

SOMNOMED LIMITED

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Appendix 4D and Half-Year Financial Report

31 December 2020

This half-year report is for the six months ended 31 December 2020. The previous corresponding period is the half-year ended 31 December 2019.

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

Results for announcement to the market

Revenues from sale of goods and services, net of discounts	down	(\$2,432,283)	to	\$30,824,092
		-7%		
Revenues from ordinary activities	down	(\$1,953,349)	to	\$31,306,219
		-6%		
Operating profit before corporate, research and business development expenses, other items of income and expenses and income tax	down	\$57,486	to	\$5,937,643
		1%		
Profit from ordinary activities after tax attributable to members	down	(\$274,859)	to	\$491,571
Net profit for the period attributable to members	down	(\$274,859)	to	\$491,571
Dividends		Amount per security		Franked amount per security
Final dividend		- ¢		- ¢
Interim dividend		- ¢		- ¢
Record date for determining entitlements to the dividend		Not applicable		
Brief explanation of any of the figures reported above:				
Refer to comments in the attached Directors' Report.				
NTA Backing		31 December 2020		31 December 2019
Net tangible asset backing per share		20.08 cents		6.94 cents

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity consisting of SomnoMed Limited and the entities it controlled ('the consolidated entity') for the half-year ended 31 December 2020.

Directors

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

- Guy Russo (appointed 24th August 2020)
- Neil Verdal-Austin (appointed 24th August 2020)
- Amrita Blickstead (appointed 24th August 2020)
- Karen Borg (appointed 26th November 2020)
- Hilton Brett (appointed 24th August 2020)
- Hamish Corlett
- Michael Gordon (appointed 24th August 2020)
- Peter Neustadt (resigned 24th August 2020)
- Lee Ausburn (resigned 24th August 2020)
- Robert Scherini (resigned 24th August 2020)

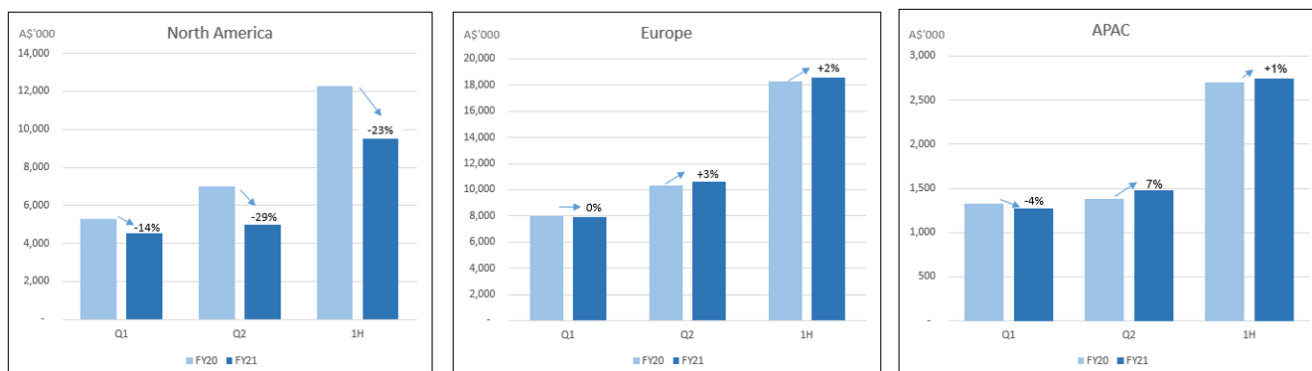
Overview

- Revenue of \$30.8m for 1HFY21 (1HFY20: \$33.3m), a decrease of 7% (6% constant currency) largely as a result of flow on impacts from COVID-19
- Steady growth in EBITDA*, up 7% to \$3.2m (1HFY20: \$3.0m) driven by cost reduction initiatives
- Net cash position remains strong with \$22.7m as at 31 December 2020 (\$22.7 million at 30 June 2020)
- Total patients treated worldwide exceed 600,000, as SomnoMed remains the largest global oral appliance company
- Market conditions remain challenging given the ongoing impacts of COVID-19, however, moderate improvements were seen in business trading activities despite restricted access to hospitals and clinics in North America and Europe
- Continue to actively pursue transformational technology opportunities that will enhance and build upon our competitive advantage

Financial Review

Net revenue of \$30.8 million was down 7% versus the previous corresponding period as the impact of COVID-19 continued to reduce capacity in hospitals, clinics, and for the broader medical profession to provide services outside of critical care. The results for the first half demonstrate the strength of the underlying business with an EBITDA* of \$3.2 million, a 7% increase on the previous corresponding period (1HFY20: \$3.0 million) and group gross margins maintained at 59% for the period despite lower revenues.

SomnoMed first half revenue growth by region by quarter



* EBITDA as adjusted does not include share option expense, unrealised foreign exchange gain/(loss) and discontinued operations

The company continues to focus on cost mitigation initiatives and cashflow preservation with a significant decrease in sales and marketing expenses largely due to decreased travel costs as a result of COVID-19 restrictions. This was partially offset by additional investments in key recruitments at the corporate level to support business initiatives and accelerate future growth.

The balance sheet position remains strong with net cash of \$22.7 million at 31 December 2020. This cash position has allowed management to drive forward with product innovation and advancements to improve customer experience, drive market penetration, and set the company up for the benefit of future periods when market conditions normalise.

Review of operations

SomnoMed continues to be well-positioned with strong, established networks within its core regions and continued demand for its products. The headwinds experienced over the course of the past year have impacted all regions, albeit at differing levels dependent on the regional responses to the coronavirus pandemic.

Mitigating this, the Company has a strong established supply chain with quality manufacturing processes and facilities globally. Additionally, given the decentralised digital nature of the design process and the ability to provide a highly customised and streamlined product, SomnoMed continues to provide best in class service and product turnaround from patient engagement to final fit and supply.

SomnoMed continued to focus on our vision of providing effective long-term treatment for patients that suffer from the effects of Obstructive Sleep Apnea (OSA). The product range, together with the proprietary BFlex inner liner, provides unparalleled retention, fit and comfort for oral sleep appliances in 28 countries across the globe. SomnoMed continued to engage with authorities globally to drive positive reimbursement trends that allow greater access to the SomnoDent[®] product as a long-term cost-effective treatment option for OSA patients. During the period, another country approved the SomnoDent[®] as a first line treatment, demonstrating these trends and further embedding SomnoMed as the first choice in oral appliances in the treatment of OSA. These changes are based on the strong clinical research and heritage that underpins the SomnoDent[®] range, providing authorities the ability to approve reimbursements for SomnoMed's best in class product, with demonstrated positive clinical outcomes.

SomnoMed remains focused on driving change and investing for future growth through transformational technology opportunities that will enhance and build upon our competitive advantage and deliver a better outcome for our customers and their patients.

Revenue by region (A\$'000)

	1H FY21	1H FY20	% Change
North America	9,497	12,293	-23%
Europe	18,582	18,258	+2%
APAC	2,745	2,705	+1%
Total	30,824	33,256	-7%

North America

Revenue for the half was \$9.5 million down 23% versus the previous corresponding period (down 19% in constant currency terms). The effects of the election and the ongoing uncertainty in most states towards COVID-19 and the actions to be taken, have impacted business activity levels. Activity levels remained at around 75-80% of pre-COVID business volumes and revenues.

Review of operations (cont.)

During the period, the company successfully launched the new Herbst Advance Elite™. The uptake of new orders for the digitally made, PDAC approved (Medicare insurance approval) SomnoDent® oral appliance were encouraging and we expect continued product sales growth over the remainder of 2021. The Herbst Advance Elite™ offers, for the first time in the market, a precise fit and retention with the inclusion of the BFlex soft lining material to a digitally made oral appliance, proprietary to SomnoMed. The development of the Herbst Advance Elite™ reflects the Company's technology and innovation capabilities and reflects the desire to continue to provide the best oral device for patients with obstructive sleep apnea.

Europe

Revenue from European operations was broadly flat versus the previous period, with \$18.6 million of revenue generated for the half as positive reimbursement trends offset the impacts of COVID-19 on activity levels. Within the context of the European sales however, France, Finland, Denmark and Switzerland all posted positive volume growth.

Increased sales volumes of the SomnoDent Avant® in the region confirms what clinicians and patients are looking for when treating their obstructive sleep apnea – a comfortable, retentive oral device with a perfect fit.

Asia Pacific

Activity levels across the APAC region remained broadly in line with prior periods, albeit with some volatility still seen in South Korea and Japan. Revenue for the half was \$2.7 million, up slightly on the previous period.

Principal Activity

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

Operating Results

The net profit after income tax expense for the half year ended 31 December 2020 was \$491,571 (December 2019: \$766,430). This net profit includes a loss from discontinued operation of Renew Sleep Solutions (RSS) of \$111,237 (December 2019: \$49,207).

Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

Significant Changes in State of Affairs

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

After Reporting Date Events

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

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

Future Developments

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

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2020 is set out on page 21 of these half yearly accounts.

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

A handwritten signature in black ink, appearing to read 'Guy Russo', is positioned above the printed name and date.

Guy Russo (Chairman)

Dated this 23rd February 2021

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General information

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

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

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

Level 3
20 Clarke Street
Crows Nest NSW 2065

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 23rd February 2021.

SomnoMed Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2020

	Note	31.12.20 \$	31.12.19 \$
Continuing operations			
Revenue from sale of goods and services, net of discounts	2	30,824,092	33,256,375
Cost of sales		(12,736,251)	(13,798,627)
Gross margin		18,087,841	19,457,748
Sales and marketing expenses		(7,062,506)	(8,485,988)
Administrative expenses		(5,087,692)	(5,091,603)
Operating profit before corporate, research and business development expenses, other items of income and expenses and income tax		5,937,643	5,880,157
Corporate, research and business development expenses		(3,193,838)	(2,872,481)
Depreciation and amortisation	3	(1,828,366)	(1,348,888)
Share-based payments		(172,573)	(206,641)
Interest income	2	126	3,193
Government grants and other income	2	482,001	-
Interest expense		(246,583)	(193,380)
Unrealised foreign exchange (loss)/gain		(98,499)	18,696
Profit before income tax		879,911	1,280,656
Income tax expense attributable to operating profit		(277,103)	(465,019)
Profit after income tax for the half-year from continuing operations		602,808	815,637
Discontinued operation			
Loss from discontinued operation	5	(111,237)	(49,207)
Net profit for the Group		491,571	766,430
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		(924,178)	(27,152)
Other comprehensive loss for the half-year, net of tax		(924,178)	(27,152)
Total comprehensive (loss)/income for the half-year attributable to the owners of SomnoMed Limited		(432,607)	739,278
Earnings per share			
Basic earnings per share (cents)		0.63	1.31
Diluted earnings per share (cents)		0.59	1.23
Earnings per share – continuing operations			
Basic earnings per share (cents)		0.77	1.39
Diluted earnings per share (cents)		0.73	1.31
Earnings per share – discontinued operation			
Basic earnings per share (cents)		(0.14)	(0.08)
Diluted earnings per share (cents)		(0.14)	(0.08)

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

SomnoMed Limited
Consolidated Statement of Financial Position
As at 31 December 2020

	Note	31.12.20 \$	30.06.20 \$
ASSETS			
Current Assets			
Cash and cash equivalents		25,075,589	30,174,240
Trade and other receivables		10,357,089	7,608,559
Inventories		2,113,140	2,242,182
Lease receivables		295,173	209,984
Total Current Assets		<u>37,840,991</u>	<u>40,234,965</u>
Non-Current Assets			
Trade and other receivables		76,823	86,081
Property, plant and equipment		3,964,319	3,921,688
Intangible assets	6	8,047,170	7,928,576
Deferred tax assets		2,924,821	3,086,232
Right-of-use assets	8	6,040,060	6,317,333
Lease receivables		15,581	117,937
Total Non-Current Assets		<u>21,068,774</u>	<u>21,457,847</u>
Total Assets		<u>58,909,765</u>	<u>61,692,812</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		11,842,160	8,568,890
Borrowings	7	95,221	4,953,328
Lease liabilities	9	708,658	2,330,198
Provisions		2,004,910	2,293,612
Current tax liabilities		826,729	634,430
Total Current Liabilities		<u>15,477,678</u>	<u>18,780,458</u>
Non-Current Liabilities			
Trade and other payables		47,214	97,199
Borrowings	7	2,277,822	2,508,534
Lease liabilities	9	6,569,104	5,737,818
Provisions		910,642	733,718
Total Non-Current Liabilities		<u>9,804,782</u>	<u>9,077,269</u>
Total Liabilities		<u>25,282,460</u>	<u>27,857,727</u>
Net Assets		<u>33,627,305</u>	<u>33,835,085</u>
EQUITY			
Issued capital	4	73,995,544	73,943,294
Reserves		7,806,096	8,557,703
Accumulated losses		(48,174,335)	(48,665,912)
Total Equity		<u>33,627,305</u>	<u>33,835,085</u>

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

SomnoMed Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2020

	Issued Capital	Reserves	Accumulated Losses	Total
	\$	\$	\$	\$
Balance at 1 July 2020	73,943,294	8,557,703	(48,665,912)	33,835,085
Profit after income tax for the half-year	-	-	491,571	491,571
Other comprehensive income/(loss) for the half-year, net of tax	-	(924,178)	-	(924,178)
Total comprehensive income for the half-year	-	(924,178)	491,571	(432,607)
<i>Transactions with owners in their capacity as owners:</i>				
Share option reserve on recognition of remuneration options	-	172,573	-	172,573
Shares issued during the period*	52,250	-	-	52,250
Capital reserve adjustment	-	(2)	6	4
Balance at 31 December 2020	73,995,544	7,806,096	(48,174,335)	33,627,305

	Issued Capital	Reserves	Accumulated Losses	Total
	\$	\$	\$	\$
Balance at 1 July 2019	57,681,947	7,685,346	(47,547,368)	17,819,925
Profit after income tax for the half-year	-	-	766,430	766,430
Other comprehensive loss for the half-year, net of tax	-	(27,152)	-	(27,152)
Total comprehensive income/(loss) for the half-year	-	(27,152)	766,430	739,278
<i>Transactions with owners in their capacity as owners:</i>				
Share option reserve on recognition of remuneration options	-	206,641	-	206,641
Shares issued during the period*	1,353,127	-	-	1,353,127
Share issuance costs	(27,500)	-	-	(27,500)
Capital reserve adjustment	-	-	4	4
Balance at 31 December 2019	59,007,574	7,864,835	(46,780,934)	20,091,475

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

* Shares issued during the period corresponds to receipts of monies from the Employee Share Trust for previously issued shares.

SomnoMed Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2020

	31.12.20	31.12.19
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	29,288,631	32,182,455
Payments to suppliers and employees (inclusive of GST)	(25,563,754)	(30,038,986)
Interest received	5,857	3,121
Interest paid	(271,985)	(188,854)
Income tax paid	(174,869)	(828,542)
Net cash inflow from operating activities	<u>3,283,880</u>	<u>1,129,194</u>
Cash flows from investing activities		
Payments for intangible assets	(596,939)	(68,398)
Payments for property, plant and equipment	(1,078,996)	(1,187,647)
Proceeds from disposal of assets	19,350	46,657
Proceeds from term deposits		309,000
Net cash outflow from investing activities	<u>(1,656,585)</u>	<u>(900,388)</u>
Cash flows from financing activities		
(Repayment)/proceeds from borrowings	(4,871,809)	387,472
Payment of finance lease	(1,317,561)	(754,073)
Proceeds from issue of shares	52,250	1,353,127
Net cash (outflow)/inflow from financing activities	<u>(6,137,120)</u>	<u>986,526</u>
Net (decrease)/increase in cash and cash equivalents	(4,509,826)	1,215,332
Cash at beginning of period	30,174,240	7,697,054
Effects of exchange rate adjustment on cash and cash equivalents	(588,825)	(15,381)
Cash at end of period	<u>25,075,589</u>	<u>8,897,005</u>

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

	Consolidated	
	31.12.20	31.12.19
	\$	\$
Note 2. Revenue and other income		
Operating activities		
Revenue from sale of goods and services, net of discounts	30,824,092	33,256,375
Interest income	126	3,193
Government grants*	464,490	-
Other income	17,511	-
Total revenue and other income	31,306,219	33,259,568
Government Grants – Europe	233,490	-
Government Grants – Asia Pacific	231,000	-
Subtotal government grants*	464,490	-
Other income	17,511	-
Grand total government grants and other income	482,001	-

*There are no unfulfilled conditions or other contingencies attached to the above-mentioned government grants.

SomnoMed Limited
Notes to the financial statements
31 December 2020

	31.12.20	31.12.19
	\$	\$
Note 3. Loss before income tax for the year		
Profit before income tax includes the following specific expenses:		
Operating lease rentals (short term leases and low value leases)	27,786	162,908
Employee benefits expense	10,923,795	11,992,636
Research and development expenditure	400,345	520,060
Depreciation – Property, plant and equipment	691,217	570,720
Amortisation of intellectual property (note 6)	250,253	242,650
Depreciation – Right-of-use assets (note 8)	886,896	535,518
Subtotal depreciation and amortisation	<u>1,828,366</u>	<u>1,348,888</u>

	31.12.20	30.06.20
	\$	\$
Note 4. Share capital		
Issued and fully paid ordinary shares		
82,759,315 (30 June 2020: 82,759,315) ordinary shares		
Balance of issued capital at the beginning of period	84,002,809	68,444,806
Shares issued during period:		
- 12,087,319 pursuant to issue of shares at \$0.80 on 1 April 2020	-	9,669,855
- 7,297,330 pursuant to issue of shares at \$0.80 on 22 April 2020	-	5,837,864
- 570,498 pursuant to issue of shares at \$1.17 on 29 June 2020	-	667,483
Less issue costs	-	(617,199)
Balance of issued capital at end of period	<u>84,002,809</u>	<u>84,002,809</u>
Less shares issued but nil recorded in accounts:		
- 1,842,500 shares (June 2020: 1,842,500) issued at \$1.17	(2,155,725)	(2,155,725)
- 150,000 shares (June 2020: 150,000) issued at \$1.18	(177,000)	(177,000)
- 20,000 shares (June 2020: 20,000) re-issued at \$1.64	(32,800)	(32,800)
- 200,000 shares (June 2020: 200,000) issued at \$1.67	(334,000)	(334,000)
- 20,000 shares (June 2020: 20,000) re-issued at \$1.79	(35,800)	(35,800)
- 456,000 shares (June 2020: 456,000) re-issued at \$1.87	(852,720)	(852,720)
- 475,000 shares (June 2020: 500,000) issued at \$2.09	(992,750)	(1,045,000)
- 664,000 shares (June 2020: 664,000) re-issued at \$2.184	(1,450,176)	(1,450,176)
- 493,000 shares (June 2020: 493,000) issued at \$2.40	(1,183,200)	(1,183,200)
- 12,500 shares (June 2020: 12,500) issued at \$3.44	(43,000)	(43,000)
- 3,000 shares (June 2020: 3,000) issued at \$3.61	(10,830)	(10,830)
Total advances to executives to acquire shares in the Company	<u>(7,268,001)</u>	<u>(7,320,251)</u>
Cancellation and re-issue of units within Employee Share Trust	<u>(2,739,264)</u>	<u>(2,739,264)</u>
Issued share capital recorded in the Company accounts	<u>73,995,544</u>	<u>73,943,294</u>

Note 4. Share 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 31 December 2020 there were 4,336,000 (30 June 2020: 4,361,000) unissued ordinary shares for which options were outstanding (including 4,336,000 issued ordinary shares are treated as options in these accounts (30 June 2020: 4,361,000)).

Note 5. Segment Operation

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 operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

Unallocated items

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

- derivatives and foreign exchange gains and losses; and
- corporate, research and business development expenses;

SomnoMed Limited
Notes to the financial statements
31 December 2020

Note 5. Segment Operation (continued)

Information about reportable segments

Geographical location: 2020	North America \$	Europe \$	Asia Pacific \$	CORE \$	RSS \$	GROUP \$
Total sales/billing revenue	9,514,530	19,214,988	6,379,494	35,109,012	0	35,109,012
Intersegment eliminations	(17,499)	(632,507)	(3,634,914)	(4,284,920)	0	(4,284,920)
External sales revenue	9,497,031	18,582,481	2,744,580	30,824,092	0	30,824,092
Segment net profit before tax	1,626,980	3,766,004	446,160	5,839,144	0	5,839,144
Unallocated expense items	0	0	(3,366,411)	(3,366,411)	(75,419)	(3,441,830)
Depreciation and amortisation	(276,536)	(681,299)	(870,531)	(1,828,366)	0	(1,828,366)
Other income	141,269	109,732	231,000	482,001	0	482,001
Interest income	0	(606)	732	126	5,851	5,977
Interest expense	(72,009)	(108,890)	(65,684)	(246,583)	(32,481)	(279,064)
(Loss)/profit before tax	1,419,704	3,084,941	(3,624,734)	879,911	(102,049)	777,862
Income tax expense	62,316	(319,719)	(19,700)	(277,103)	(9,188)	(286,291)
(Loss)/profit after tax	1,482,020	2,765,222	(3,644,434)	602,808	(111,237)	491,571

Total Assets	9,164,161	25,708,671	23,603,767	58,476,593	433,172	58,909,765
Total Liabilities	4,333,777	13,277,116	6,661,194	24,272,087	1,010,373	25,282,460

Geographical location: 2019	North America \$	Europe \$	Asia Pacific \$	CORE \$	RSS \$	GROUP \$
Total sales/billing revenue	12,326,643	18,639,726	6,708,707	37,675,076	-	37,675,076
Intersegment eliminations	(33,662)	(381,699)	(4,003,340)	(4,418,701)	-	(4,418,701)
External sales revenue	12,292,981	18,258,027	2,705,367	33,256,375	-	33,256,375
Segment net profit before tax	1,875,948	3,407,847	596,362	5,880,157	-	5,880,157
Unallocated expense items	(1,477)	(46,936)	(3,012,013)	(3,060,426)	-	(3,060,426)
Depreciation and amortisation	(280,686)	(407,304)	(660,898)	(1,348,888)	(456)	(1,349,344)
Asset impairment	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-
Interest income	-	72	3,121	3,193	1,745	4,938
Interest expense	(88,831)	(75,826)	(28,723)	(193,380)	(50,496)	(243,876)
Profit/(loss) before tax	1,504,954	2,877,853	(3,102,151)	1,280,656	(49,207)	1,231,449
Income tax expense	(241,170)	(218,466)	(5,383)	(465,019)	-	(465,019)
Profit/(loss) after tax	1,263,784	2,659,387	(3,107,534)	815,637	(49,207)	766,430

Total Assets	10,224,144	21,920,057	9,487,790	41,631,991	1,077,667	42,709,658
Total Liabilities	5,495,657	11,378,517	3,543,319	20,417,493	2,200,690	22,618,183

SomnoMed Limited
Notes to the financial statements
31 December 2020

	31.12.20	30.06.20
	\$	\$
Note 6. Intangible assets		
Patents and trademarks – at cost	1,725,940	1,724,982
Accumulated amortisation	(1,132,383)	(1,071,133)
	<u>593,557</u>	<u>653,849</u>
Product development expenditure capitalised	1,190,879	791,403
Accumulated amortisation	(506,372)	(492,212)
	<u>684,507</u>	<u>299,191</u>
Software	1,336,549	1,235,715
Accumulated amortisation	(888,949)	(729,232)
	<u>447,600</u>	<u>506,483</u>
Goodwill	6,321,506	6,469,053
	<u>8,047,170</u>	<u>7,928,576</u>
Movements in patents and trademarks		
Balance at beginning of reporting period	653,849	573,720
Additions	17,758	225,788
Amortisation expense	(71,701)	(148,013)
FX impact	(6,349)	2,354
Balance at end of reporting period	<u>593,557</u>	<u>653,849</u>
Movements in product development expenditure capitalised		
Balance at beginning of reporting period	299,191	110,026
Additions	399,476	219,754
Amortisation expense	(14,160)	(30,589)
Balance at end of reporting period	<u>684,507</u>	<u>299,191</u>
Movements in software		
Balance at beginning of reporting period	506,483	683,125
Additions	112,695	201,514
Amortisation expense	(164,392)	(378,396)
FX impact	(7,186)	240
Balance at end of reporting period	<u>447,600</u>	<u>506,483</u>
Movements in goodwill		
Balance at beginning of reporting period	6,469,053	6,406,795
FX impact	(147,547)	62,258
Balance at end of reporting period	<u>6,321,506</u>	<u>6,469,053</u>

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

Goodwill is allocated to cash generating units, which are the separate legal entities.

SomnoMed Limited
Notes to the financial statements
31 December 2020

	31.12.20	30.06.20
	\$	\$
Note 7. Borrowings		
Current borrowings	95,221	4,953,328
Non-current borrowings	2,277,822	2,508,534
	<u>2,373,043</u>	<u>7,461,862</u>

HSBC credit facility

In June 2019, SomnoMed Limited secured a EUR 3 million (A\$4.9 million) credit facility, in the form of an overdraft facility, with HSBC France, Amsterdam Branch. The total drawdown by 30 September 2020 was EUR 2.96 million (A\$ 4.78 million) with an interest calculated at the Main Refinancing Operations rate published by the European Central Bank (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%. In October 2020, the credit facility was fully repaid. The facility remains available to SomnoMed for drawdown at short notice.

Unsecured loan facilities (Government borrowings)

No changes to unsecured loan facilities have occurred since the June 2020 financial close.

Note 8. Right-of-use assets	31.12.20	30.06.20
	\$	\$
Right-of-use assets - non-current	6,040,060	6,317,333
	<u>6,040,060</u>	<u>6,317,333</u>
Land and buildings - right-of-use	7,244,513	6,835,242
Less: Accumulated depreciation	(1,772,649)	(1,121,693)
	<u>5,471,864</u>	<u>5,713,549</u>
Plant and equipment - right-of-use	106,416	114,516
Less: Accumulated depreciation	(40,483)	(44,720)
	<u>65,933</u>	<u>69,796</u>
Vehicles - right-of-use	869,671	800,674
Less: Accumulated depreciation	(367,408)	(266,686)
	<u>502,263</u>	<u>533,988</u>

'Land and buildings' include offices utilised as administration offices, laboratories and also the lease for the global manufacturing site. 'Plant and equipment' are comprised mostly of leased printers and, to a smaller extent, intra-oral scanners. 'Vehicles' relate to leased cars to sales and administration staff.

Note 8. Right-of-use assets (continued)

	31.12.20	30.06.20
	\$	\$
Balance at the beginning of the period	6,317,333	5,442,858
Additions	953,651	2,307,574
Depreciation expense	(886,896)	(1,433,099)
Lease modifications*	(344,028)	-
Balance at end of the period	<u>6,040,060</u>	<u>6,317,333</u>
Depreciation expense - land and buildings	(714,017)	(1,121,693)
Depreciation expense - plant and equipment	(20,238)	(44,720)
Depreciation expense - vehicles	(152,641)	(266,686)
Total depreciation expense	<u>(886,896)</u>	<u>(1,433,099)</u>

* Lease modifications for surrender of leases, early terminations, and changes to lease terms

Note 9. Lease liabilities

Lease liability - current	708,658	2,330,198
Lease liability - non-current	6,569,104	5,737,818
	<u>7,277,762</u>	<u>8,068,016</u>

Note 10. Subsequent Events

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

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

Note 11. Dividends

No dividends were paid during or subsequent to the half-year ended 31st December 2020.

SomnoMed Limited
Declaration by Directors

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Guy Russo', written in a cursive style.

Guy Russo
Chairman

23rd February 2021
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of SomnoMed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

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



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'Tim Aman'.

Tim Aman
Director

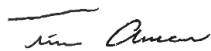
Sydney, 23 February 2021

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

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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



Tim Aman
Director

BDO Audit Pty Ltd

Sydney, 23 February 2021