating OSA with COAT™ ("Continuous Open Airway Therapy"), which has been pioneered by SomnoMed, has enormous potential. Given that in many circumstances it is equally effective to Continuous Positive Airway Pressure ("CPAP"), which is the predominant therapy used today, the opportunity is clear. While in some European countries, notably Sweden and the Netherlands, the penetration of COAT™ is in the 40-50% range for newly diagnosed patients, in most countries COAT™ penetration is 10% or less, indicating that the opportunity for growth is very high.

Recent clinical research indicates that the OSA market growth is around the range of 10-15%. Growth rates tend to vary depending on the individual market's clinical guidelines and re-imbursement levels.

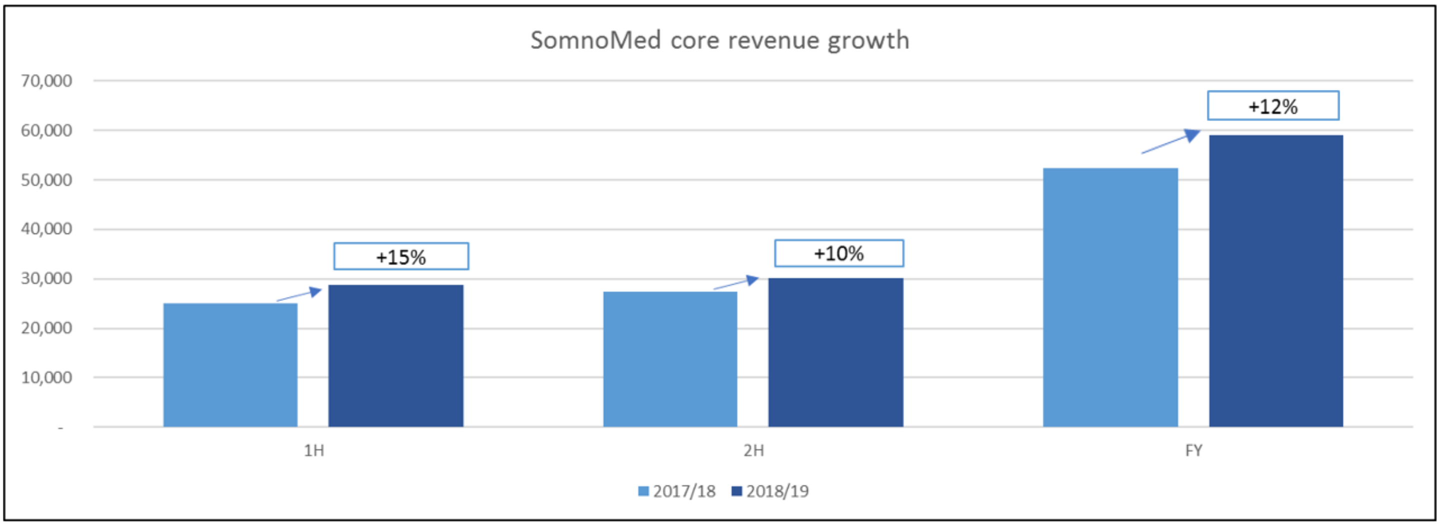
While we know about the non-adherence issues common with the CPAP therapy, SomnoMed brings an alternative that changes this. SomnoMed's core strengths and competencies include product design and innovation that addresses patient comfort and therefore compliance, which significantly improves the medical outcome for those patients.

Your company offers a wide range of clinically validated and researched oral appliances that are comfortable to wear, durable and highly effective. SomnoMed operates under all the necessary medical manufacturing regulations around the world to ensure the delivery of a high-quality medical device to the patients of our clinical partners. We work with various authorities to promote stronger clinical guidelines, as well as investing in and supporting clinical research, which validates the treatment option. We also work with insurance companies to treat their members with an affordable and durable, quality device so that they, too, can be assured that the appropriate medical outcome is achieved.

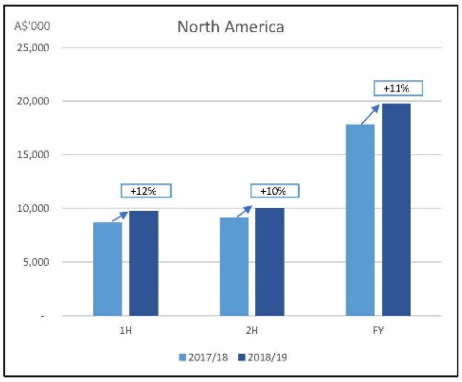
SomnoMed is treatment focused but will also become even more technology driven in the future. Treatment focused means that the organization is dedicated to providing all of our partners the best oral appliance in the treatment of OSA possible, along with an education platform, training and service excellence. Technology driven means that the future of this company will also be technology protected and enabled, so that the treatment offered will reach into all aspects of patient pathway management, facilitating all of our partners to work together more effectively and bringing greater levels of connected health and personalized medicine to the process.

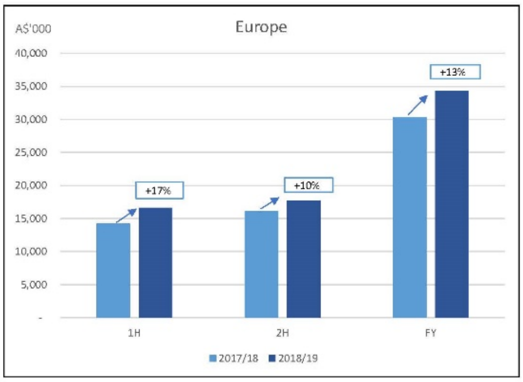
Business overview

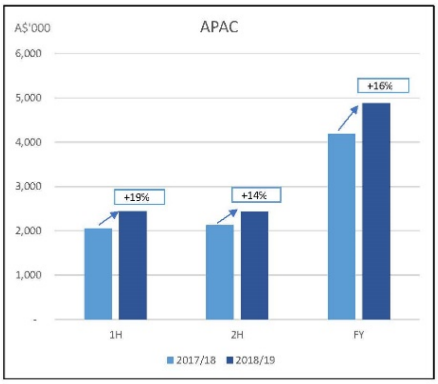
Overall, the core business was able to show total revenue growth of 12% over the previous year and deliver an underlying EBITDA* profit of just under $5 million. The RSS operations for the first 6 months of the fiscal year are now treated as a discontinued operation in accordance with Accounting Standards, with full year losses of $16.4m. The graph below shows the full year core revenue growth of 12% for the year and by the first and second half:



The SomnoMed core revenue growth by region shows a strong rebound in the US, resulting in revenue growth of 11% for the year in all sales channels, with APAC posting 16% growth and Europe 13% growth.







Results in Europe were very pleasing with most countries contributing strongly. External issues which impacted on the results of both Holland and Sweden in the past financial year are slowly being resolved. In both these markets we see higher levels of COAT™ penetration of prescriptions versus CPAP than anywhere else in Europe.

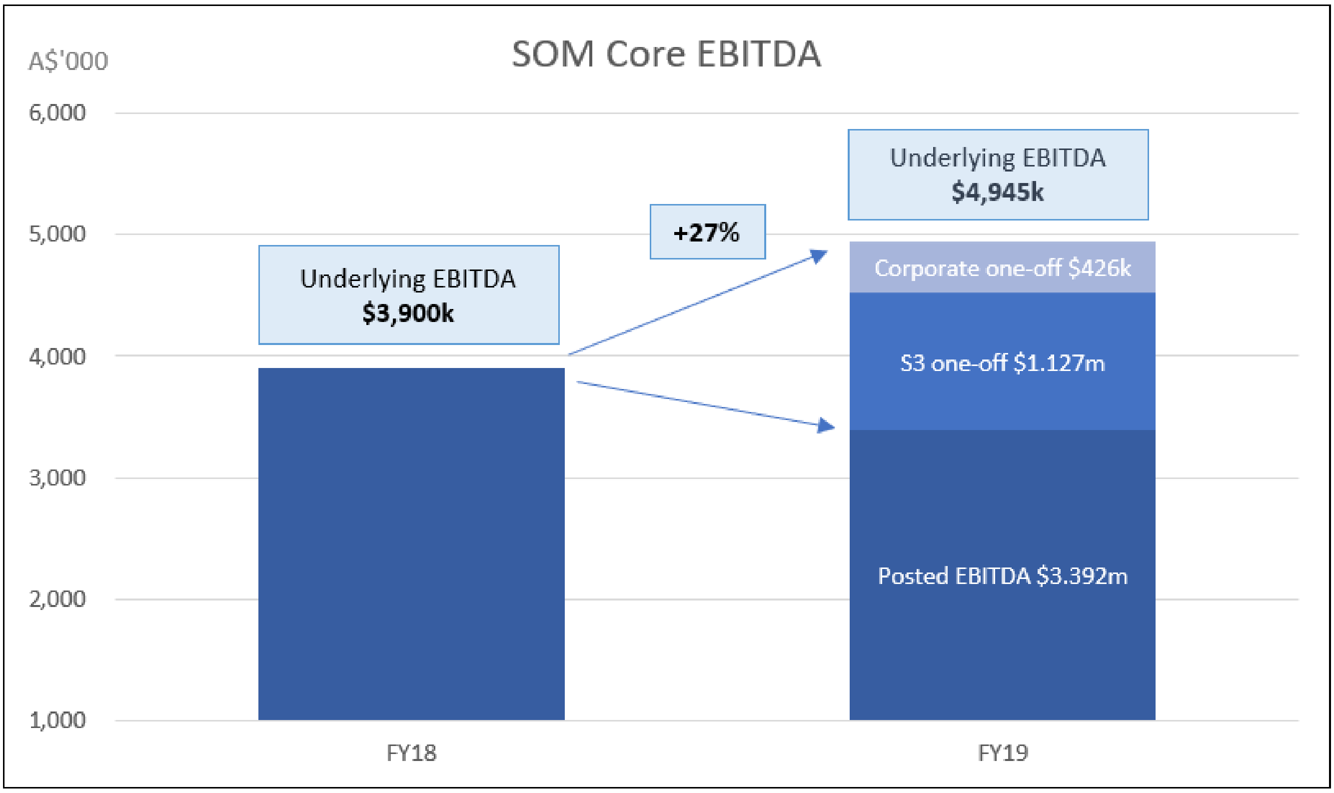
The growth rates of the emerging markets in Europe are very pleasing, including countries such as France, Norway, Belgium, Germany and the UK. France is witnessing strong growth rates after the announcement of new COATTM re-imbursement guidelines for dentists and ENT's during FY18. There continues to be increasing momentum in the UK and Belgium, with promising market trends in Spain.

The recent signing of the first direct insurance contract with one of the largest German insurers to treat their members suffering with Obstructive Sleep Apnea ("OSA") with a SomnoDent® oral appliance, was an important milestone for your company. This will allow SomnoMed access to millions of members within that insurer, who may need treatment of their OSA condition or those who have failed to tolerate CPAP. The contract allows SomnoMed to help manage the patient pathway for the insurer and for the first time in the German market, dedicate a reimbursement code for the SomnoDent® treatment option.

In APAC, where Australia contributes most of the revenues, we managed to achieve impressive revenue growth over the full fiscal year. Investment continues in the other markets in this region and in particular within Korea and Japan where we see further opportunities for growth around improving re-imbursement.

In the USA, results throughout the year were challenging due to the ongoing channel conflict between our core dental channels and RSS. Since the closure of the RSS business at 31 December 2018, that situation has changed. The revenue growth results seen in quarter four for the direct dental sales channel, confirm that. We have managed to focus on gaining those customers previously lost back to SomnoMed, while continuing to serve our existing customers with our clinically validated and comfortable product range and exceptional service. We have also continued to grow our managed care business and are planning to now re -direct some of our sales and marketing efforts on direct to clinician efforts to influence COAT™ prescriptions as well as linking these physicians to our established SomnoMed COAT™ dentists. The year has ended showing very encouraging signs that we have turned the corner towards strong and positive growth for the future in this region.

The SomnoMed core business grew its underlying EBITDA* by 27% to just under $5m adding back one-off costs relating to the write-off of the $1.1m receivable from S3 and costs associated with the severance of the previous CEO. This increase in profitability was driven by increased volume, improved operational efficiencies and leverage of sales and marketing expenses.



*EBITDA as adjusted does not include share and option expense, gain/(loss) on contingent consideration payable and impairment of goodwill

Digital manufacturing

Last year we invested in several operational initiatives and our digital manufacturing platform. These changes included implementing more lean operations in our production facility, improved materials sourcing and management, implementing digital scanning in all our hubs and the acceptance of digital intra-oral scans directly from dentists. During the past year we completed our digital strength chain and have fully deployed the digital manufacturing process at SomnoMed. We are now ready to launch our first fully digitally made SomnoDent® product into quarter one of FY20. We have also implemented new IT systems, which will be phased in across all regions over the coming year. This will enhance the customer experience in dealing with SomnoMed, as well as improve productivity and the processing of digital orders from our customers, both of which will further adding to the efficiency of our customer service.

We continue to work on further product developments, designs and innovations which aim to offer additional benefits to both patients and customers.

The year ahead

We are very optimistic about our business and its growth prospects into 2019/20. The continuing growth and incidence rate of OSA in all the countries in which we operate, the growing need for an effective alternative to CPAP and the accelerated adoption of COAT™ as a therapy are all good fundamental trends for the future growth of our business.

The long-term opportunity for SomnoMed's business remains significant and further investments are being made to enhance its competitive advantage. There is a focus on further improvements in the digital supply chain, further clinical studies, greater re-imbursement efforts in currently non-reimbursed countries and sales and marketing resources globally.

The future horizons that the company will concentrate on are as follows:

1. Advancing oral appliance treatment and building the core business;
2. Positioning the "patient's alternative" in the medical community; and
3. Becoming more and more technology driven through connected care opportunities.

Our guidance for the financial year 2019/20 indicates the ongoing growth potential in our core business with a revenue growth range of between 14% and 17% ($67m - $69m) and an EBITDA* growth range of between 26% and 34% ($6.3m - $6.7m).

We are excited about your Company's strong future ahead and it is indeed a privilege to lead such a Company that changes people's lives around the world and helps them to function better through improved sleep.

I would like to extend my deepest thanks to our dedicated and talented management team and to all the SomnoMed employees throughout the world who work tirelessly to change the lives of each and every patient we have the pleasure to be able to treat. I would also like to express my gratitude to the medical clinicians and dentists who support this treatment option and to our shareholders for their support during a difficult year in the Company's history.

Yours sincerely,

Mr Neil Verdal-Austin
Global Chief Executive Officer

* EBITDA as adjusted does not include share and option expense, gain/(loss) on contingent consideration payable and impairment of goodwill.

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of SomnoMed Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The names of directors in office at any time during or since the end of the year are:

Peter Neustadt

Robert Scherini

Lee Ausburn

Hamish Corlett

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

Principal Activity

The principal activity of the Consolidated Entity during the financial year was the commercialisation of the SomnoDent® MAS and other oral devices for sleep related disorders in Australia and overseas.

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

Operating Results

The loss of the Consolidated Entity amounted to $16,437,667 (2018: a loss of $10,711,241). This loss included a loss from the discontinued operation of $16,398,281 (2018: a loss of $10,936,332) relating to the Renew Sleep Solutions business, which ceased operations in December 2018. A more detailed review of the operations is contained on pages 3 to 7 of the Annual Report, which accompanies this Directors' Report.

Dividends Paid or Recommended

There are no dividends paid, declared or recommended for the year ended 30 June 2019 (2018: Nil).

Significant Changes in State of Affairs

Other than as stated in the accompanying CEO's Report and financial report, there were no significant changes in the state of affairs of the Consolidated Entity during the reporting year.

After Balance Date Events

The directors have not become aware of any matter or circumstance that has arisen since the end of the 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, or

(iii) The state of affairs of the Company in subsequent years.

Future Developments

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

Directors

Peter Neustadt

Non-Executive Chairman, Member of the Audit Committee

Dr. Peter Neustadt, born in Germany, studied in Switzerland at St.Gall Graduate School for Business & Economics, where he earned a Master in Economics (lic.oec.HSG) and Doctorate in Business Administration (Dr.oec). He worked for McKinsey & Company based in Switzerland and in Mexico.

Dr Neustadt moved to Australia and joined Kerry Packer in 1980 as a member of the executive board of Consolidated Press Holdings. He was Executive Chairman and principal shareholder in diverse media group Communications & Entertainment Limited until 1987. He founded and managed resort and property group Cypress Lakes Group Limited and The Golden Door group of companies until the end of 2005. Dr Neustadt also served on the board of Channel Ten, Advance Bank, Trafalgar Properties Limited and Manboom Pty Ltd.

From February 2010 to August 2014 he chaired Australian financial services company and mortgage aggregator Vow Financial and negotiated the takeover of the company by Yellow Brick Road Limited. The transaction completed at the end of August 2014. He also serves as director on the board of private companies in Australia and in Europe.

Robert Scherini
Non-Executive Director, Chairman of the Audit Committee

Rob is a past Managing Director for Johnson & Johnson Medical Australia/NZ and has held senior management positions both locally and internationally. He was posted for a number of years in J&J's European headquarters in Brussels before returning to Australia where he was directly responsible for J&J’s medical device business in Australia and New Zealand as well as responsibilities across the APAC region. He has a strong track record of growing businesses and brings to the Board a wealth of experience in Sales & Marketing, Business Development, Finance, Operations and Supply, Legal, Human Resources and Information Technology.

Rob has a bachelor’s degree in Business and is a Certified Practising Accountant (CPA). He was a Member of the Board of the Medical Technology Association of Australia (MTAA) for nine years. He has been a strong advocate of Human Resources Strategy and was recognised as Best HR Champion at the 2004 Australian HR Awards. In 2007 was awarded a Rotary International Fellowship for his assistance to the community.

More recently Rob has devoted his time to consulting and mentoring. He is a senior advisor for a healthcare consultancy focused on Asia Pacific.

Lee Ausburn
Non-Executive Director, M.Pharm., B.Pharm., Dip.Hosp.Pharm. (University of Sydney), FAICD

Lee has had a long career in the health industry, beginning as a pharmacist before joining Merck and Co. Inc., a global pharmaceutical company. She progressed through a range of roles, beginning in marketing in Australia and was ultimately Vice President, Asia Merck & Co. Inc. responsible for the general management of Merck organisations and their products across Asia. During this time, Lee successfully built businesses in a number of countries, often from the very beginning, planned and launched new products, liaised with regulatory authorities and government agencies and was responsible for the management teams building Merck’s business in that part of the world. After leaving Merck in 2008, she has taken on a number of non-executive director roles.

She is a non-executive director of Australian Pharmaceutical Industries (API) Ltd, which distributes pharmaceuticals to pharmacies across Australia. API also has retail pharmacy operations through Priceline stores. She is also a non-executive director of nib holdings ltd, a health insurer.

Lee was President of the Pharmacy Faculty Foundation, University of Sydney until December 2017.

Hamish Corlett
Non-Executive Director, BComm (Hons), GradDipCouns

Hamish is a founder and director of TDM Growth Partners, a leading private investment firm specializing in long term investments in high growth companies globally. TDM made its first investment in SomnoMed in April 2010 and has been a substantial shareholder in the Company since October 2012.

Prior to TDM, Hamish worked as an Investment Manager at Caledonia Investments, a global fund manager. Hamish also worked in London in an operating role for an ecommerce start up and in Sydney at Caliburn Partnership (now Greenhill) in corporate advisory.

Hamish is also a Non-Executive Director of Tyro Payments Ltd.

Hamish holds a Bachelor of Commerce with Honours Class 1 (Accounting and Finance) from the University of Sydney and a Graduate Diploma of Counselling from the Australian College of Applied Psychologists.

Chief Executive Officers

Neil Verdal-Austin (since 16th November 2018), BComm (Hons), CA

Neil is a most experienced, very dynamic and business focused individual, having worked for medical device companies in South Africa, the UK and in Australia for over 25 years. He has a proven track record in various roles in SomnoMed, with many years of deep involvement in our businesses in Europe, the US and Asia-Pacific.

Derek Smith B.Sc., Biochemistry (from 1st July 2018 to 16th November 2018)

Derek held senior positions with Respironics, Inc. since 2005 and prior to his appointment as Chief Executive Officer of the Company in September 2016. He had an outstanding career over the years in sales and marketing of various US and international healthcare companies, which included E Merck, Datex Ohmeda and McKesson. In 2005 Derek accepted the appointment as President of Respironics Hospital Group, being part of the top management team of the leading US CPAP maker. Following the takeover of Respironics in 2008 by global Philips corporation, Derek held positions as Senior Vice President of Respiratory and Perinatal Care for Philips Healthcare, as Senior Vice President of Therapeutic Care and finally as CEO Hospital to Home Business division at Philips Healthcare.

Company Secretary
Terence Flitcroft BComm CA SF FIN

Terence has been Company Secretary since 1995.

Terence is a Chartered Accountant with broad commercial and financial experience and has acted as director and company secretary for a number of private and public companies.

Board Member's Directorships

Listed below are details of other listed public company directorships held by Board Members over the last three years.

Director	Directorship of	Date Appointed	Date Resigned
Peter Neustadt	No other listed public company directorship	-	-
Robert Scherini	No other listed public company directorship	-	-
Lee Ausburn	Australian Pharmaceutical Industries Ltd	7 October 2008	Current
	nib holdings ltd	13 November 2013	Current
Hamish Corlett	No other listed public company directorship	-	-

Directors' Interests in Securities

As at the date of this report, details of Directors who hold shares or options in the Company for their own benefit or who have an interest in holdings through a third party are detailed below.

Director	Shares	Options over Ordinary Shares
Peter Neustadt*	3,236,512	175,000
Robert Scherini*	91,484	-
Lee Ausburn*	137,096	-
Hamish Corlett*	12,422,014	-

* Held by the Director or entities associated with the Director and in which the Director has a financial interest.

Meetings of Directors

The number of meetings of the Company's Board of Directors and each board committee held during the year to 30 June 2019 and the number of meetings attended by each director were:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
			AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Peter Neustadt	12	12	2	2	3	3
Robert Scherini	12	12	2	2	3	3
Lee Ausburn	12	11	-	-	3	3
Hamish Corlett	12	11	-	-	3	3

Indemnifying Directors or Officers

Each Director has entered into a Deed with the Company under which the Director is given access to documentation and in addition is:

- indemnified by the Company to the full extent permitted by law against all liabilities sustained or incurred through acting as a Director (under the Corporations Act the indemnity does not extend to a liability owed to the Company or its related bodies corporate, or which arises out of conduct involving a lack of good faith, or is for a pecuniary penalty order under section 1317G of the Corporations Act or a compensation order under section 1317H of the Corporations Act);
- indemnified by the Company to the full extent permitted by law against legal costs and expenses incurred in defending an action for a liability incurred as an officer of the Company (under the Corporations Act the indemnity does not extend to costs incurred in circumstances where the Director is found to have a liability for which the Director cannot be indemnified, or costs of defending or resisting criminal proceedings in which the Director is found guilty or defending proceedings brought by ASIC or a liquidator for a court order where the court holds that the grounds for making the order are established, or costs of proceedings seeking relief for the Director under the Corporations Act where the court denies relief);
- entitled to a loan to meet the costs of defending or responding to any such claim or proceeding; and
- entitled to have the Company maintain and pay premiums in respect of directors' and officers' insurance. Premiums paid in respect of this insurance were $64,682.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of SomnoMed Limited support and have adhered to key principles of corporate governance.

Please refer to the Corporate Governance Statement of SomnoMed Limited on our website for more information https://somnomed.com/au/about-us/investor-centre-old/corporate-governance.

Environmental regulations

The Company's operations are not materially affected by environmental regulations.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Options

At the date of this report the unissued ordinary shares of SomnoMed Limited under option are as follows:

Grant Dates	Date of Expiry	Exercise Price	Number under Option
24 November 2016	31 October 2019	$3.78	175,000

In addition to the above a total of 4,682,334 shares issued by the Company pursuant to the Company's Executive Share and Option Plan have been treated as share based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards (refer Note 16 to the accompanying accounts).

No options were granted over unissued shares during or since the end of the financial year by the Company to directors or any of the specified officers as part of their remuneration, other than:

Option holder	Exercise price	Options
Derek Smith (previous CEO)	$1.87	300,000

No options have been exercised by Directors since the end of the last financial year.

A total of 1,750,000 options expired or lapsed since the end of the previous financial year, which were not reported in the previous year's Directors' Report. All options which had been issued to Mr Smith were cancelled upon the cessation of his employment in November 2018.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of SomnoMed Limited and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of SomnoMed Limited has been designed to align director and executive 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 SomnoMed Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Consolidated Entity, as well as create goal congruence between directors, executives and shareholders.

The following table shows the gross revenue and results for the last five years for the listed entity, as well as the share price at the end of the respective financial years. The 2018 and 2019 amounts have been adjusted to exclude the discontinued operations of Renew Sleep Solutions, which ceased operations in December 2018.

	2015	**2016**	**2017**	**2018**	**2019**
Revenue	$34,437,903	$44,084,153	$49,326,974	$52,393,583	$58,892,033
Net profit/(loss)	$533,761	$67,185	($4,163,331)	$225,091	($39,386)
Share price at year end	$2.65	$3.59	$3.06	$2.20	$1.45
Earnings per share (cents)	1.26	0.34	(6.23)	0.35*	(0.07)*

* Earnings per share – continuing operations

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated Entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee, which currently is the entire board. All executives receive a total remuneration package, which may include a base salary (commensurate with their expertise and experience), superannuation, fringe benefits, options and performance incentives. The remuneration committee reviews executive packages annually by reference to the Consolidated Entity's performance and executive performance.

The performance of executives is measured with each executive and is based predominantly on the forecast growth of the Company's financial performance, the achievement of the annual budget for their respective areas and shareholders' value. All bonuses and incentives are linked to predetermined performance criteria. Changes 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 that results in the achievement of annual targets and building long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee option arrangements.

Senior executives in Australia receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Fees for non-executive directors are not linked to the performance of the Consolidated Entity. However, to align directors' interests with shareholder interests, the directors may hold options in the Company.

Performance Based Remuneration

As part of senior executives' remuneration packages there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with executives. The measures are specifically tailored to the areas each executive is involved in and has a level of control over but are also linked to the overall results achieved by the Company. KPIs target areas are typically linked to areas and results which will improve the performance of the Company, 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 group.

Performance Based Remuneration (continued)

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

KPIs relating to short-term incentives (STIs) relate to performance benchmarks against measured targets designed to reward superior performance and are only rewarded when performance hurdles are met. In most cases this is linked to the achievement of the annual budget for a certain region, country or functional area. However, the benchmarks for STI hurdles might vary from year to year. The current year performance hurdles include the measurement of performance against financial budgets and a number of other items relevant to the particular employee's role.

The major long-term incentives (LTIs) for employees are related to equity and options granted to senior executives pursuant to the Company's Executive Share and Option Plan. Employees are invited to participate in this plan on an annual basis. The Remuneration Committee sets the overall quantum of shares to be issued and approves the allocation to individual on the basis of recommendations it receives from the CEO and the heads of regional and global departments. The performance of the executive in the financial year gone by is an important factor which is taken into consideration in determining the allocation to each employee, however, the main criteria are the importance of the role an individual plays and his or her value to the future development of our company. Vesting conditions apply to units issued under the Company's Employee Share Trust and units vest progressively over a number of years. Units issued in the 2018/19 financial year vest over a period of four years – half at the third anniversary from the date of issue and the other half on the fourth anniversary. This provides employees with a long-term incentive to continue to add value to the Company's operations and remain employed with SomnoMed.

In determining whether or not a KPI has been achieved, SomnoMed Limited bases the assessment on audited figures where appropriate.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy is effective in increasing shareholder wealth over the medium term.

The board will review its remuneration policy annually to ensure it is effective.

Performance Income as a proportion of Total Remuneration

Senior executives are paid performance-based bonuses based on a proportion of their total remuneration package. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and financial performance of the Consolidated Entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

All senior executives' remuneration for the year ended 30 June 2019 had a fixed component and a variable component of their overall remuneration, with the variable part of their remuneration paid subject to a performance condition.

Employment Contracts of Directors and Senior Executives

The employment conditions of specified executives are formalised in contracts of employment or its wholly owned subsidiary. All executives are permanent employees of SomnoMed. Each non fixed term contract states it can be terminated by the Company by giving up to six months' notice and by paying a redundancy of between three to six months. For fixed term contracts refer to Executives' Remuneration table (4) on page 18.

Options issued as part of remuneration for the year ended 30 June 2019

During the year, options were issued to the CEO as part of his remuneration. The options are not issued based on performance criteria, but are from time to time issued to directors and executives of SomnoMed Limited and its subsidiaries to increase long term goal congruence between executives, directors and shareholders.

Company Directors/ Executives	Granted Number	Grant Date	Value per Option at Grant Date	Exercise Price	Earliest Exercise Date	Last Exercise Date
Derek Smith	300,000	3 October 2018	$0.648	$1.87	1 October 2021	30 September 2022

Directors' remuneration

The following table discloses the remuneration of Directors of the Company for the year ended 30 June 2019, as specified for disclosure by AASB 124. The information contained in this table is audited.

	Short-term Benefits		Post-Employment Benefits	Long-term Benefits		
Director	**Salary & Fees $**	**Other $**	**Superannuation $**	**Termination Benefits $**	**Equity Settled Share Based Payment [2]**	**Total $**
Peter Neustadt [1]						
- 2018	137,917	-	-	-	172,251	310,168
- 2019	142,054	-	-	-	96,753	238,807
Robert Scherini						
- 2018	63,648	-	-	-	-	63,648
- 2019	65,560	-	-	-	-	65,560
Lee Ausburn [3]						
- 2018	63,665	-	-	-	-	63,665
- 2019	65,560	-	-	-	-	65,560
Hamish Corlett						
- 2018	10,608	-	-	-	-	10,608
- 2019	65,560	-	-	-	-	65,560
TOTAL 2018	**275,838**	**-**	**-**	**-**	**172,251**	**448,089**
TOTAL 2019	**338,734**	**-**	**-**	**-**	**96,753**	**435,487**

(1) Dr Neustadt is a director of Belgove Pty Limited, which received consultancy fees during this and the previous year.

(2) Relates to share option expense for options issued to P Neustadt Holdings Pty Limited in 2016

(3) Ms Ausburn is a director of Leedoc Pty Limited, which received consultancy fees during this and the previous year.

Shareholdings

Number of shares held by the Directors and Key Management Personnel, including shares held by associated entities.

	Balance 1.7.18	Held at date of appointment	Issued/ Acquired	Exercise of Options	Balance 30.6.19
Peter Neustadt	3,236,512	-	-	-	3,236,512
Lee Ausburn	137,096	-	-	-	137,096
Robert Scherini	91,484	-	-	-	91,484
Hamish Corlett	12,422,014	-	-	-	12,422,014
Derek Smith(1)	-	-	-	-	-
Jim Evanger(2)	-	-	-	-	-
Kien Nguyen(3)	985,000	-	35,000	-	1,020,000
Neil Verdal-Austin(4)	905,000	-	275,000	-	1,180,000
Martin Weiland(5)	410,000	-	65,000	-	475,000
Hervé Fiévet (6)	-	-	20,000	-	20,000
	18,187,106	-	395,000	-	18,582,106
Less shares issued under the Employee Share Trust Plan (3)(4)(5)&(6)	(2,840,000)	-	(395,000)	-	(3,235,000)
	15,347,106	-	-	-	15,347,106

(1) Ceased employment 16th November 2018.

(2) Ceased employment 31st December 2018.

(3) 35,000 (2018: 60,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 16). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(4) 275,000 (2018: 85,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 16). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(5) 65,000 (2018: 80,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 16). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(6) Commenced employment 8th April 2019. 20,000 (2018: nil) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 16). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

Options and Rights Holdings

Number of options held by the Directors and Key Management Personnel, including options held by associated entities

	Balance 1.7.18	Held at date of appointment	Granted as Remuneration	Exercised or Lapsed	Balance 30.6.19	Total Vested 30.6.19	Total Exercisable	Total Un-exercisable
Peter Neustadt (1)	425,000	-	-	(250,000)	175,000	175,000	175,000	-
Robert Scherini	-	-	-	-	-	-	-	-
Lee Ausburn	-	-	-	-	-	-	-	-
Hamish Corlett(2)	400,000	-	-	-	400,000	400,000	400,000	-
Derek Smith(3)	800,000	-	300,000	(1,100,000)	-	-	-	-
Jim Evanger	-	-	-	-	-	-	-	-
Neil Verdal-Austin	-	-	-	-	-	-	-	-
Kien Nguyen	-	-	-	-	-	-	-	-
Martin Weiland	-	-	-	-	-	-	-	-
Total	1,625,000	-	300,000	(1,350,000)	575,000	575,000	575,000	-
Issued shares treated as options in these accounts(4)(5) (refer table above and Note 16)								
Kien Nguyen	985,000	-	35,000	-	1,020,000	634,166	634,166	385,834
Neil Verdal-Austin	745,000	-	275,000	-	1,020,000	642,500	642,500	377,500
Martin Weiland	410,000	-	65,000	-	475,000	212,500	212,500	262,500
Hervé Fiévet (5)	-	-	20,000	-	20,000	-	-	20,000
Total	3,765,000	-	695,000	(1,350,000)	3,110,000	2,064,166	2,064,166	1,045,834

(1) Held by Belgove Pty Limited or its nominee or P Neustadt Holdings Pty Ltd, companies associated with Dr Peter Neustadt.

(2) Held by TDM asset Management Pty Limited, a company associated with Mr Hamish Corlett.

(3) Mr Derek Smith was issued with 300,000 options with an exercise price of $1.87 per share on 3rd October 2018. Fair value of these options calculated by using the Black-Scholes option pricing model was $0.648 per option. All options previously issued to Mr Smith were cancelled on cessation of his employment in November 2018.

(4) The options were issued by the Company pursuant to the Company's Executive Share and Option Plan and have been treated as share-based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards. 200,000 of these options related to the appointment of Mr Verdal-Austin as CEO and were issued on 19 November 2018 at an exercise price of $1.67 per share. These options expire on 18 November 2023 and are exercisable prior to that time. Fair value of these options calculated by using the Black-Scholes option pricing model was $0.632 per option. The other options were issued by the Company pursuant to the Company's Executive Share and Option Plan and have been treated as share-based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards. These options were issued on 19 November 2018 at an exercise price of $1.87 per share. These options expire on 18 November 2023 and are exercisable prior to that time, subject to vesting conditions being satisfied. Fair value of these options calculated by using the Black-Scholes option pricing model was $0.577 per option.

(5) Commenced employment 8th April 2019. The options were issued by the Company pursuant to the Company's Executive Share and Option Plan and have been treated as share-based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards. These options related to the appointment of Mr Fiévet as CFO and were issued on 15 April 2019 at an exercise price of $1.79 per share. These options expire on 15 April 2024 and are exercisable prior to that time, subject to vesting conditions being satisfied. Fair value of these options calculated by using the Black-Scholes option pricing model was $0.30 per option.

Executives' remuneration

The following table discloses the remuneration of the specified executives of the company and the Consolidated Entity for the year ended 30 June 2019, as specified for disclosure by AASB 124. The information in this table is audited.

	Short-term Benefits			Post-Employment Benefits	Long-term Benefits			
Executive	**Salary & Fees**	**Bonuses**	**Other**	**Superannuation**	**Long service leave**	**Share-based Payment (1)**	**Termination Benefits**	**Total**
Derek Smith(2)								
- 2019	265,641	-	16,623	-	-	473,113	470,909	1,226,286
- 2018	582,072	-	22,922	-	-	136,450	-	741,444
Neil Verdal-Austin(4)								
- 2019	402,178	50,000	-	38,207	23,012	95,893	-	609,290
- 2018	366,000	-	-	37,937	10,395	57,552	-	471,884
Jim Evanger(3)								
- 2019	257,269	-	17,790	-	-	-	355,797	630,856
- 2018	439,788	-	19,131	-	-	-	-	458,919
Kien Nguyen								
- 2019	558,114	-	23,273	-	-	77,319	-	658,706
- 2018	517,397	-	19,536	-	-	16,752	-	553,685
Martin Weiland (5)								
- 2019	426,897	15,944	22,003	-	-	48,235	-	513,079
- 2018	392,973	98,628	21,267	-	-	21,900	-	534,768
Hervé Fiévet (6)								
- 2019	58,013	10,000	-	5,511	-	120	-	73,644
- 2018	-	-	-	-	-	-	-	-
TOTAL 2019	**1,968,112**	**75,944**	**79,689**	**43,718**	**23,012**	**694,680**	**826,706**	**3,711,861**
TOTAL 2018	**2,298,230**	**98,628**	**82,856**	**37,937**	**10,395**	**232,654**	**-**	**2,760,700**

(1) The amounts disclosed are based on the assessed fair value at the date of grant using the Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date.

(2) Ceased employment 16th November 2018.

(3) Ceased employment 31st December 2018.

(4) This executive has agreed to a fixed term contract until 30 June 2021. This contract has a notice of termination of 9 months with a restraint of trade condition of 12 months from termination date. This restraint covers any business same or similar on a worldwide basis.

(5) This executive has agreed to a fixed term contract until 30 June 2022. The termination payment is equivalent to 12 months total remuneration. This contract has a notice of termination of 3 months with a restraint of trade condition of 12 months from termination date. This restraint covers any business same or similar on a worldwide basis.

(6) Commenced employment 8th April 2019. The contract has a notice period of termination of 2 months.

For the year ended 30 June 2019 the Company had six (2018 – five) persons employed who were deemed to be specified executives.

The key management personnel of the consolidated group comprise the directors and the specified executives.

Bonuses are awarded as part of the consolidated group's incentive scheme for the retention of key executives and are awarded as at year end. All bonuses have vested and the pre-requisites for the receipt of the award have been satisfied.

The terms and conditions relating to options granted as remuneration during the year to key management personnel are disclosed in Note 27.

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

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Non-Executive Directors:						
Peter Neustadt	59%	44%	0%	0%	41%	56%
Robert Scherini	100%	100%	0%	0%	0%	0%
Lee Ausburn	100%	100%	0%	0%	0%	0%
Hamish Corlett*	100%	100%	0%	0%	0%	0%
Other Key Management Personnel:						
Derek Smith	61%	82%	0%	0%	39%	18%
Neil Verdal-Austin	76%	88%	8%	0%	16%	12%
Jim Evanger	100%	100%	0%	0%	0%	0%
Kien Nguyen	88%	97%	0%	0%	12%	3%
Martin Weiland	88%	78%	3%	18%	9%	4%
Hervé Fiévet**	86%	-	14%	-	0%	-

* Mr Corlett was appointed a Director of the Company on 1st May 2018

** Mr Fiévet commenced employment on 8th April 2019

The proportion of the cash bonus paid/payable or forfeited is as follows:

	Cash bonus paid/payable		Cash bonus forfeited	
Name	**2019**	**2018**	**2019**	**2018**
Non-Executive Directors:				
Peter Neustadt	-	-	-	-
Robert Scherini	-	-	-	-
Lee Ausburn	-	-	-	-
Hamish Corlett*	-	-	-	-
Other Key Management Personnel:				
Derek Smith	0%	0%	100%	100%
Neil Verdal-Austin	34%	0%	66%	100%
Jim Evanger	0%	0%	100%	100%
Kien Nguyen	0%	0%	100%	100%
Martin Weiland	16%	100%	84%	0%
Hervé Fiévet**	37%	0%	43%	-

* Mr Corlett was appointed a Director of the Company on 1st May 2018

** Mr Fiévet commenced employment on 8th April 2019

This concludes the Remuneration Report which has been audited.

Other Information

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees of $140,000 (2018: $144,000) for tax and other services were paid/payable to the external auditors during the year ended 30th June 2019.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30th June 2019 is set out on page 66 of this annual report.

Signed in accordance with a resolution of the Board of Directors pursuant to section 298(2)(a) of the *Corporations Act 2001.*

Peter Neustadt
Chairman
23rd September 2019

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019 $	2018* $
Continuing operations			
Revenue from sale of goods and services, net of discounts	5	58,892,033	52,393,583
Cost of sales		(24,319,902)	(20,537,868)
Gross margin		34,572,131	31,855,715
Sales and marketing expenses		(14,966,700)	(13,788,731)
Administrative expenses		(11,195,846)	(9,380,884)
Operating profit before corporate, research and business development expenses, other items of revenue and expenses and income tax		8,409,585	8,686,100
Corporate, research and business development expenses		(5,017,724)	(4,785,564)
Interest income	5	28,455	193,907
Net fair value loss on contingent consideration payable		-	(51,997)
Share based payments	27c	(1,024,557)	(718,099)
Depreciation and amortisation		(1,448,846)	(1,177,640)
Impairment of goodwill	13	(135,000)	(138,563)
Interest expense		(205,270)	(141,546)
Unrealised foreign exchange gain/(loss)		590	(31,409)
Profit before income tax		**607,233**	**1,835,189**
Income tax expense attributable to operating profit	7	(646,619)	(1,610,098)
(Loss)/profit after income tax for the year from continuing operations		**(39,386)**	**225,091**
Discontinued operation			
Loss from discontinued operation	8	(16,398,281)	(10,936,332)
Net loss for the Group		**(16,437,667)**	**(10,711,241)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation difference for foreign operations		498,030	1,000,825
Other comprehensive income for the year, net of tax		498,030	1,000,825
Total comprehensive income for the year attributable to the owners of SomnoMed Limited		**(15,939,637)**	**(9,710,416)**
Net loss for the year is attributable to:		(16,437,667)	(8,619,551)
Owners of SomnoMed Limited			
Non-controlling interest	31	-	(2,091,690)
		(16,437,667)	**(10,711,241)**
Total comprehensive income for the year attributable to:			
Owners of SomnoMed Limited		(15,939,637)	(7,618,726)
Non-controlling interest	31	-	(2,091,690)
		(15,939,637)	**(9,710,416)**

*Restated. See Note 8.

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019 (continued)

	NOTE	2019 $	2018* $
Earnings per share			
Basic earnings per share (cents per share)	23	(28.28)	(15.50)
Diluted earnings per share (cents per share)	23	(28.28)	(15.50)
Earnings per share – continuing operations			
Basic earnings per share (cents)	23	(0.07)	0.35
Diluted earnings per share (cents)	23	(0.07)	0.33
Earnings per share – discontinued operation			
Basic earnings per share (cents)	23	(28.21)	(15.85)
Diluted earnings per share (cents)	23	(28.21)	(15.85)

The above statement should be read in conjunction with the consolidated notes.

*Restated. See Note 8.

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	NOTE	2019	2018*
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	9	7,697,054	13,383,389
Trade and other receivables	10	10,557,582	13,581,962
Inventories	11	1,903,341	2,002,565
Total Current Assets		20,157,977	28,967,916
Non-Current Assets			
Trade and other receivables		141,208	478,623
Property, plant and equipment	12	3,248,077	5,690,466
Intangible assets	13	7,773,666	7,779,956
Deferred tax asset	7c	3,429,858	2,780,670
Total Non-Current Assets		14,592,809	16,729,715
Total Assets		34,750,786	45,697,631
LIABILITIES			
Current Liabilities			
Trade and other payables	14	8,105,273	8,380,629
Borrowings	25	3,008,016	-
Lease liabilities	26	228,280	398,160
Provisions	15	3,751,888	2,024,049
Current tax liability		952,727	737,400
Total Current Liabilities		16,046,184	11,540,238
Non-Current Liabilities			
Trade and other payables		56,111	-
Lease liabilities	26	359,081	1,036,841
Provisions	15	469,485	351,778
Total Non-Current Liabilities		884,677	1,388,619
Total Liabilities		16,930,861	12,928,857
Net Assets		**17,819,925**	**32,768,774**
EQUITY			
Issued capital	16	57,681,947	57,743,645
Reserves	17	7,685,346	6,134,830
Accumulated losses		(47,547,368)	(27,759,081)
Equity attributable to owners of SomnoMed Limited		17,819,925	36,119,394
Non-controlling interests	31	-	(3,350,620)
Total Equity		**17,819,925**	**32,768,774**

The above statement should be read in conjunction with the consolidated notes.

*Restated. See Notes 12 and 13.

SOMNOMED LIMITED

ACN 003255221

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	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 year	-	-	(16,437,667)	(16,437,667)	-	(16,437,667)
Other comprehensive income for the year, net of tax	-	498,030	-	498,030	-	498,030
Total comprehensive income/(loss) for the year	-	498,030	(16,437,667)	(15,939,637)	-	(15,939,637)
Transactions with owners in their capacity as owners:						
Shares issued during the period	11,800	-	-	11,800	-	11,800
Share issuance costs	(73,498)	-	-	(73,498)	-	(73,498)
Acquisition of NCI	-	-	(3,350,620)	(3,350,620)	3,350,620	-
Capital reserve adjustment	-	27,929	-	27,929	-	27,929
Share option reserve on recognition of remuneration options	-	1,024,557	-	1,024,557	-	1,024,557
Balance at 30 June 2019	57,681,947	7,685,346	(47,547,368)	17,819,925	-	17,819,925

	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 year	-	-	(8,619,551)	(8,619,551)	(2,091,690)	(10,711,241)
Other comprehensive income for the year, net of tax	-	1,000,825	-	1,000,825	-	1,000,825
Total comprehensive income/(loss) for the year	-	1,000,825	(8,619,551)	(7,618,726)	(2,091,690)	(9,710,416)
Transactions with owners in their capacity as owners:						
Shares issued during the period	11,178,011	-	-	11,178,011	-	11,178,011
Share issuance costs	(371,726)	-	-	(371,726)	-	(371,726)
Share option reserve on recognition of remuneration options	-	718,099	-	718,099	-	718,099
Balance at 30 June 2018	57,743,645	6,134,830	(27,759,081)	36,119,394	(3,350,620)	32,768,774

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		65,270,060	60,255,523
Payments to suppliers and employees (inclusive of GST)		(70,871,855)	(69,671,738)
Interest received		42,195	74,643
Interest paid		(298,390)	(75,477)
Income tax paid		(689,150)	(51,788)
Net cash outflow from operating activities	22a	(6,547,140)	(9,468,837)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(47,829)	-
Proceeds from disposal of assets		76,031	-
Final payment of contingent consideration		-	(25,547)
Payments for intangible assets		(323,469)	(163,030)
Payments for property, plant and equipment		(1,339,203)	(2,009,777)
Net cash outflow from investing activities		(1,634,470)	(2,198,354)
Cash flows from financing activities			
Proceeds from borrowings		4,958,947	-
Repayments of borrowings		(2,000,000)	-
Proceeds from issue of shares		11,800	11,153,371
Share issuance costs	16	(73,498)	(371,726)
Payment of finance lease	22b	(518,201)	(237,115)
Net cash inflow from financing activities		2,379,048	10,544,530
Net decrease in cash and cash equivalents		(5,802,562)	(1,122,661)
Cash at beginning of the financial year		13,383,389	14,210,321
Exchange rate adjustment		116,227	295,729
Cash at the end of the financial year	21	7,697,054	13,383,389

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

The above statement should be read in conjunction with the consolidated notes.

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled and incorporated in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its controlled entities (together referred to as the “Consolidated Entity”). The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders.

2. BASIS OF PREPARATION

a. Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001 as appropriate for profit oriented entities. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Consolidated Entity’s functional currency.

d. Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management discussed with the Audit Committee the development, selection and disclosure of the Consolidated Entity’s critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

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 the 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.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 13. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

2. BASIS OF PREPARATION (continued)

d. Use of judgements and estimates (continued)

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Employee benefits provision

As discussed, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Warranty provision

In determining the level of provision required for warranties the consolidated entity has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

Onerous leases

The Consolidated Entity has recognised a provision for the lease contracts in relation to closure of RSS (see Note 15) based on the lower of the estimated unavoidable net costs of meeting all leases and other obligations under the lease contracts, and management’s best estimate of the compensation expected to be payable to landlords and other third parties as a result of early termination of contracts. Estimates differ depending on the rent, location, the respective exit terms, and management’s assessment of the timing and likely termination costs.

Revenue recognition

The management are required to make estimates, judgements, and assumptions in assessing the point in time that revenue should be recognised.

Recoverability of receivables

The Consolidated Entity assesses at the end of each reporting period whether there is objective evidence that the receivables are impaired. The recoverable amount of the receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. A provision for expected credit losses of receivables is based on the historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

2. BASIS OF PREPARATION (continued)

d. Use of judgements and estimates (continued)

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated, and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any realised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the statement of profit or loss and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary transactions denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of profit or loss and other comprehensive income.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions. Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

c. Financial Instruments

Derivative Financial Instruments

The Consolidated Entity does not currently hold derivative financial instruments to hedge its exposure to foreign exchange risk arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives are not hedge accounted and are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the statement of profit or loss and other comprehensive income.

Non-derivative financial assets and liabilities

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Trade and other receivables

Trade receivables are recognised when the control of ownership of the underlying sales transactions have passed to the customer in the ordinary course of business. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components when they are recognised at fair value. The Consolidated Entity holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial Instruments (continued)

Trade and other receivables (continued)

Other receivables arise principally from financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition on issue and are subsequently recognised at amortised cost using the effective interest rate method, less allowance for impairment.

Trade and other payables

Trade and other payables are stated at amortised cost.

Trade and other payables represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period that are unpaid when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of those goods and services. The amounts are unsecured and are usually paid within 30 to 60 days of purchase. They are recognised initially at the fair value and subsequently measured at amortised cost using the effective interest method.

Determination of fair values

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based upon government bonds.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any expected credit losses.

d. Finance income and expense

Interest income is recognised as it accrues in the statement of profit or loss using the effective interest method. Interest expense is recognised in the period in which they are incurred.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

e. Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy of Note 11) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income of profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of profit or loss and other comprehensive income of profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Impairment (continued)

Calculation of recoverable amount

Receivables

The Consolidated Entity's trade and other receivables at year end are assessed under AASB 9 which prescribes an expected credit loss (ECL) model to recognise an allowance. The allowance is measured using a 12-month ECL model unless the credit risk on a financial asset has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The nature and effect of initially applying AASB 9 on the group's financial statements are disclosed in Note 3 (g).

Other assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

f. 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 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

<u>AASB 16 Leases</u>

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 Leases and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

The Group has assessed the estimated impact that AASB 16 would have had on its Consolidated Financial Statements on 30 June 2019. The estimated impact on Consolidated Statement of Financial Position for new lease liabilities and new right-of-use assets will be between A$5.0 million to A$6.0 million.

The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio, the extent to which the Group chooses to use practical expedients and recognition exemptions, and the new accounting policies, which are subject to change until the Group presents its first financial statements that include the date of initial application.

Based on the previous considerations, SomnoMed will apply the AASB 16 standard from 1 July 2019, using the modified retrospective approach. Under this approach, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of Accumulated Losses at 1 July 2019. Comparatives will not be restated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. 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.

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

<u>AASB 15 Revenue from Contracts with Customers</u>

The Consolidated Entity has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018, which replaced AASB 118 Revenue.

AASB 15 establishes a principles-based approach for revenue recognition whereby revenue is recognised when performance obligations are satisfied. The standard applies a five-step approach to the timing of revenue recognition and is applicable to all contracts with customers, except those in the scope of other standards.

As a result, the Consolidated Entity has changed its accounting policy for revenue recognition (see Note 5).

The adoption of AASB 15 has not had a material impact on the Consolidated Entity's financial statements.

<u>AASB 9 Financial Instruments</u>

The Consolidated Entity has adopted AASB 9 Financial Instruments from 1 July 2018 which replaces AASB 139 Financial Instruments: Recognition and Measurement. As a result, the Consolidated Entity has changed its accounting policy for the recognition and measurement of receivables (see accounting policy (c) and (d)). The adoption of AASB 9 has not had a material impact on the Consolidated Entity's financial statements.

h. Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

i. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

4. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity.

Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business.

The Audit Committee oversees adequacy of the Company's risk management framework in relation to the risks faced by the Company and the Consolidated Entity.

5. REVENUE

Significant Accounting Policies

Income Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sales revenue

Revenue derived from the sale of devices for the treatment of sleep related disorders and related products is recognised at the point in time when the performance obligations are satisfied, which usually occurs after final quality control is passed and goods are ready for pick up by customers. Warranties are not considered as separate performance obligations.

Other income

Other income is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable. The income is deemed to be receivable when the entitlement is confirmed.

The nature and effect of initially applying AASB 15 on the Group's financial statements are disclosed in Note 3 (g).

	2019 $	2018* $
Revenue from sale of goods, net of discounts	58,892,033	52,393,583
Interest income	28,455	193,907
	58,920,488	52,587,490

* Restated. See Note 8.

6. LOSS BEFORE INCOME TAX FOR THE YEAR

Significant Accounting Policies

Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Significant Accounting Policies

Share based payments

The Company has granted options to certain directors and employees. The fair value of options and shares granted is recognised as a share and option expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted taking into account market-based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares. The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

Leased assets – Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Minimum lease payments include fixed rate increases.

	2019	**2018**
	$	**$**
Loss before income tax includes the following specific expenses*:		
Operating lease rentals	2,290,889	2,222,941
Employee benefits expense	29,755,779	27,291,449
Depreciation	1,806,929	1,566,778
Amortisation of intellectual property	497,493	109,728
Research and development expenditure	1,029,963	934,720

* Expenses include RSS

7. INCOME TAX EXPENSE

Significant Accounting Policies

Income tax expense in the statement of profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

	NOTE	2019 $	2018 $
a. The components of tax expense comprise:			
Current tax		(1,189,480)	(1,120,364)
Deferred tax	7d	542,861	(494,876)
		(646,619)	(1,615,240)
b. The prima facie tax on profit before income tax is reconciled to the income tax expense as follows:			
Prima facie income tax expense calculated using the Australian tax rate of 30% (2018: 30%)		(4,729,361)	(2,728,800)
Effect of tax rates on foreign jurisdictions		2,023,172	(753,893)
Permanent differences – taxable income not recognised		3,323,327	-
Permanent differences – tax losses		(10,959,743)	(2,749,726)
Change of tax rate in US		-	(1,035,000)
(Increase)/decrease in income tax expense due to non-(deductible)/assessable and other items		210,844	194,579
Income tax expense*		(673,130)	(1,615,240)
* Expenses include RSS			
c. Deferred tax assets Recognised deferred tax assets			
Plant and equipment		(37,139)	(27,127)
Accruals		491,403	416,580
Provisions		297,306	50,642
Deferred revenue		52,885	55,130
Tax losses carried forward		2,625,403	2,285,446
Deferred tax assets		3,429,858	2,780,670

While the consolidated entity recorded trading losses in various segments the strategies implemented by management around growth and cost efficiencies has led management to believe the loss-making segments should return to generating sufficient taxable profits and therefore recoup the tax losses being recognised.

7. INCOME TAX EXPENSE (continued)

	NOTE	2019 $	2018 $
d. Movement in temporary differences and tax losses during the year			
Carrying amount at beginning of financial year		2,780,670	3,468,762
Recognised in the statement of profit or loss and other comprehensive income	7a	542,861	(494,876)
Foreign exchange adjustment		106,327	(193,216)
Carrying amount at end of financial year		3,429,858	2,780,670

e. Deferred tax assets not brought to account

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 7 occur.

Tax losses	848,802	623,300
Temporary differences	2,395,077	2,611,204

Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30%	33,447	33,447

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

8. DISCONTINUED OPERATION

Renew Sleep Solutions, Inc. ("RSS") ceased operations and all centres were closed by 31st December 2018.

The net loss after tax of $16,398,281 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 for in the accounts for the 2019 financial year:

- Revenue and expenses from normal business operations from 1 July 2018 to 30 June 2019;
- Costs for closure of RSS which includes the recognition of a provision for onerous leases; and
- Loss from fixed asset impairment.

RSS was not a discontinued operation or classified as held for sale as at 30 June 2018 and the comparative statement of profit or loss and other comprehensive income has been represented to show the discontinued operation separately from continued operations.

Results of discontinued operation		
Revenue	3,950,076	11,218,521
Expenses	(14,440,628)	(22,149,711)
Results from operating activities	(10,490,552)	(10,931,190)
Income tax expense	(26,511)	(5,142)
Results from operating activities, net of tax	(10,517,063)	(10,936,332)
Asset impairment	(1,905,613)	-
Costs for lease settlement	(2,793,734)	-
Severance payments, legal and other costs	(1,181,871)	-
Loss for the year	**(16,398,281)**	**(10,936,332)**

8. DISCONTINUED OPERATION (CONTINUED)

	2019	2018
	$	$
Cash flows from discontinued operation		
Net cash outflow from operating activities	(8,884,119)	(12,547,948)
Net cash outflow from investing activities	(133,917)	(1,068,297)
Net cash outflow from financing activities	(184,479)	(83,821)
Net cash outflow for the year	**(9,202,515)**	**(13,700,066)**
Carrying amount of assets and liabilities		
Total Assets	1,446,332	7,643,315
Total Liabilities	(3,178,458)	(24,570,634)
Net Assets	**(1,732,126)**	**(16,927,319)**

9. CASH AND CASH EQUIVALENTS

Significant Accounting Policies

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

	2019	2018
	$	$
Cash at bank and on deposit	7,697,054	13,383,389
	7,697,054	13,383,389

10. TRADE AND OTHER RECEIVABLES

Significant Accounting Policies

Trade and other receivables are stated at amortised cost less allowance for expected credit losses (see accounting policy 3(d)).

	2019	2018
Current	$	$
Trade receivables	8,861,006	10,676,477
Less allowance for expected credit losses	(1,743,993)	(272,028)
	7,117,013	10,404,449
Other receivables	3,440,569	3,177,513
	10,557,582	13,581,962

11. INVENTORIES

Significant Accounting Policies

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses. Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

	2019 $	2018 $
Raw materials and consumables	1,903,341	2,002,565

12. PROPERTY, PLANT AND EQUIPMENT

Significant Accounting Policies

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 3(d)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

<u>*Depreciation*</u>

Depreciation is recognised in the statement of profit or loss on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial periods only.

The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	1 – 3 years
Plant & equipment	3 – 20 years

	2019	2018*
Plant and Equipment	**$**	**$**
Property and equipment – at cost	8,877,379	10,794,361
Accumulated depreciation	(5,882,745)	(5,341,114)
	2,994,634	5,453,247
Leasehold Improvements		
Leasehold improvements – at cost	555,283	505,790
Accumulated amortisation	(301,840)	(268,571)
	253,443	237,219
Total property, plant and equipment	**3,248,077**	**5,690,466**

*Restated due to reclassification of asset type.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Movements in the carrying amounts of plant and equipment during the current financial year:

	Plant and equipment* $	Leasehold improvements $	Total $
Balance at 1 July 2017	**4,201,863**	**289,560**	**4,491,423**
Additions	2,654,885	9,765	2,664,650
Disposals	(152,510)	-	(152,510)
Revaluation increments	147,820	-	147,820
Depreciation expense	(1,507,835)	(58,952)	(1,566,787)
FX impact	109,024	(3,154)	105,870
Balance at 30 June 2018	**5,453,247**	**237,219**	**5,690,466**
Additions	1,187,304	49,493	1,236,797
Disposals	(238,505)	-	(238,505)
Asset impairment	(1,905,613)	**-**	(1,905,613)
Depreciation expense	(1,752,069)	(54,860)	(1,806,929)
FX impact	250,270	21,591	271,861
Balance at 30 June 2019	**2,994,634**	**253,443**	**3,248,077**

*Restated due to reclassification of asset type.

Included in property, plant and equipment are capitalised lease incentives of $277,329 (2018: $246,821). Lease incentives are recognised as an asset and a liability in the financial statements and amortised over the term of the lease.

13. INTANGIBLE ASSETS

Significant Accounting Policies

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the statement of profit or loss and other comprehensive income.

Other intangible assets

Intellectual property, acquired is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 3(d)).

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

13. INTANGIBLE ASSETS (continued)

Amortisation

Amortisation is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment annually. The estimated useful lives for the current and comparative periods are as follows:

Patents	10 years
Product development expenditure capitalised	5 years

Research and development expenditure

Research and development expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 2-5 years.

	2019 **$**	**2018*** **$**
Patents and trademarks – at cost	1,485,825	1,239,822
Accumulated amortisation	(912,105)	(792,160)
	573,720	447,662
Product development expenditure capitalised	571,649	462,944
Accumulated amortisation	(461,623)	(425,638)
	110,026	37,306
Software	1,024,688	919,691
Accumulated amortisation	(341,563)	-
	683,125	919,691
Goodwill	6,406,795	6,375,297
	7,773,666	7,779,956
Movements in patents and trademarks		
Balance at beginning of year	447,665	410,188
Additions	237,682	117,738
Amortisation expense	(119,945)	(95,352)
Foreign currency translation difference	8,318	15,088
Balance at end of year	573,720	447,662

*Restated due to reclassification of asset type.

13. INTANGIBLE ASSETS (continued)

Movements in product development expenditure capitalised	**2019 $**	**2018* $**
Balance at beginning of year	37,306	51,682
Additions	108,705	-
Amortisation expense	(35,985)	(14,376)
Balance at end of year	110,026	37,306

Movements in software		
Balance at beginning of year	919,691	-
Additions	104,997	919,691
Amortisation expense	(341,563)	-
Balance at end of year	683,125	919,691

Movements in goodwill		
Balance at beginning of year	6,375,297	6,170,660
Impairment of goodwill SomnoMed Canada	-	(138,563)
Impairment of goodwill SomnoMed Korea (refer below)	(135,000)	-
Foreign currency translation difference	166,498	343,200
Balance at end of year	6,406,795	6,375,297

*Restated due to reclassification of asset type.

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

During the year, management undertook a review for indicators of impairment and determined that the goodwill (A$135,000) in relation to South Korea should be fully impaired.

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

Asia Pacific Segment	-	135,000
European Segment	6,258,095	6,099,990
North American Segment	148,700	140,307
	6,406,795	6,375,297

13. INTANGIBLE ASSETS (continued)

Impairment Test

The recoverable amount of the Consolidated Entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5-year projection period approved by management.

European division

Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the cash generating unit to materially exceed its recoverable amount.

The European cash generating unit (CGU) has a revenue growth per annum range of between 11% (2018: 13%) and 36% (2018: 40%) due to the differing stages of development these various markets are in. More established markets are experiencing lower growth rates than those in their infancy and considered to still be developing when it comes to Sleep Disordered Breathing treatment. The average growth of total costs per annum ranges between 8% (2018: 11%) and 21% (2018: 23%) due to the differing costs of business in different European markets. A similar range (6-22%) (2018: 12-19%) is seen for the average growth of operating costs per annum. The average discount rate used was 8% (2018: 9%). Based on the above, no impairment has been applied as the carrying amount of goodwill did not exceed its recoverable amount for the European business segment.

Asia Pacific Division

Goodwill in relation to the acquisition of intangible assets in SomnoMed Korea was fully impaired during 2019 (2018: $135,000).

North America Division

The growth of revenue and expenses is expected to be 22% (2018: 17%) and 13% (2018: 14%) respectively per annum with a discount rate of 10% (2018:16%) applied in the valuation. The growth of revenue and expenses varies due to the stage of development the market is in.

Sensitivity

(a) Revenue would need to decrease by 1-44% (2018: 7-49%) for different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

(b) The discount rate would be required to increase by 1-112% (2018: 6-182%) for the different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

The following key assumptions were used for each CGU in the year of 2019:

	Decrease in revenue	**Increase in discount rate**
European division		
SomnoMed Germany GmbH	44%	112%
SomnoMed Nordic AB	22%	95%
SomnoMed France	16%	24%
SomnoMed GS	44%	105%
SMH Biomaterial AG	4%	3%
Asia Pacific Division		
SomnoMed Korea	-*	-*
North America Division		
SomnoMed Canada	1%	1%

* The goodwill of SomnoMed Korea has been fully impaired.

14. TRADE AND OTHER PAYABLES

Significant Accounting Policies

Trade and other payables are stated at amortised cost.

	2019	2018
	$	$
CURRENT		
Trade payables, other payables and accruals	7,827,934	8,084,178
Income received in advance	-	49,627
Deferred rent	277,339	246,824
	8,105,273	8,380,629

15. PROVISIONS

Significant Accounting Policies

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rate, respective product populations and average costs of returns and repairs. Warranty periods on MAS devices are dependent on individual market and regulatory conditions in different countries.

Make good lease costs

The Consolidated Entity has an operating lease over its premises that require the premises to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls. A provision for make good lease costs is recognised at the time it is determined that it is probable that such costs will be incurred in a future period, measured at the expected cost of returning the asset to the lessor in its original condition. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the statement of profit or loss and other comprehensive income over the life of the lease.

Onerous Contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

	2019	2018
	$	$
CURRENT		
Warranty	234,575	229,825
Lease make good	67,212	67,212
Employee entitlements	1,511,529	1,727,012
Onerous leases	1,938,572	-
	3,751,888	2,024,049

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement. However, based on past experience, the Consolidated Entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

	2019	2018
	$	$

15. PROVISIONS (continued)

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	2019	2018
Employee benefits obligation expected to be settled after 12 months	530,413	402,685
NON CURRENT		
Employee entitlements	469,485	351,778

Movements in Provisions 2019	**Warranty**	**Lease make good**	**Employee entitlement**	**Onerous leases**
	$	**$**	**$**	**$**
Balance at the beginning of the year	229,825	67,212	2,078,790	-
Additional provisions recognised	6,075	-	686,090	1,938,572
Amounts used	(10,349)	-	(871,777)	-
Reversal	-	-	(957)	-
Effect of movement in foreign exchange	9,024	-	88,868	-
Balance at end of year	234,575	67,212	1,981,014	1,938,572

16. ISSUED CAPITAL

	2019	**2018**
	$	**$**
Issued and fully paid ordinary shares		
62,804,168 (2018: 62,205,668) ordinary shares	67,439,109	54,572,473
Balance of issued capital at the beginning of year		
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	(73,498)	(371,726)
Balance of issued capital at end of year	68,444,806	67,439,110
Less shares issued but not recorded in accounts		
- 880,334 shares (2018: 890,334) issued at $1.18	(1,038,794)	(1,050,595)
- 15,000 shares (2018: 15,000) issued at $1.37	(20,550)	(20,550)
- 1,119,000 shares (2018: 1,119,000) issued at $2.09	(2,338,710)	(2,338,710)
- 50,000 shares (2018: 50,000) issued at $2.70	(135,000)	(135,000)
- 868,000 shares (2018: 868,000) issued at $2.40	(2,083,200)	(2,083,200)
- 526,500 shares (2018: 526,500) issued at $3.44	(1,811,160)	(1,811,160)
- 625,000 shares (2018: 625,000) 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	(10,762,859)	(9,695,465)
Issued share capital recorded in the Company accounts	57,681,947	57,743,645

16. ISSUED CAPITAL (continued)

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 30 June 2019 there were 5,257,334 (2018: 5,718,834) unissued ordinary shares for which options were outstanding (including 4,682,334 (2018: 4,093,834) issued ordinary shares which are treated as options in these accounts).

	2019	2018
	#	#
Shares on issue at end of year	62,804,168	62,205,668
Less: Share issued but not recorded in accounts (being shares issued to executives to acquire shares in the Company utilising funds advanced by the Company)	(4,682,334)	(4,093,834)
Number of shares recorded as issued capital in Company's accounts	58,121,834	58,111,834

Significant Accounting Policies

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any income tax benefit.

Capital Risk Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of Directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the Consolidated Entity's approach to capital management during the year.

17. RESERVES

	2019	2018
	$	$
Share based payment reserve	5,053,821	4,029,264
Foreign currency translation reserve	2,575,423	2,077,393
Capital reserve	56,102	28,173
	7,685,346	6,134,830

The share-based payment reserve records the fair value of share-based payments as remuneration.

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

The capital reserve records profits which will be distributed back to investors in SMH Biomaterial AG, an entity which SomnoMed Ltd owns 100% (2018: 100%).

18. REMUNERATION OF AUDITORS

Remuneration of BDO East Coast Partnership (Australia):		
- Auditing or reviewing the financial report	123,000	109,000
- Other services	29,000	33,000
Remuneration of other auditors (paid to BDO Network firms)		
- Auditing or reviewing the financial reports of subsidiaries	301,000	294,000
- Other services (taxation)	111,000	111,000
Total auditors' remuneration included in operating result	564,000	547,000

19. SEGMENT OPERATIONS

Significant Accounting Policies

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.

Primary Reporting – Business Segments

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders primarily in the Asia Pacific region, North America and Europe.

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Consolidated Entity is managed primarily on the basis of geographical segments and the operating segments are therefore determined on the same basis.

SomnoMed's operations during the period related to the production and sale of products treating sleep disordered breathing, which is the only business segment.

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 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 item*s

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 and other income;

-corporate, research and development expenses;

-income tax expense; and

-amortisation of intangible assets.

19. SEGMENT OPERATIONS (continued)

Secondary Reporting – Geographical Segments

Geographical location: 2019	**North America $**	**Europe $**	**Asia Pacific $**	**CORE $**	**RSS $**	**GROUP $**
External sales revenue	**19,752,847**	**34,262,308**	**4,876,878**	**58,892,033**	**3,950,076**	**62,842,109**
Segment net (loss)/profit before tax	**1,720,647**	**6,131,236**	**557,702**	**8,409,585**	**(9,452,334)**	**(1,042,749)**
Unallocated expense items	-	-	(6,041,691)	(6,041,691)	(4,057,582)	(10,099,273)
Depreciation and amortisation	(210,145)	(234,737)	(1,003,964)	(1,448,846)	(861,214)	(2,310,060)
Asset impairment	-	-	-	-	(1,905,613)	(1,905,613)
Impairment of goodwill	-	-	(135,000)	(135,000)	-	(135,000)
Interest income	-	-	28,455	28,455	5,601	34,056
Interest expense	(5,040)	(2,058)	(198,172)	(205,270)	(100,628)	(305,898)
(Loss)/profit before tax	**1,505,462**	**5,894,441**	**(6,792,670)**	**607,233**	**(16,371,770)**	**(15,764,537)**
Income tax expense	(143,963)	(477,099)	(25,557)	(646,619)	(26,511)	(673,130)
(Loss)/profit after tax	**1,361,499**	**5,417,342**	**(6,818,227)**	**(39,386)**	**(16,398,281)**	**(16,437,667)**

Geographical location: 2018	**North America $**	**Europe $**	**Asia Pacific $**	**CORE $**	**RSS $**	**GROUP $**
External sales revenue	**17,845,371**	**30,355,666**	**4,192,546**	**52,393,583**	**11,216,465**	**63,610,048**
Segment net (loss)/profit before tax	**2,305,564**	**5,649,526**	**731,010**	**8,686,100**	**(10,376,331)**	**(1,690,231)**
Unallocated expense items	-	-	(5,535,072)	(5,535,072)	-	(5,535,072)
Depreciation and amortisation	(421,205)	(179,585)	(576,850)	(1,177,640)	(498,866)	(1,676,506)
Impairment goodwill	(138,563)	-	-	(138,563)	-	(138,563)
Fair value adjustment	-	(51,997)	-	(51,997)	-	(51,997)
Interest income	1,699	-	192,208	193,907	2,056	195,963
Interest expense	(2,798)	(2,923)	(135,825)	(141,546)	(58,049)	(199,595)
(Loss)/profit before tax	**1,744,697**	**5,415,021**	**(5,324,529)**	**1,835,189**	**(10,931,190)**	**(9,096,001)**
Income tax expense	(2,177,864)	609,573	(41,807)	(1,610,098)	(5,142)	(1,615,240)
(Loss)/profit after tax	**(433,167)**	**6,024,594**	**(5,366,336)**	**225,091**	**(10,936,332)**	**(10,711,241)**

20. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES

Details of controlled entities are reflected below		Interest %	
Company	**Country of Incorporation**	**2019**	**2018**
SomnoMed Limited	Australia		
Entities controlled by SomnoMed Limited			
SomCentre Pty Limited	Australia	100%	100%
SomnoMed, Inc.	USA	100%	100%
SomnoDent Pty Limited	Australia	100%	100%
SomnoMed Pte Ltd	Singapore	100%	100%
SomnoMed AG	Switzerland	100%	100%
SomnoMed Corporation Japan	Japan	100%	100%
SomnoMed Nordic AB	Sweden	100%	100%
SomnoMed Philippines Inc.	Philippines	100%	100%
SomnoMed Netherlands BV	Netherlands	100%	100%
SomnoMed France	France	100%*	92.9%
Goedegebuure Slaaptechniek BV	Netherlands	100%	100%
SomnoMed Germany GmbH	Germany	100%	100%
SomnoMed Service GmbH	Germany	100%	100%
SMH Biomaterial AG	Switzerland	100%	100%
SomnoMed Korea	South Korea	100%	100%
SomnoMed UK Limited	UK	100%	100%
SomnoMed Spain SL	Spain	100%	100%
SomnoMed Italy S.r.L	Italy	100%	100%
SomnoMed Canada Inc.	Canada	100%	100%
SomnoMed Taiwan Limited Company	Taiwan	100%	100%
Renew Sleep Solutions, Inc.	USA	100%*	81.9%
SomnoMed Finance, Inc.	USA	100%	100%

* See Note 31

21. RECONCILIATION OF CASH

	2019 $	2018 $
Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash at bank and on deposit and money market securities	7,697,054	13,383,389
	7,697,054	13,383,389

22. CASH FLOW INFORMATION

a. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2019 $	2018 $
Operating loss after income tax	(16,437,667)	(10,711,241)
Share and option expense	1,024,557	718,099
Impairment of goodwill	135,000	138,563
Asset impairment	1,905,613	-
Losses on disposal of assets	81,977	-
Depreciation and amortisation	2,304,422	1,676,506
Net exchange differences	(4,123)	31,408
Change in operating assets and liabilities		
Decrease in inventories	245,688	53,196
Decrease/(increase) in receivables	2,635,122	(3,019,471)
Increase in trade & other payables	768,457	225,970
Increase in provisions	1,246,189	768,488
(Increase)/decrease in deferred tax assets	(452,375)	649,645
Net cash outflow from operating activities	(6,547,140)	(9,468,837)

b. CHANGES IN LIABILITIES ARISING FROM FINANCE ACTIVITIES

			Non-cash changes		
Lease liabilities	**Opening**	**Cash flows**	**Intercompany**	**Other**	**Closing**
	$	$	$	$	$
FY2019	1,435,001	(518,201)	-	(329,439)	587,361
FY2018	122,545	(237,115)	-	1,549,571	1,435,001

23. EARNINGS PER SHARE

Significant Accounting Policies

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

	2019	2018
Earnings per share		
Net loss used in calculating basic and diluted earnings per share	($16,437,667)	($8,619,550)
Basic earnings per share (cents)	(28.28)	(15.50)
Diluted earnings per share (cents)	(28.28)	(15.50)
Earnings per share – continuing operations		
Net (loss)/profit used in calculating basic and diluted earnings per share	($39,386)	$193,166
Basic earnings per share (cents)	(0.07)	0.35
Diluted earnings per share (cents)	(0.07)	0.33
Earnings per share – discontinued operation		
Net loss used in calculating basic and diluted earnings per share	($16,398,281)	($8,812,716)
Basic earnings per share (cents)	(28.21)	(15.85)
Diluted earnings per share (cents)	(28.21)	(15.85)
Weighted average number of shares used in the calculation of basic earnings per share	58,115,149	55,612,407
Weighted average number of shares used in the calculation of diluted earnings per share	63,452,293	59,402,448
Shares on issue at year end per accounts	58,121,834	58,111,834
Number of options on issue at year end – each option is exercisable at between $3.78 and $4.00 per share and converts to one ordinary share	575,000	1,625,000

Adjustment has been made to the weighted average number of shares used in calculating diluted earnings per share for the options on issue that have an exercise price below the average market price for the year.

24. CAPITAL AND LEASING COMMITMENTS

	2019 $	2018 $
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	1,773,345	2,339,148
— later than 1 year but not later than 5 years	3,887,098	6,183,293
— later than 5 years	1,880,723	1,368,453
	7,541,166	9,890,894

Included in the operating lease commitments are non-cancellable property leases with terms of between one year and ten years with, in some cases, options to extend (between three and five years). The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

25. BORROWINGS

	2019 $	2018 $
Current borrowings	3,008,016	-
	3,008,016	-

HSBC credit facility

In June 2019, SomnoMed Netherlands B.V. established a €3.0 million (A$4.9 million) unsecured credit facility with HSBC, of which €1.9 million (A$3.0 million) was utilised as at 30th June 2019. The interest rate payable under this facility as at 30 June 2019 was equivalent to the Main Refinancing Operations rate published by the European Central Bank ("ECB") (provided that, if such interest rate is less than zero, it shall be deemed to be zero), increased with the applicable margin of 2.75% per annum. This facility has been guaranteed by SomnoMed Limited, SomnoMed Inc. and Goedegebuure Slaaptechniek B.V. The facility has no fixed term but under certain conditions the facility must be repaid within 30 business banking days. It is a condition of the facility that the consolidated net leverage ratio may not exceed 2.5, of which 2.5 is to be measured on the parental consolidated level.

The Company's previous interim working capital facility was repaid in June 2019, refer to below.

Working capital facility

SomnoMed Limited terminated A$5 million interim working capital facility as secured in December 2018 and fully repaid the principal and interest in June 2019.

26. LEASE LIABILITIES

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $
Less than one year	260,300	484,000	32,020	85,840	228,280	398,160
Between one year and five years	382,731	1,137,219	23,650	100,378	359,081	1,036,841
	643,031	1,621,219	55,670	186,218	587,361	1,435,001

The terms of the leases are all 60 months from commencement with a weighted average annual interest rate of 3.37%. The total lease liability was $587,361 as at 30 June 2019.

27. SHARE BASED PAYMENTS

(a) Movements in the number of share options held by employees are:

	2019 \#	2018 \#
Opening balance	4,093,834	3,628,834
Exercised during the year	(10,000)	(35,000)
Shares issued and treated as options in these accounts	598,500	625,000
Shares issued and treated as options in previous accounts now treated as shares	-	(125,000)
Closing Balance (refer Note 16)	4,682,334	4,093,834

27. SHARE BASED PAYMENTS (continued)

(b) Details of employee share options as at end of year:

Options granted to employees hold no voting or dividend rights and are not transferrable.

(c) Options

	2019	2018
Shares treated as options in accounts (refer Note 16)	4,682,334	4,093,834

The options and shares issued under the Employee Share and Option plan outstanding at 30 June 2019 had a weighted average exercise price of $3.93 (2018: $3.52) and a weighted average remaining contractual life of 2.01 years (2018: 2.01 years). Exercise prices range from $1.67 to $3.78 in respect of options outstanding at 30 June 2019 (2018: $2.64 to $3.78 range).

The weighted average fair value of the options granted during the year was $0.60 (2018: $1.57).

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

	2019	2018
Weighted average exercise price	$1.82	$3.61
Weighted average life of the option	4.67 years	5 years
Underlying share price	$1.67-$1.87	$3.69-$3.85
Expected share price volatility	45.00	45.00
Risk free interest rate	1.25%-1.50%	1.50%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

Exercisability of the options has been considered when determining the fair value of the options. The total number of exercisable options at year end was 2,066,662.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under share and option expense in the statement of profit or loss and other comprehensive income is $1,024,557 (2018: $718,099), that relates, in full, to equity-settled share-based payment transactions.

(d) Shareholdings and Options and Rights Holdings held by Key Management Personnel, including options held in associated entities.

Please refer to the Remuneration Report.

(e) Share based payments

There were no other share-based payment arrangements in the year to 30 June 2019, other than shares and options issued to directors and executives pursuant to the Company's Executive Share and Option Plan as detailed in the Remuneration Report.

28. EVENTS SUBSEQUENT TO BALANCE DATE

The directors have not become aware of any matter or circumstance that has arisen since the end of the 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, or

(iii) The state of affairs of the Company in subsequent years.

29. RELATED PARTY DISCLOSURES

Related party transactions fall into the following categories:

(a) Controlled entities

Interests in controlled entities are disclosed in Note 20. The Company engages in transactions with its controlled entities, which are in ordinary course of business at arm's length on a transfer pricing basis.

	2019 $	2018 $
The aggregate amount included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
Royalties	3,163,325	3,191,521
Revenue from provision of services	360,360	-
Interest income	1,253,499	1,299,808
The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are:		
Current receivables	14,193,433	41,926,920
Less impairment	(6,930,137)	(5,279,540)
	7,263,296	36,647,380

(b) Director related entities

During the year consultancy fees of $142,054 (2018: $137,917) were paid/are payable to Belgove Pty Limited, a company associated with Dr Neustadt; $65,560 (2018: $63,665) was paid to Leedoc Pty Limited, a company associated with Ms Ausburn and $65,560 (2018: $10,608) was paid to TDM Asset Management Pty Limited, a company associated with Mr Corlett (as per Director's remuneration).

(c) Transactions in securities of the Company

During the year directors or entities related to directors acquired under normal commercial terms shares or options in the Company as detailed in Note 27. Directors acquired these shares or options through the public offering, direct issue or on-market purchase.

30. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Names and positions held of Consolidated Entity and Company Key Management Personnel in office at any time during the financial year are:

Key Management Person	
Neil Verdal-Austin	Global Chief Executive Officer
Derek Smith**	Global Chief Executive Officer
Hervé Fiévet***	Global Chief Financial Officer
Jim Evanger*	Chief Executive Officer of Renew Sleep Solutions, Inc.
Kien Nguyen	Executive President – North America
Martin Weiland	Executive Vice President – Sales and Marketing Europe

* Employment terminated at 31 December 2018
** Employment terminated 16 November 2018
*** Employment commenced 8 April 2019

(b) Compensation Practices and Key Management Personnel Compensation

Details of compensation practices and key management personnel compensation are disclosed in the Directors' Report, which accompanies these financial statements.

Details of management personnel compensation shares and options are disclosed in Note 27.

Compensation

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

	2019 $	2018 $
Short-term employee benefits	3,289,186	2,755,552
Post-employment benefits	43,718	37,937
Other	23,012	10,395
Share-based payments	791,434	404,905
	4,147,350	3,208,789

31. NON-CONTROLLING INTERESTS

Movements in non-controlling interests

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	-	(3,350,620)

NCI breakdown by entity

SomnoMed France	-	(392,158)
Renew Sleep Solutions	-	(2,958,462)
Balance at end of reporting period	-	(3,350,620)

On 1st July 2018, SomnoMed Limited purchased the outstanding 7.1% interest in SomnoMed France. The purchase price was €30,000 (A$47,829). 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.

32. FINANCIAL INSTRUMENTS

Credit Risk

Significant Accounting Policies

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis. Regional management are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

The Company and the Consolidated Entity have established an allowance for expected credit losses that represents their estimate of incurred losses in respect of trade and other receivables.

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2019 **$**	**2018** **$**
Cash and equivalents	7,697,054	13,383,389
Trade receivables	7,117,013	10,404,449
Other receivables - current	1,991,685	1,590,302
	16,805,752	25,378,140

The maximum exposure to credit risk for trade and related party receivables at the reporting date by geographic region was:

North America	2,799,060	6,661,380
Europe	3,710,573	3,255,783
Asia Pacific	607,380	487,286
	7,117,013	10,404,449

32. FINANCIAL INSTRUMENTS (continued)

Expected credit losses

The ageing of the trade receivables at the reporting date was:

	Expected credit loss rate		Gross amount		Allowance for expected credit losses		Carrying amount	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	%	**%**	**$**	**$**	**$**	**$**	**$**	**$**
Gross receivables								
Not past due	1%	0%	4,224,143	2,898,266	(24,494)	-	4,199,649	2,898,266
Past due 0 – 30	0%	0%	1,575,089	4,014,681	(6,247)	(10,808)	1,568,842	4,003,873
Past due 31 – 60	1%	2%	455,925	993,651	(2,719)	(18,462)	453,206	975,189
Past due 60 – 90	1%	2%	188,272	610,912	(2,818)	(15,116)	185,454	595,796
Past due 90 days and over	71%	11%	2,417,577	2,158,967	(1,707,715)	(227,642)	709,862	1,931,325
			8,861,006	10,676,477	(1,743,993)	(272,028)	7,117,013	10,404,449

The movement in the allowance for expected credit losses in respect of trade receivables during the year was as follows:

	2019	2018
	$	**$**
Balance at 1 July	(272,028)	(266,242)
Allowance movement*	(1,427,583)	6,670
Exchange effect	(44,382)	(12,456)
Balance at 30 June	(1,743,993)	(272,028)

* Written-off amounts equal to contractual amounts.

Expected credit losses recognised in the year relate to significant individual customers, which have been assessed under the Consolidated Entity’s accounting policy as detailed in Note 3(e).

Based upon past experience, the Consolidated Entity believes that no allowance for expected credit losses allowance other than as provided in these accounts is necessary in respect of trade receivables not past due.

The allowance accounts used in respect of trade receivables are used to record expected credit losses unless the Consolidated Entity is satisfied that non-recovery of the amount owing is possible; at that point, the amount considered non-recoverable is written off against the financial asset directly.

Currency Risk

Significant Accounting Policies

The Consolidated Entity is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the controlled entities, primarily Australian dollars (AUD), but also United States dollars (USD), Euros (EUR), Swiss francs (CHF), Canadian dollars (CAD), Singapore dollars (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, CAD, EUR, CHF, SGD, JPY, GBP, SEK, NOK, NTD and Philippine Peso (PHP) and South Korean Won (KRW).

Over 93% (2018: 94%) of the Consolidated Entity's revenues and over 92% (2018: 89%) of costs are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

32. FINANCIAL INSTRUMENTS (continued)

Consolidated Entity's exposure to foreign currency risk was as follows, based upon notional amounts:

Amounts local currency	KRW	GBP	PHP	JPY	USD	EUR	CHF	SEK	CAD	NOK	NTD
2019											
Cash and cash equivalents	5,170	65,934	147,829	26,309	1,889,341	4,133,562	260,158	456,238	89,526	58,742	14,804
Trade receivables	38,076	-	-	33,064	2,649,078	3,710,574	-	-	149,982	-	-
Trade payables	-	-	(376,583)	(69,639)	(1,051,304)	(2,483,056)	-	-	(8,846)	-	-
Gross balance sheet exposure	**43,246**	**65,934**	**(228,754)**	**(10,266)**	**3,487,115**	**5,361,080**	**260,158**	**456,238**	**230,662**	**58,742**	**14,804**

Amounts local currency	KRW	GBP	PHP	JPY	USD	EUR	CHF	SEK	CAD	NOK	NTD
2018											
Cash and cash equivalents	37,061	33,266	87,342	34,641	1,838,361	4,611,847	322,726	425,539	67,206	96,187	14,786
Trade receivables	30,695	-	-	40,945	6,510,932	3,255,783	-	-	150,448	-	-
Trade payables	-	-	(161,624)	(59,286)	(1,950,139)	(2,064,711)	-	-	(8,978)	-	-
Gross balance sheet exposure	**67,756**	**33,266**	**(74,282)**	**16,300**	**6,399,154**	**5,802,919**	**322,726**	**425,539**	**208,676**	**96,187**	**14,786**

The following significant exchange rates applied to the Consolidated Entity during the year:

	Average Rate		**Reporting date spot rate**	
AUD = 1	2019	2018	2019	2018
USD	0.7167	0.7731	0.7020	0.7407
EUR	0.6272	0.6489	0.6170	0.6339
JPY	79.59	85.34	75.65	81.99
PHP	37.75	39.73	35.97	39.49
KRW	810.74	849.13	812.55	824.89
CAD	0.9470	0.9855	0.9183	0.9732

Market Risk

Significant Accounting Policies

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net profit or loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

32. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

Significant Accounting Policies

The effective interest method is used to allocate interest income or interest expense over the relevant period.

Profile

At the reporting date, the interest rate profile of the Consolidated Entity's interest-bearing financial instruments was:

Carrying amount	2019	2018
Variable rate instruments	**$**	**$**
Financial assets	374,830	4,392,430

Liquidity Risk

Significant Accounting Policies

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of the Consolidated Entity's financial assets and liabilities including estimated interest payments.

2019	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	0.34%	7,697,054	7,697,054	-	-
Receivables		9,108,698	9,108,698	-	-
Payables		(4,650,226)	(4,650,226)	-	-
Borrowings	2.75%	(3,008,106)	(3,008,106)		
Total		9,147,510	9,147,510	-	-

2018	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	1.76%	13,383,389	13,383,389	-	-
Receivables		11,994,751	11,994,751	-	-
Payables		(4,783,299)	(4,783,299)	-	-
Borrowings	-	-	-	-	-
Total		20,594,841	20,594,841	-	-

32. FINANCIAL INSTRUMENTS (continued)

Fair Values

The fair values of financial assets and liabilities, together with carrying amounts in the balance sheet are as follows:

	2019		2018	
	$		$	
Consolidated	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and equivalents	7,697,054	7,697,054	13,383,389	13,383,389
Trade and other receivables - current	9,108,698	9,108,698	11,994,751	11,994,751
Trade and other payables - current	(4,650,226)	(4,650,226)	(4,783,299)	(4,783,299)
Total	12,155,526	12,155,526	20,594,841	20,594,841

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Non-derivative financial assets and liabilities

The fair value of cash, receivables, payables and short-term borrowings is considered to approximate their carrying amount because of their short maturity.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobvious inputs).

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 3.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

32. FINANCIAL INSTRUMENTS (continued)

Sensitivity Analysis

In managing interest rate and currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings. Over the longer term however, permanent changes in foreign exchange and interest rates will have an impact on the result.

For the year ended 30 June 2019, it is estimated that a general increase of one percent in interest rates would have decreased the Consolidated Entity's loss after income tax and equity by approximately $101,000 and for the year ended 30 June 2018 the effect would have been to decrease the Consolidated Entity's loss after income tax and equity by approximately $134,000. A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's loss and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have increased the Consolidated Entity's loss for the year ended 30 June 2019, and decreased the Consolidated Entity's equity by approximately $619,000. For the year ended 30 June 2018 the effect would have been to increase the Consolidated Entity's profit and increase the equity by $213,000.

It is estimated that a general decrease of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's loss for the year ended 30 June 2019, and increased the Consolidated Entity's equity by approximately $743,000. For the year ended 30 June 2018 the effect would have been to decrease the Consolidated Entity's loss and increase the equity by $260,000.

33. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2019, the parent company was SomnoMed Limited, which has adopted the accounting policies consistent with those of the Consolidated Entity.

Result of the parent entity	**2019**	**2018**
	$	**$**
Net loss	(34,478,629)	(835,656)
Other comprehensive income/(loss)	-	-
Total comprehensive loss	**(34,478,629)**	**(835,656)**
Financial position of the parent entity at year end		
Current assets	2,017,262	6,979,617
Total assets	14,669,095	49,146,163
Current liabilities	1,252,342	1,591,866
Total liabilities	1,806,684	2,066,433
Total equity of the parent entity comprising of:		
Issued capital	57,681,947	57,743,645
Share option reserve	5,053,817	4,029,264
Foreign exchange reserve	(701,535)	-
Accumulated losses	(49,171,818)	(14,693,179)
Total Equity	**12,862,411**	**47,079,730**

Parent entity contingencies

There are no contingent liabilities or future commitments in respect to the Parent Entity.

SOMNOMED LIMITED

ACN 003255221

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Dr Peter Neustadt
Chairman

23rd September 2019

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of SomnoMed Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of SomnoMed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and

(ii) 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 Group in accordance with 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.

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.

Revenue recognition

Key audit matter	*How the matter was addressed in our audit*
As disclosed in note 3(g), the Group has adopted *AASB 15 Revenue from Contracts with Customers* ("AASB 15") at 1 July 2018. The implementation of AASB 15 is subject to significant judgements in respect of the point in time that revenue should be recognised. Revenue recognition was identified as a key audit matter as it is a key performance indicator to the users of the financial statements and because of the extent of judgement involved in assessing the point in time that revenue should be recognised.	To determine the correct application of AASB 15 and its impact on revenue recognition for the period, our audit work included, amongst others, the following procedures: • Reviewed the revenue recognition policies for all material sources of revenue during the period to ensure these were in accordance with the principles of AASB 15. • Reviewed the appropriateness of the transition method and related accounting to ensure it was correctly recorded by management in line with AASB 15. • Reviewed the disclosures of the change in accounting policy to ensure they are complete and reflect the requirements of the Standard. • Performed detailed analytical testing of revenue by analysing the gross profits margin in comparison with prior periods, budgeted figures and other expectations developed based on enquiries of management. • Performed detailed substantive testing of revenue by vouching a sample of sales invoices to supporting documentation. • Performed detailed substantive testing around the year-end to ensure revenue was recorded in the correct accounting period.

Closure of the RSS subsidiary

	How the matter was addressed in our audit
At the end of November 2018, the Board decided to close down all operations of the Renew Sleep Solutions ("RSS") subsidiary from 1 January 2019. Therefore, the results of RSS shall be reported as a discontinued operation in line with *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations* ("AASB 5"). There is a potential risk that the classification and measurement of assets held for sale are incorrectly accounted for. Furthermore, there is significant judgement and estimates involved in respect of the provisions associated with the closure of the RSS subsidiary as per *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*. The closure of the RSS subsidiary was identified as a key audit matter because of the importance to the users of the financial statements of the allocation between continued and discontinued operations and the material impact of the net loss for the Group.	In response to the risk identified in relation to the closure of the RSS subsidiary, our audit procedures included, amongst others, the following: • Reviewed management's assessment of the classification and measurement of discontinued operations. • Detailed substantive procedures of associated provisions in relation to the closure of the RSS subsidiary to ensure they meet the definition of a provision per *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* and are sufficiently supported. • Reviewed the associated disclosure note within the financial statements to ensure that it is sufficient and in line with AASB 5 requirements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 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 Group or to cease operations, or has 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of SomnoMed Limited, for the year ended 30 June 2019, 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.

BDO East Coast Partnership

BDO

Tim Aman
Partner

Sydney, 23 September 2019

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

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

As lead auditor of SomnoMed Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

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

Tim Aman
Partner

BDO East Coast Partnership

Sydney, 23 September 2019

ADDITIONAL INFORMATION*

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of Holding)	**Shareholders**	**Shares**
1-1,000	545	165,105
1,001-5,000	414	1,025,668
5,001-10,000	114	833,371
10,001-100,000	185	5,173,062
100,001 and over	49	55,606,962
	1,307	**62,804,168**

b. The number of shareholdings held in less than marketable parcels is 299

c. The names of the substantial shareholders listed in the holding company's register as at 28 August 2019 are:

Shareholder	**Number of Ordinary Shares**	**Percentage**
TDM Asset Management Pty Ltd & Associates	12,422,014	19.78%
National Nominees Ltd as Custodian for Australian Ethical Smaller Companies Trust	6,579,750	10.48%
Dottie Investments Pty Ltd & Associates	5,113,537	8.142%
FMR LLC & Associates	3,290,647	5.24%
Belgove Pty Limited & Associates	3,236,512	5.153%

d. **Voting Rights**

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. **20 Largest Shareholders — Ordinary Shares as at 28 August 2019**

Name		No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	HSBC Custody Nominees (Australia) Limited	20,515,722	32.666%
2.	National Nominees Limited	8,204,990	13.064%
3.	Smartequity EIS Pty Ltd	4,866,223	7.748%
4.	Dottie Investments Pty Ltd	4,285,720	6.824%
5.	Belgove Pty Ltd	2,409,570	3.837%
6.	Ginga Pty Ltd	1,599,060	2.546%
7.	Golden Words Pty Ltd	1,285,339	2.047%
8.	Citicorp Nominees Pty Limited	1,259,172	2.005%
9.	Bond Street Custodians Limited <Laman – D05019 A/C>	1,002,128	1.596%
10.	Timbina Pty Ltd <Timbina Super Fund A/C>	920,517	1.466%
11.	Howarth PAF Pty Ltd <The Howarth Foundation A/C>	877,929	1.398%
12.	P Neustadt Holdings Pty Ltd <Belgove Super Fund A/C>	826,942	1.317%
13.	BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	695,236	1.107%
14.	J P Morgan Nominees Australia Pty Limited	592,317	0.943%
15.	R E M Medical Pty Ltd <Cocoon Super Fund A/C>	550,641	0.877%
16.	BNP Paribas Nominees Pty Ltd <DRP>	401,151	0.639%
17.	Thirty Sixth Vilmar Pty Ltd	375,311	0.598%
18.	Honne Investments Pty Limited	375,000	0.597%
19.	Mutual Trust Pty Ltd	341,182	0.543%
20.	Mr Edward Palmisano	330,573	0.526%
		51,714,723	**82.344%**

* Non-audited

CORPORATE DIRECTORY

Registered Office and Principal Place of Business
Level 3
20 Clarke St, Crows Nest 2065
Telephone: (02) 9467 0400

Directors

Peter Neustadt	Non-executive Chairman
Lee Ausburn	Non-executive Director
Robert Scherini	Non-executive Director
Hamish Corlett	Non-executive Director

Chief Executive Officer
Neil Verdal-Austin

Chief Financial Officer
Hervé Fiévet

Company Secretary
Terence Flitcroft

Patent Attorneys
Spruson & Ferguson

Bankers
Westpac Banking Corporation
HSBC France

Auditors
BDO East Coast Partnership

Share Registry
Boardroom Pty Limited
SYDNEY NSW 2000
(GPO Box 3993 Sydney NSW 2001)
Telephone (02) 9290 9600
Facsimile (02) 9279 0664
www.boardroomlimited.com.au

Company Website
www.somnomed.com.au

Stock exchange listing
SomnoMed Limited shares are listed on the Australian Securities Exchange (ASX code: SOM)