



**2022**

---

ANNUAL  
**REPORT**

[somnomed.com](https://www.somnomed.com)

## Table of Contents

<b>Section</b>	<b>Title</b>	<b>Page</b>
1.	Chairman and CEO Report	1
2.	Directors' Report	5
3.	Financial Statements	19
4.	Notes to Financial Statements	23
5.	Directors' Declaration	60
6.	Independent Audit Report	61
7.	Auditor's Independence Declaration	65
8.	Additional Information	66
9.	Corporate Directory	67

# SOMNOMED LIMITED

## CHAIRMAN AND CEO REPORT

Dear SomnoMed Shareholder,

The 2021/22 fiscal year began with the lingering uncertainty of the ongoing global pandemic as a result of COVID-19. This brought many challenges to the business but despite this, we are proud to have concluded the 2021/22 year with positive revenue growth and a stronger balance sheet.

Our management team remained positive throughout and ensured that SomnoMed provided a stable and secure environment within which to work. Our culture was strengthened as we worked through these challenges together, allowing open and transparent communication to dictate our pathway.

Cost saving measures and a cautious approach to cash management was a constant due to the ongoing uncertainty. As the year progressed, and as we witnessed the effects of COVID-19 wane in most markets in which we operate, we grew more optimistic that your underlying business was still strong and that the key drivers for growth were still in place. In the second half of the year, we began to see revenue growth momentum return to the business in almost all regions, allowing the company to achieve its guidance for FY22.

### **SomnoMed's opportunity**

The opportunity to help treat the millions of sufferers of Obstructive Sleep Apnea ("OSA") remains a significant and growing market. Treating OSA with Continuous Open Airway Therapy ("COAT™") pioneered by SomnoMed, has enormous potential as a treatment solution. In many circumstances it is equally as effective as Continuous Positive Airway Pressure ("CPAP"), which is the predominant therapy used today, providing a clear opportunity for your Company.

While non-adherence issues are common with CPAP therapy, SomnoMed provides an alternative that addresses this. SomnoMed's core strengths and competencies include product design and innovation that address patient comfort and therefore increases compliance, which significantly improves the long-term medical outcome for those patients.

Your Company offers a range of clinically validated and researched oral appliances that are comfortable to wear, durable and highly effective over the long term. 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.

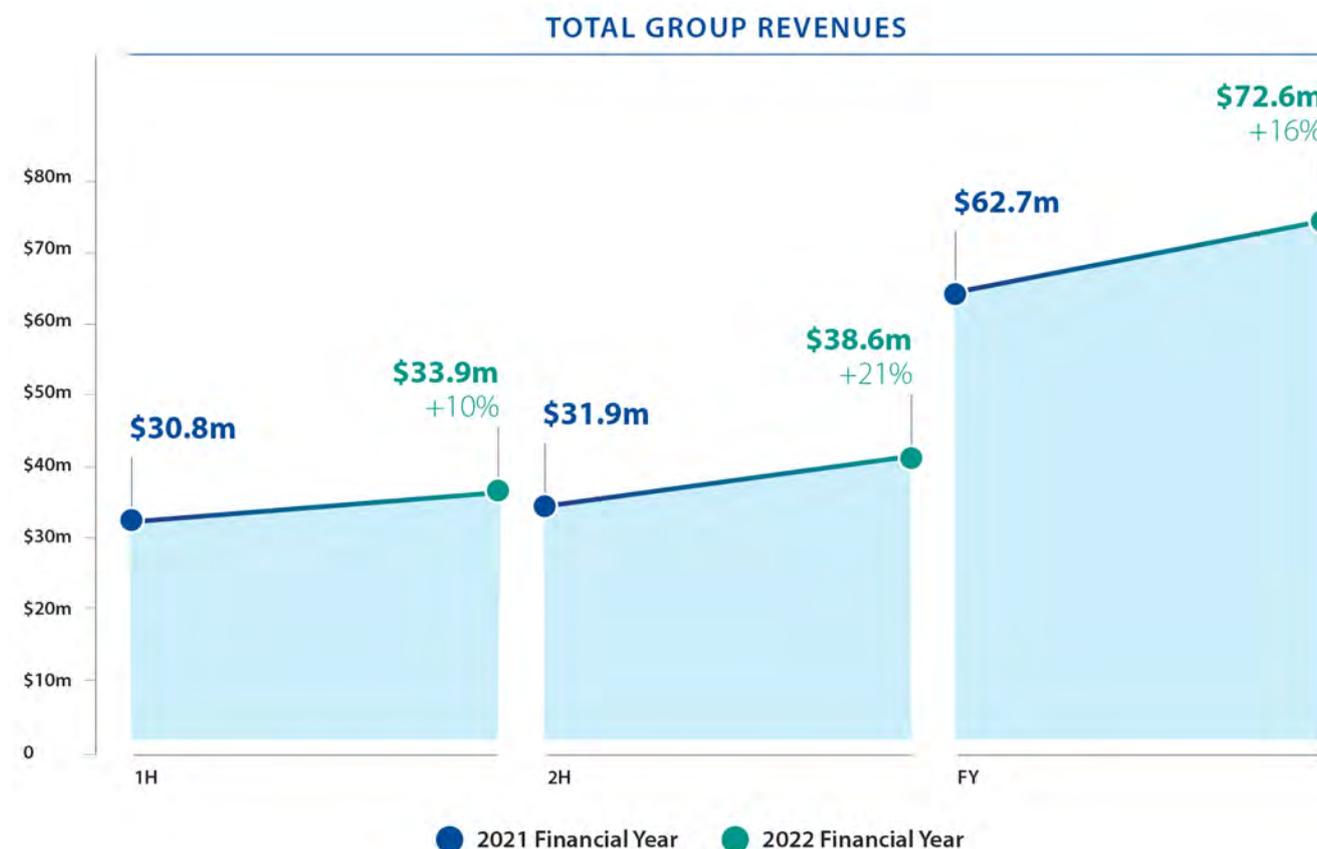
SomnoMed is "treatment focused" and will become even more "technology driven" through Rest Assure® in the near future. We provide a best in class, most comfortable, "fit right first time" and durable oral appliance for the treatment of OSA. The development of our connected oral appliance and our related approach to personalised medicine will further set this company apart.

# SOMNOMED LIMITED

## CHAIRMAN AND CEO REPORT (CONTINUED)

### Business overview

The business grew total revenues to \$72.6 million (up +16% on FY21 and +17% in constant currency), and posted an EBITDA<sup>1</sup> of \$1.3 million, thereby achieving the guidance for FY22. Cash held at 30 June 2022 was \$15.6 million and the business generated a net cash inflow from operating activities of \$1.9 million for the year.



North America's revenue growth was +33% on FY21 (+30% in constant currency). This was an outstanding achievement which fully validates the market acceptance of our best-in-class products driving patient comfort and efficacy. The region showed strong momentum throughout the year building well on the increased investment made in sales and marketing activities within the Medical Initiative program.

Europe completed FY22 with exceptional revenue results. Revenue growth was +15%<sup>2</sup> on FY21 (+18% in constant currency) with strong volume growth within both the core and emerging markets. Ongoing announcements of new COAT™ re-imbursment guidelines in various European countries confirmed the growing acceptance of COAT™ as an alternative to CPAP.

APAC posted a marginal revenue growth for the year after the first half was heavily affected due to COVID-19 restrictions. The second half rebound was impressive with a highly engaged and motivated management team now in place. Australia contributed the majority of the revenue share with an increased focus on the medical education and sales programs while both Japan and South Korea have shown moderate growth.

<sup>1</sup> EBITDA does not include share/option expenses, unrealised forex gain/(loss) and discontinued operations

<sup>2</sup> Excludes HIC (Health Care Companies) revenue, which is associated with allowances received in the Netherlands which compensates SOM for a portion of lost managed care income in the country due to COVID-19

**SOMNOMED LIMITED**  
**CHAIRMAN AND CEO REPORT (CONTINUED)**

**TOTAL REGIONAL REVENUES**



**Digital Manufacturing excellence**

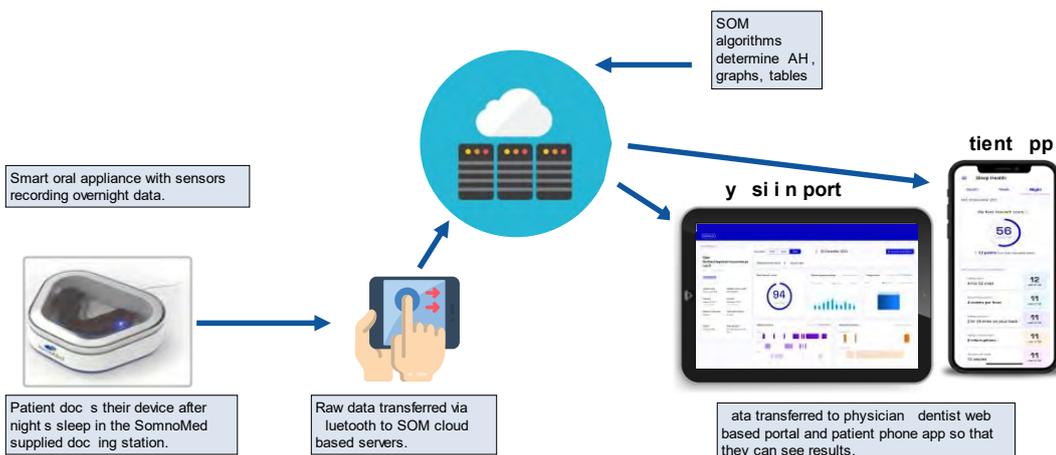
SomnoMed's digital manufacturing platform led by our Global Production Director and a team of engineers is delivering quality milled products on a consistent basis. SomnoMed has two fully digitally made SomnoDent® products, the SomnoDent® Avant and Herbst Advance Elite™. These precision milled devices offer patients a “first time fit”, significant comfort, better compliance, and therefore improved long term clinical effectiveness. The Herbst Advance Elite is also PDAC approved in the United States (Medicare insurance) and combines strength and comfort with the addition of SomnoMed's proprietary soft inner lining adding to greater retention.

**Rest Assure®**

SomnoMed continues on its journey of becoming “technology driven” with the Rest Assure® project. This will bring with it a smart product ecosystem that will set SomnoMed apart from its competitors and enable more sustainable future growth. This transformational technology allows SomnoMed to create a new category of connected oral appliance therapy for the future. It demonstrates true leadership in innovation and bonds both the medical and dental communities closer together for the ultimate benefit of the patient.

**Rest Assure® technology**

Smart oral appliance with sensors recording overnight data.



# SOMNOMED LIMITED

## CHAIRMAN AND CEO REPORT (CONTINUED)

### The year ahead

We continue to manage your business with exceptional pride and passionate determination. We remain optimistic about its growth prospects into the 2022/23 year as we see a growing incidence rate of OSA in all the countries in which we operate. There is a desperate need for an effective alternative to CPAP and the COAT™ therapy is proven and preferred by patients. The long-term opportunity remains significant and further investments are being made to enhance SomnoMed's competitive advantage. There is a constant focus on growing our sales and marketing capabilities globally with targeted messaging to the broader medical community founded on the SomnoMed Effectiveness Equation™. This Effectiveness Equation™ highlights the critical message that to achieve an effective long-term medical outcome, both efficacy and compliance need to be considered when evaluating a treatment option. Using the SomnoDent® oral appliance, this equation demonstrates this long-term treatment effectiveness against CPAP.

Trading during FY23 is expected to improve as we enter a more managed COVID-19 period. The Company has provided guidance for revenue growth of at least 20%, and EBITDA<sup>1</sup> of at least \$2 million. This guidance assumes no change to the current COVID-19 trading conditions. The cash investment (non-P&L) in technology innovations is expected to be c\$3m included within a full CAPEX investment of c\$7m. The new debt funding facility of net \$11 million secures the cash needs of the company.

The Rest Assure® launch timeline indicates that the year ahead is a significant one for this industry changing technology. Manufacturing, final testing and the submission of all regulatory files to the relevant authorities is expected towards the end of calendar 2022 with commercial readiness expected around April 2023.

We wish to thank the members of our Board for a year of sincere and dedicated guidance on the long-term growth opportunities before us. We thank Ms Amrita Blickstead, Mr Michael Gordon, Ms Karen Borg, Mr Hamish Corlett and Mr Hilton Brett for their commitment and hard work throughout the year. The SomnoMed Board has shown, through their diverse skill sets, perspectives, experience, and backgrounds that diversity can drive a shared and empowered vision for the future. We also wish to thank our Company Secretary, Mr Terry Flitcroft for his tireless dedication to this company.

We would also like to extend our deepest thanks to our dedicated and talented management team and staff. Our global team has, once again, showed the attitude, passion and energy needed at SomnoMed that allows them to help change the lives of each and every patient that we have the pleasure to be able to treat. We also thank the many medical clinicians and dental specialists around the globe who support SomnoMed's long term effective treatment solution.

We are incredibly grateful for the ongoing support of our shareholders and are extremely excited about your Company's strong future ahead. It is our privilege to guide and lead a company that changes people's lives around the world and helps patients who suffer from OSA to achieve that through improved sleep.



Mr Guy Russo  
Chairman



Mr Neil Verdall-Austin  
Chief Executive Officer

<sup>1</sup> EBITDA does not include share/option expenses, unrealised forex gain/(loss) and discontinued operations

**SOMNOMED LIMITED**  
ACN 003255221  
**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 2022.

### **Directors**

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

Guy Russo

Neil Verdal-Austin

Amrita Blickstead

Hilton Brett

Hamish Corlett

Michael Gordon

Karen Borg

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<sup>®</sup> 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 \$4,436,967 (2021: a loss of \$1,193,008). This loss included a loss from the discontinued operation of \$10,664 (2021: a loss of \$109,947) relating to the Renew Sleep Solutions business, which ceased operations in December 2018. A more detailed review of the operations is contained on pages 1 to 5 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 2022 (2021: Nil).

### **Significant Changes in State of Affairs**

Other than as stated in the accompanying Chairman and 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 Reporting Date Events**

On 25th July 2022, SomnoMed Limited entered into a A\$16 million debt facility with Epsilon Direct Lending. The facility, which is supported by a first ranking general security interest, is for a term of 3 years, with no amortisation payments. SomnoMed has currently drawn A\$10 million under the facility. Interest payable is calculated quarterly at BBSW, plus a 9% margin.

In June 2019, SomnoMed Limited secured a EUR 3 million (A\$4.8 million) credit facility, in the form of an overdraft facility, with HSBC France, Amsterdam Branch. The facility was fully repaid and terminated by SomnoMed on 21st July 2022.

In March 2020, SomnoMed AG (Switzerland) secured a CHF 0.5 million (A\$0.756 million) Government-backed unsecured loan facility with Credit Suisse (maturity of 5 years). This loan was repaid and terminated on 15th August 2022.

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.

# SOMNOMED LIMITED

## DIRECTORS' REPORT (CONTINUED)

### Directors

#### Guy Russo

##### Chairman, Non-Executive Director, Member of the Remuneration Committee

Guy Russo is an accomplished business leader with a strong commercial and customer-focussed background working in Australia and internationally. In addition to Chairman of SomnoMed he is Chairman of Guzman y Gomez Mexican Kitchen (GYG), Australia's fastest growing restaurant business. He is a non-executive Director of Scentre Group (ASX: SCG) which owns and operates Westfield Living Centres in Australia and New Zealand and Chairman of OneSky, an international charity for children living in poverty in Asia.

Previously, Guy has served as CEO, Wesfarmers Department Store Division (Kmart & Target); Managing Director, Kmart Australia & NZ; President, McDonald's Greater China; CEO McDonald's Australia Ltd and Chairman of Ronald McDonald House Children's Charities.

Guy is perhaps most well known in Australia for his leadership in turning Kmart into the largest and most profitable retail department store in the country. He has been a member of YPO since 2006, served as a member of the Business Council of Australia, and won industry awards for leadership in diversity in employment.

#### Managing Director

##### Neil Verdal-Austin BComm (Hons), CA

Neil has acted as Chief Executive Officer of the Company since November 2018. He 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.

#### Amrita Blickstead

##### Non-Executive Director, Member of the Remuneration Committee, MBA, BME

Amrita is the former Chief Operating & Marketing Officer at eBay Australia & New Zealand. Having worked at eBay for over 10 years she has deep ecommerce experience having led many different areas across the business including Strategy & Operations, Marketing, Buyer Loyalty, Advertising, Pricing, Consumer Selling, Small & Medium Business, Shipping and Cross Border Trade.

Prior to eBay, Amrita was a management consultant with Port Jackson Partners, advising on strategic issues predominantly in retail, electricity and construction. She also worked in the Medical Device industry as a Biomedical Engineer at Ventracor and Cochlear as well as the Pharmaceutical industry in Marketing at Eli Lilly and Company in the USA.

Amrita holds a Master of Business Administration from Harvard Business School and a Bachelor of Mechanical (Biomedical) Engineering from the University of Sydney. Amrita also won the Australian Financial Review BOSS Awards for Young Executive of the Year in 2019.

#### Hilton Brett

##### Non-Executive Director, Member of the Audit Committee BComm, PostGradDipAccy

Hilton is an Operating Advisor at TDM Growth Partners (TDM), a private global investment firm founded in 2004, with offices in Sydney and New York which invests in fast growing companies run by passionate management teams.

Hilton is a Non-Executive Director of Guzman Y Gomez Mexican Taqueria (GYG) and Pacific Smiles Ltd (PSQ: ASX).

Prior to joining TDM, Hilton was the Co-CEO of Accent Group Limited (AX1), formerly RCG Corporation Ltd, which is the regional leader in the retail and distribution of performance and lifestyle footwear Australia and New Zealand. Hilton joined RCG in 2006 when the business had a market capitalisation of \$8m. Over the 12 years from 2006 to 2018, the team grew the business to a \$800m market capitalisation and delivered total shareholder returns in excess of 25% CAGR.

Hilton has over 15 years' experience as CEO of multiple consumer businesses with proven skills in growing the businesses and delivering outstanding returns for shareholders.

## **SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)**

### **Hamish Corlett**

#### **Non-Executive Director, Chairman of the Remuneration Committee, 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 QBiotics Group Limited.

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.

### **Michael Gordon**

#### **Non-Executive Director, Chairman of the Audit Committee, BComm, BAcc, CA**

Michael is currently the CFO of Different Technologies, a start-up property technology company, and before that Michael was CFO of Rokt, a high-growth marketing technology company with more than US\$300m in revenue.

Prior to Rokt, Michael was the Group CFO and MD of Group Services for Greenlit Brands Pty Limited. Greenlit Brands grew from a turnover of A\$250m (Freedom) to a A\$2.4 billion vertically integrated retailer based in Australia and New Zealand and included the brands, Freedom, Snooze, Fantastic, Plush, OMF, Best & Less and Harris Scarfe.

Prior to Greenlit Brands, Michael spent ten years with PricewaterhouseCoopers in South Africa, the United Kingdom and Australia specializing in the Retail industry with experience in Audit, Taxation M&A and PO's.

Michael is a Chartered Accountant and holds a Bachelor of Commerce and Bachelor of Accounting (University of Witwatersrand, South Africa).

### **Karen Borg**

#### **Non-Executive Director, Member of the Audit Committee, BA**

Karen has held senior roles in FTSE 100-250 medical device, technology, consumer products and government services organisations.

Karen is currently the Chief Executive Officer for Catholic Healthcare Ltd and prior to this was the CEO of Healthdirect and the inaugural CEO of Jobs for NSW. She was also the former President (Asia Pacific & Middle East) of ResMed (ASX: RMD) and held several senior roles with Johnson & Johnson Medical Devices in Australia and the United States. Karen began her career in the fast-moving consumer goods sector and worked for Goodman Fielder, Nestle and Revlon in global business development and marketing.

Karen is on the Board of Optiscan Ltd (ASX: OIL) and was previously on the Board of The North Foundation and Interim Chair of the Australian Vaccine Research Alliance.

Karen has a Bachelor of Arts from the University of Sydney and was a NSW finalist for Telstra Business Woman of the Year 2017.

### **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.

## SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

### Board Members' 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
Guy Russo	The Scentre Group	1 September 2020	-
Neil Verdal-Austin	No other listed public company directorship	-	-
Hilton Brett	Pacific Smiles Group Limited	24 August 2018	-
Hamish Corlett	Tyro Payments Limited	18 April 2019	3 November 2021
Michael Gordon	The PAS Group	15 January 2020	28 October 2020
Amrita Blickstead	No other listed public company directorship	-	-
Karen Borg	Optiscan Imaging Limited	29 July 2021	-

### 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
Guy Russo*	347,000	370,000
Amrita Blickstead*	62,768	185,000
Hilton Brett*	503,120	185,000
Hamish Corlett*	22,181,065	185,000
Michael Gordon*	50,000	185,000
Neil Verdal-Austin*	1,709,400	910,000
Karen Borg	-	185,000

\* 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 2022 and the number of meetings attended by each director were:

	COMMITTEE MEETINGS					
	DIRECTORS' MEETINGS		AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Guy Russo	6	6	-	-	2	2
Amrita Blickstead	6	6	-	-	2	2
Hilton Brett	6	6	2	2	-	-
Hamish Corlett	6	6	-	-	2	2
Michael Gordon	6	6	2	2	-	-
Neil Verdal-Austin	6	6	2	2	-	-
Karen Borg	6	6	2	2	-	-

# SOMNOMED LIMITED

## DIRECTORS' REPORT (CONTINUED)

### 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 \$130,000.

### 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/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 there were 4,597,000 (2021-4,247,000) ordinary shares of SomnoMed Limited under option.

A total of 4,198,500 (2021-4,211,000) 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 15 to the accompanying accounts).

A total of 4,597,000 (2021-4,089,000) options have been issued under the new Employee Share Option Plan and Non-Executive Share Option, approved by shareholders in June 2021. Details of options issued to Directors and specified executives are contained on page 14 of this report.

Other than these options, no other 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.

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

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.

## SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

### 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 2019, 2020, 2021 and 2022 amounts have been adjusted to exclude the discontinued operations of Renew Sleep Solutions, which ceased operations in December 2018.

	2018	2019	2020	2021	2022
Revenue	\$52,393,583	\$58,892,033	\$57,296,293	62,706,352	72,580,403
Net profit/(loss)	\$225,091**	(\$39,386)**	(\$438,310)**	(1,083,061)**	(4,426,303)**
Share price at year end	\$2.20	\$1.45	\$1.20	\$2.21	\$1.21
Earnings per share (cents)	0.35*	(0.07)*	(0.69)*	(1.38)*	(5.63)*

\* Earnings per share – continuing operations

\*\* The 2018, 2019, 2020, 2021 and 2022 amounts have been adjusted to exclude the discontinued operations of Renew Sleep Solutions, which ceased operations in December 2018.

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 was the entire board until 24th August 2020 and since that time has consisted of three non-executive directors. 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.

Directors and executives are also entitled to participate in the employee option arrangements. Share Option Plans for both employees and non-employees were approved by shareholders at the General Meeting held in June 2021.

Senior executives in Australia receive a superannuation guarantee contribution required by the government, which is currently 10%, 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 and Monte-Carlo 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.

## SOMNOMED LIMITED DIRECTORS' REMUNERATION (CONTINUED)

### 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 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. 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.

A total of 4,597,000 options have been issued under the new Employee Share Option Plan and Non-Executive Share Option Plan, approved by shareholders in June 2021. Details of options issued to Directors and specified executives are contained on page 16 of this report.

The options issued under these plans vest over 5 years from their Issue Date, provided that the volume weighted average price of an ordinary share in the Company for the 20 day period ending on the Test Date is at least equal to \$3.50 (the **Threshold**):

- (i) in respect of the first tranche comprising 1/3 of the Options (**First Tranche**), the First Tranche will vest on the third anniversary of the Issue Date;
- (ii) in respect of the second tranche comprising 1/3 of the Options (**Second Tranche**), the Second Tranche will vest on the fourth anniversary of the Issue Date; and
- (iii) in respect of the third tranche comprising 1/3 of the Options (**Third Tranche**), the Third Tranche will vest on the fifth anniversary of the Issue Date,

If on a Test Date for a particular tranche of Options, the Threshold is not met on the Test Date, but the Threshold is met on a subsequent Test Date, then that tranche of Options will vest on that subsequent Test Date. For example, if the Threshold for the First Tranche is not met until the fourth anniversary of the Issue Date, then both the First Tranche and the Second Tranche, being 2/3 of the Options, will vest on the fourth anniversary of the Issue Date.

### 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.

### 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 on page 19.

## SOMNOMED LIMITED DIRECTORS' REMUNERATION (CONTINUED)

### 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 2022 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.

### Options issued as part of remuneration for the year ended 30 June 2022

During the year 175,000 (2021- 2020, 35,000) options were issued to the Executive KMP's as part of their remuneration.

### Directors' remuneration

The following table discloses the remuneration of Directors of the Company for the year ended 30 June 2022, as specified for disclosure by AASB 124. The information contained in this table is audited.

Director	Short-term Benefits		Post-Employment Benefits	Long-term Benefits		Total
	Salary & Fees	Other	Superannuation	Termination Benefits	Equity Settled Share Based Payment	
	\$	\$	\$	\$	\$	\$
Guy Russo						
- 2021	-	-	-	-	14,538	14,538
- 2022	90,909	-	9,091	-	84,227	184,227
Amrita Blickstead						
- 2021	23,193	-	1,807	-	7,073	32,073
- 2022	45,455	-	4,545	-	40,978	90,978
Hilton Brett						
- 2021	25,000	-	-	-	7,073	32,073
- 2022	45,455	-	4,545	-	40,978	90,978
Hamish Corlett <sup>(1)</sup>						
- 2021	25,000	-	-	-	7,073	32,073
- 2022	45,455	-	4,545	-	40,978	90,978
Michael Gordon <sup>(2)</sup>						
- 2021	24,998	-	-	-	7,269	32,267
- 2022	45,455	-	4,545	-	42,113	92,113
Neil Verdal-Austin <sup>(3)</sup>						
- 2021	392,694	95,000	37,306	9,629	135,143	669,772
- 2022	505,233	223,000	57,682	23,714	230,632	1,040,261
Karen Borg						
- 2021	22,831	-	2,169	-	7,073	32,073
- 2022	45,455	-	4,545	-	40,978	90,978
Peter Neustadt <sup>(4)</sup>						
- 2021	24,386	-	-	-	-	24,386
- 2022	-	-	-	-	-	-
Robert Scherini <sup>(5)</sup>						
- 2021	11,255	-	-	-	-	11,255
- 2022	-	-	-	-	-	-
Lee Ausburn <sup>(6)</sup>						
- 2021	11,254	-	-	-	-	11,254
- 2022	-	-	-	-	-	-
<b>TOTAL 2021</b>	<b>560,611</b>	<b>95,000</b>	<b>41,282</b>	<b>9,629</b>	<b>185,242</b>	<b>891,764</b>
<b>TOTAL 2022</b>	<b>823,417</b>	<b>223,000</b>	<b>89,498</b>	<b>23,714</b>	<b>520,884</b>	<b>1,680,513</b>

(1) Mr Corlett is a director of TDM Growth Partners Pty Ltd, which received consultancy fees during this and the previous year.

(2) Mr Gordon is a director of Zacoah Trading Pty Limited, which received consultancy fees during this year.

(3) Mr Verdal-Austin became an Executive Director of SomnoMed Limited on 24<sup>th</sup> August 2020. All of Neil's remuneration as CEO and Director have been disclosed under Director's remuneration.

(4) Dr Neustadt is a director of Belgove Pty Limited, which received consultancy fees during this and the previous year. Resigned 24<sup>th</sup> August 2020.

(5) Resigned 24<sup>th</sup> August 2020.

(6) Ms Ausburn is a director of Leedoc Pty Limited, which received consultancy fees during this and the previous year. Resigned 24<sup>th</sup> August 2020.

## SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

### Shareholdings

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

	Balance 1.7.21	Held at date of appointment/ resignation	Issued/ Acquired	Sold	Balance 30.6.22
Guy Russo	130,000	-	217,000	-	347,000
Amrita Blickstead	62,768	-	-	-	62,768
Hilton Brett	468,243	-	34,877	-	503,120
Hamish Corlett	21,372,597	-	808,468	-	22,181,065
Michael Gordon	50,000	-	-	-	50,000
Neil Verdal-Austin <sup>(1)</sup>	1,758,783	-	-	(49,383)	1,709,400
Karen Borg	-	-	-	-	-
Hervé Fiévet <sup>(2)</sup>	196,000	-	-	-	196,000
Mark Harding <sup>(3)</sup>	144,692	-	-	-	144,692
Matthew Conlon <sup>(4)</sup>	85,000	-	-	-	85,000
	24,268,083	-	1,060,345	(49,383)	25,279,045
Less shares issued under the Employee Share Trust Plan <sup>(1)(2) (3)</sup> <sup>(4)</sup>	(1,943,000)	-	-	-	(1,943,000)
	22,325,083	-	1,060,345	(49,383)	23,336,045

(1) Includes nil (2021: nil) shares issued during the year 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 5). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(2) Nil (2021: nil) shares issued during the year 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 5). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(3) Nil (2021: nil) shares issued during the year 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 15). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(4) Nil (2021: nil) shares issued during the year 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 5). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(5) Commenced employment on 1st November 2021

No options were exercised during the year by the Directors and Key Management Personnel.

## SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

### Options and Rights Holdings

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

	Balance 1.7.21	Held at date of appointment/ resignation	Granted as Remuneration	Exercised or Lapsed or Sold	Balance 30.6.22	Total Vested 30.6.22	Total Exercisable	Total Un-exercisable
Guy Russo <sup>(1)</sup>	370,000	-	-	-	370,000	-	-	370,000
Amrita Blickstead	185,000	-	-	-	185,000	-	-	185,000
Hilton Brett	185,000	-	-	-	185,000	-	-	185,000
Hamish Corlett <sup>(2)</sup>	185,000	-	-	-	185,000	-	-	185,000
Michael Gordon <sup>(3)</sup>	185,000	-	-	-	185,000	-	-	185,000
Neil Verdal-Austin	910,000	-	-	-	910,000	-	-	910,000
Karen Borg	185,000	-	-	-	185,000	-	-	185,000
Hervé Fiévet	472,000	-	-	-	472,000	-	-	472,000
Mark Harding	346,000	-	-	-	346,000	-	-	346,000
Matthew Conlon	407,000	-	-	-	407,000	-	-	407,000
Marco Van Kleef <sup>(8)</sup>	-	-	175,000	-	175,000	-	-	175,000
<b>Total</b>	<b>3,430,000</b>	<b>-</b>	<b>175,000</b>	<b>-</b>	<b>3,605,000</b>	<b>-</b>	<b>-</b>	<b>3,605,000</b>
Issued shares treated as options in these accounts <sup>(4)(5)(6)(7)</sup> (refer table above and Note 15)								
Neil Verdal-Austin <sup>(4)</sup>	1,395,000	-	-	-	1,395,000	810,000	810,000	585,000
Hervé Fiévet <sup>(5)</sup>	175,000	-	-	-	175,000	10,000	10,000	165,000
Mark Harding <sup>(6)</sup>	120,000	-	-	-	120,000	-	-	120,000
Matthew Conlon <sup>(7)</sup>	85,000	-	-	-	85,000	-	-	85,000
<b>Total</b>	<b>5,205,000</b>	<b>-</b>	<b>175,000</b>	<b>-</b>	<b>5,380,000</b>	<b>820,000</b>	<b>820,000</b>	<b>4,560,000</b>

(1) Held by an entity associated with Mr Russo.

(2) Held directly by Mr Hamish Corlett.

(3) Held by an entity associated with Mr Gordon.

(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.

(5) 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.

(6) 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.

(7) 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.

(8) Commenced employment on 1st November 2021.

## SOMNOMED LIMITED DIRECTORS' REMUNERATION (CONTINUED)

### Options and Rights Holdings (continued)

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

### 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 2022, as specified for disclosure by AASB 124. The information in this table is audited.

Executive	Salary & Fees	Short-term Benefits		Post-Employment Benefits	Long-term Benefits	Share-based Payment <sup>(1)</sup>	Termination Benefits	Total
		Bonuses	Other	Superannuation	Long service leave			
Hervé Fiévet <sup>(2)</sup>								
- 2022	308,297	79,020	-	34,275	1,454	88,522	-	511,568
- 2021	259,375	42,750	-	28,702	1,789	19,610	-	352,226
Matthew Conlon <sup>(3)</sup>								
- 2022	414,444	41,444	27,176	12,591	-	73,536	-	569,191
- 2021	355,541	40,402	-	-	-	8,627	-	404,570
Mark Harding <sup>(4)</sup>								
- 2022	308,600	81,900	-	34,275	506	65,657	-	490,938
- 2021	269,167	42,750	-	29,632	630	18,545	-	360,724
Martin Weiland <sup>(5)</sup>								
- 2021	392,531	-	17,515	-	-	(164,180)	-	245,866
Marco Van Kleef <sup>(6)</sup>								
- 2022	228,371	-	41,155	18,886	-	31,619	-	320,031
<b>TOTAL 2022</b>	<b>1,259,712</b>	<b>202,364</b>	<b>68,331</b>	<b>100,027</b>	<b>1,960</b>	<b>259,334</b>	<b>-</b>	<b>1,891,728</b>
<b>TOTAL 2021</b>	<b>1,276,614</b>	<b>125,902</b>	<b>17,515</b>	<b>58,334</b>	<b>2,419</b>	<b>(117,398)</b>	<b>-</b>	<b>1,363,386</b>

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

(2) This executive has a permanent contract with a termination payout of two months. This contract has a notice period of 2 months.

(3) Commenced employment on 1st October 2019. This executive has a contract with a duration at will and a termination payout of three months. This contract has a notice of termination of up to 30 days with a restraint of trade condition of 12 months from termination date. This restraint covers any business same or similar on a worldwide basis.

(4) This executive has a permanent contract with a termination payout of three months. 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.

(5) Ceased employment 20<sup>th</sup> April 2021.

(6) Commenced employment on 1st November 2021.

For the year ended 30 June 2022 the Company had five (2021 – five) persons employed who were deemed to be specified executives. Mr Neil Verdal-Austin became an Executive director of SomnoMed on 24th August 2020. All of Neil's remuneration as CEO and Director have been disclosed under Director's remuneration.

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.

## SOMNOMED LIMITED DIRECTORS' REMUNERATION (CONTINUED)

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

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2022	2021	2022	2021	2022	2021
<i>Directors:</i>						
Guy Russo	100%	-	0%	0%	0%	100%
Amrita Blickstead	100%	78%	0%	0%	0%	22%
Hilton Brett	100%	78%	0%	0%	0%	22%
Hamish Corlett	100%	78%	0%	0%	0%	22%
Michael Gordon	100%	77%	0%	0%	0%	23%
Neil Verdal-Austin	100%	66%	0%	14%	0%	20%
Karen Borg	100%	78%	0%	0%	0%	22%
Peter Neustadt*	0%	100%	0%	0%	0%	0%
Robert Scherini*	0%	100%	0%	0%	0%	0%
Lee Ausburn*	0%	100%	0%	0%	0%	0%
	100%					
<i>Other Key Management Personnel:</i>						
Hervé Fiévet	100%	82%	0%	12%	0%	6%
Matthew Conlon	100%	88%	0%	10%	0%	2%
Mark Harding	100%	83%	0%	12%	0%	5%
Marco Van Kleef**	100%	167%	0%	0%	0%	(67%)

\* Resigned 24<sup>th</sup> August 2020

\*\* Mr Van Kleef commenced employment on 1st November 2021

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2022	2021	2022	2021
<i>Directors:</i>				
Guy Russo	-	-	-	-
Amrita Blickstead	-	-	-	-
Hilton Brett	-	-	-	-
Hamish Corlett	-	-	-	-
Michael Gordon	-	-	-	-
Neil Verdal-Austin	100%	48%	100%	52%
Karen Borg	-	-	-	-
Peter Neustadt*	-	-	-	-
Robert Scherini*	-	-	-	-
Lee Ausburn*	-	-	-	-
<i>Other Key Management Personnel:</i>				
Hervé Fiévet	100%	52%	100%	48%
Matthew Conlon	100%	45%	100%	55%
Mark Harding	100%	51%	100%	49%
Marco Van Kleef**	100%	0%	100%	100%

\* Resigned 24<sup>th</sup> August 2020

\*\* Mr Van Kleef commenced employment on 1st November 2021

**This concludes the Remuneration Report which has been audited.**

# SOMNOMED LIMITED

## DIRECTORS' REPORT (CONTINUED)

### Other Information

#### Environmental, Social and Governance (ESG) Statement

SomnoMed are pleased to announce that the Company has adopted the global ESG framework provided by the World Economic Forum Stakeholder Capitalism Metrics and has commenced collating the information required for the 21 core ESG disclosures. These metrics are built upon the United Nations Sustainable Development Goals, drawn from existing ESG standards and are categorised into four pillars, the Principles of Governance, Planet, People and Prosperity. These pillars include disclosures that cover core ESG matters of governance, anti-corruption practices, ethical behaviour, human rights, carbon emissions, land use, ecological sensitivity, water consumption, diversity and inclusion, pay equality and tax payments.

We greatly value the ESG principles and look forward to sharing the development of our ESG disclosures in a consistent and measurable approach that helps us contribute to building a more prosperous and fulfilled society and a more sustainable relationship with the planet.

The board of SomnoMed fully endorse this initiative and are committed to the pathway forward in developing the framework and providing shareholders with all relevant ESG disclosures.

#### 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 \$16,755 (2021: \$23,000) for tax and other services were paid/payable to the external auditors during the year ended 30<sup>th</sup> June 2022.

#### Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30<sup>th</sup> June 2022 is set out on page 65 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*.



Guy Russo

Chairman

27<sup>th</sup> September 2022

**SOMNOMED LIMITED**  
ACN 003255221  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2022**

	NOTE	2022 \$	2021 \$
<b>Continuing operations</b>			
Revenue from sale of goods and services, net of discounts	5	72,580,403	62,706,352
Cost of sales		(28,301,655)	(24,962,495)
Gross margin		44,278,748	37,743,857
Sales and marketing expenses		(19,740,159)	(15,584,393)
Administrative expenses		(12,622,481)	(11,177,685)
Operating profit before corporate, research and business development expenses, other items of income and expenses and income tax		11,916,108	10,981,779
Corporate, research and business development expenses		(10,921,023)	(7,760,340)
Interest income	5	430	3,954
Share based payments	24c	(1,190,352)	(33,335)
Depreciation and amortisation	34	(3,936,190)	(3,839,484)
Government grants and other income	5	286,033	660,661
Other expense		-	(203,557)
Interest expense	30	(380,327)	(469,185)
Unrealised foreign exchange loss		729,625	(74,392)
<b>Loss before income tax</b>		<b>(3,495,696)</b>	<b>(733,899)</b>
Income tax expense attributable to operating loss	7	(930,607)	(349,162)
<b>Loss after income tax from continuing operations</b>		<b>(4,426,303)</b>	<b>(1,083,061)</b>
<b>Discontinued operation</b>			
Loss from discontinued operation		(10,664)	(109,947)
<b>Net loss for the Group</b>		<b>(4,436,967)</b>	<b>(1,193,008)</b>
<b>Other comprehensive loss</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		(1,138,064)	(830,618)
Other comprehensive loss for the year, net of tax		(1,138,064)	(830,618)
<b>Total comprehensive loss for the year attributable to the owners of SomnoMed Limited</b>		<b>(5,575,031)</b>	<b>(2,023,626)</b>

**SOMNOMED LIMITED**  
ACN 003255221  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2022 (continued)**

	NOTE	2022 \$	2021 \$
<b>Earnings per share</b>			
Basic earnings per share (cents)	21	(5.65)	(1.52)
Diluted earnings per share (cents)	21	(5.65)	(1.52)
<b>Earnings per share – continuing operations</b>			
Basic earnings per share (cents)	21	(5.63)	(1.38)
Diluted earnings per share (cents)	21	(5.63)	(1.38)
<b>Earnings per share – discontinued operation</b>			
Basic earnings per share (cents)	21	(0.01)	(0.14)
Diluted earnings per share (cents)	21	(0.01)	(0.14)

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

**SOMNOMED LIMITED**  
ACN 003255221  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2022**

	NOTE	2022	2021
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	15,644,331	21,109,841
Trade and other receivables	9	11,313,650	10,552,851
Inventories	10	3,089,324	2,329,882
Lease receivables		267,953	133,977
<b>Total Current Assets</b>		<b>30,315,258</b>	<b>34,126,551</b>
<b>Non-Current Assets</b>			
Trade and other receivables		264,004	78,536
Property, plant and equipment	11	4,440,101	4,726,686
Intangible assets	12	15,447,516	8,580,618
Deferred tax assets	7c	2,950,977	3,038,225
Right-of-use assets	29	4,675,691	5,615,740
<b>Total Non-Current Assets</b>		<b>27,778,289</b>	<b>22,039,805</b>
<b>Total Assets</b>		<b>58,093,547</b>	<b>56,166,356</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	12,854,260	10,594,343
Borrowings	22	4,877,475	-
Lease liabilities	23	1,779,819	1,956,015
Provisions	14	3,152,980	2,640,779
Current tax liability	7f	1,110,374	1,005,955
<b>Total Current Liabilities</b>		<b>23,774,908</b>	<b>16,197,092</b>
<b>Non-Current Liabilities</b>			
Trade and other payables		-	11,078
Borrowings	22	2,013,461	2,348,226
Lease liabilities	23	3,339,572	4,603,371
Provisions	14	1,177,371	848,288
<b>Total Non-Current Liabilities</b>		<b>6,530,404</b>	<b>7,810,963</b>
<b>Total Liabilities</b>		<b>30,305,312</b>	<b>24,008,055</b>
<b>Net Assets</b>		<b>27,788,235</b>	<b>32,158,301</b>
<b>EQUITY</b>			
Issued capital	15	74,271,419	74,256,794
Reserves	16	7,812,707	7,760,420
Accumulated losses		(54,295,891)	(49,858,913)
<b>Total Equity</b>		<b>27,788,235</b>	<b>32,158,301</b>

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

**SOMNOMED LIMITED**  
ACN 003255221  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2022**

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2021	74,256,794	7,760,420	(49,858,913)	32,158,301	32,158,301
Loss after income tax expense for the year	-	-	(4,436,967)	(4,436,967)	(4,436,967)
Other comprehensive loss for the year, net of tax	-	(1,138,064)	-	(1,138,064)	(1,138,064)
Total comprehensive loss for the year	-	(1,138,064)	(4,436,967)	(5,575,031)	(5,575,031)
Transactions with owners in their capacity as owners:					
Shares issued during the period*	14,625	-	-	14,625	14,625
Share option reserve on recognition of remuneration options	-	1,190,352	-	1,190,352	1,190,352
Capital reserve adjustment	-	(1)	(11)	(12)	(12)
Balance at 30 June 2022	74,271,419	7,812,707	(54,295,891)	27,788,235	27,788,235

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2020	73,943,294	8,557,703	(48,665,912)	33,835,085	33,835,085
Loss after income tax expense for the year	-	-	(1,193,008)	(1,193,008)	(1,193,008)
Other comprehensive loss for the year, net of tax	-	(830,618)	-	(830,618)	(830,618)
Total comprehensive loss for the year	-	(830,618)	(1,193,008)	(2,023,626)	(2,023,626)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued during the period*	313,500	-	-	313,500	313,500
Share option reserve on recognition of remuneration options	-	33,335	-	33,335	33,335
Capital reserve adjustment	-	-	7	7	7
Balance at 30 June 2021	74,256,794	7,760,420	(49,858,913)	32,158,301	32,158,301

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

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

**SOMNOMED LIMITED**  
ACN 003255221  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

	NOTE	2022 \$	2021 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		71,469,620	59,702,508
Payments to suppliers and employees (inclusive of GST)		(68,503,593)	(55,899,145)
Interest received		10,930	15,893
Interest paid	31	(380,327)	(494,293)
Income tax paid		(738,940)	(619,189)
Net cash inflow from operating activities	20a	<u>1,857,690</u>	<u>2,705,774</u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of assets		-	35,002
Proceeds from/(payments for) from term deposits		316,565	(271,468)
Payments for intangible assets		(7,780,073)	(1,978,117)
Payments for property, plant and equipment		(1,008,260)	(2,153,982)
Net cash outflow from investing activities		<u>(8,471,768)</u>	<u>(4,368,565)</u>
<b>Cash flows from financing activities</b>			
Proceeds from/(repayments of) borrowings		4,542,710	(4,780,153)
Proceeds from issue of shares	15	-	398,977
Payment of finance lease	31	(2,450,533)	(2,423,171)
Net cash inflow/(outflow) from financing activities		<u>2,092,177</u>	<u>(6,804,347)</u>
<b>Net decrease in cash and cash equivalents</b>		(4,521,901)	(8,467,138)
Cash at beginning of the financial year		21,109,841	30,174,240
Exchange rate adjustment		(943,609)	(597,261)
<b>Cash at the end of the financial year</b>	8	<u>15,644,331</u>	<u>21,109,841</u>

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.

# SOMNOMED LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2022

#### 1. REPORTING ENTITY

SomnoMed Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2022 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 Company'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.

#### 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 less any impairment in the Company's financial statements.

###### *Transactions eliminated on consolidation*

Intra-group balances and any unrealised 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).

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a. Basis of Consolidation (continued)**

*Business combinations (continued)*

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 re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is re-measured 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.

**b. 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.

*Government Grants*

Government Grants are recognised on the consolidated statement of profit or loss there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grant will be received (AASB120, paragraph 7). Such grants are presented on a Gross Basis under Government Grants on the consolidated statement of profit or loss.

*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.

**c. 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 consolidated statement of financial position. Cash flows are included in the consolidated 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.

**d. 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 consolidated statement of profit or loss and other comprehensive income.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d. Foreign Currency**

*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.

**e. 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 consolidated statement of profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the consolidated statement of profit or loss.

*Non-derivative financial assets and liabilities*

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the consolidated statement of profit or loss, 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 recognised 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.

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 expected credit losses (see accounting policy (g)).

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e. Financial Instruments**

*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 allowance for expected credit losses.

**f. Provisions**

A provision is recognised in the consolidated statement of financial position 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 leases on 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 consolidated statement of profit or loss.

*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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g. Impairment**

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy 3(i)), 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 consolidated statement 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 consolidated statement 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.

The Consolidated Entity's trade and other receivables at year end are assessed under the impairment requirements which use an expected credit loss (ECL) model to recognise an allowance. Impairment 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.

*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.

**h. Property, Plant and Equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (g)). 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 consolidated statement of profit or loss as incurred.

*Depreciation*

Depreciation is recognised in the consolidated 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 reporting 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

**i. Inventories**

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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j. Intangibles**

*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 consolidated statement of profit or loss.

*Other intangible assets*

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

*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.

*Amortisation*

Amortisation is recognised in the consolidated statement of profit or loss 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 and trademarks	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.

**k. Employee benefits**

*Wages, salaries and annual leave*

Provisions 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 provision for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current provisions, provided there is an unconditional right to defer settlement of the liability. The provision 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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**k. Employee benefits (continued)**

*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 either Black-Scholes method or Monte-Carlo 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.

**l. Taxation**

Income tax expense in the consolidated statement of profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the consolidated 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 nor 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 utilised. 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.

**m. Interest income and expense**

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

**n. Earnings per share**

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.

**o. Segment Reporting – Determination and presentation of operating segments**

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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**p. Accounting judgements and estimates**

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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

*Lease term*

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

*Incremental borrowing rate*

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

*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 or Monte-Carlo 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 3 (g). 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.

*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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**p. Accounting judgements and estimates (continued)**

*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 assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

*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 consolidated 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 the consolidated statement of 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.

*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. An allowance 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.

*Developmental costs*

An intangible asset arising from development expenditure is recognised only when the Consolidated Entity can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected benefits from the related project commencing from the commercial release of the project. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

**q. Share capital**

*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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**r. 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.

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

*Conceptual Framework for Financial Reporting (Conceptual Framework)*

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

**s. Current and non-current classification**

Assets and liabilities are presented in the consolidated 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.

**t. 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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**t. Fair value measurement (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.

*Borrowings*

Borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

**u. Right-of-use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Consolidated Entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**v. Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**w. Discontinued operations**

A discontinued operation is a component of the Consolidated Entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the consolidated statement of profit or loss.

**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
- Currency risk
- Interest rate 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. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates. 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.

*Credit Risk*

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 impairment that represents their estimate of expected losses in respect of trade and other receivables based on the ECL model.

*Liquidity Risk*

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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**4. FINANCIAL RISK MANAGEMENT (continued)**

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.

*Market Risk*

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.

*Currency Risk*

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 and Philippine Peso (PHP) and South Korean Won (KRW).

Over 93% (2021-92%) of the Consolidated Entity's revenues and over 92% (2021-88%) 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.

*Interest Rate Risk*

The Consolidated Entity is exposed to interest rate risks in Australia.

*Capital 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.

**5. REVENUE**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Operating activities		
Revenue from sale of goods and services, net of discounts	72,580,403	62,706,352
Interest income	430	3,954
Government Grants	285,382	660,661
Other income	651	-
<b>Total revenue and other income</b>	<b>72,866,866</b>	<b>63,370,967</b>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**5. REVENUE (continued)**

	2022	2021
	\$	\$
Government Grants – North America	-	146,115
Government Grants – Europe	2,790	283,546
Government Grants – Asia Pacific	282,592	231,000
<b>Subtotal Government Grants</b>	<b>285,382</b>	<b>660,661</b>
Other Income	621	-
<b>Grand total Government Grants and Other Income</b>	<b>286,033</b>	<b>660,661</b>

SomnoMed has been granted diverse government grants which were awarded as government incentives due to COVID-19. In Europe, SomnoMed was granted \$2,790 in Spain. In the Asia Pacific region, we have recognised a total of \$282,592 in Australia (JobSaver program).

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

**6. LOSS BEFORE INCOME TAX FOR THE YEAR**

Loss before income tax includes the following specific expenses\*:

Operating lease rentals**	26,068	37,480
Employee benefits expense	27,752,655	26,272,421
Research and development expenditure	978,382	958,178
Depreciation – Property, plant and equipment	1,285,978	1,294,980
Amortisation of intellectual property	699,625	740,824
Depreciation – AASB 16	1,950,587	1,803,680
<b>Total depreciation and amortisation</b>	<b>3,936,190</b>	<b>3,839,484</b>

\* Expenses include RSS

\*\* Please refer to note 33 for further breakdown details

**7. INCOME TAX EXPENSE**

**NOTE**

a. The components of tax expense comprise\*:

Current tax		857,111	298,618
Deferred tax	7d	73,496	50,544
		<b>930,607</b>	<b>349,162</b>

b. The prima facie tax on loss 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% (2021: 30%)	(1,048,709)	(220,170)
Decrease in income tax expense due to non-assessable and other items	1,979,316	569,332
<b>Income tax expense</b>	<b>930,607</b>	<b>349,162</b>

\*Expenses exclude RSS.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

7. INCOME TAX EXPENSE (continued)	NOTE	2022 \$	2021 \$
c. Deferred tax assets			
Recognised deferred tax assets			
Plant and equipment		(62,417)	(59,348)
Accruals		683,569	576,757
Provisions		547,492	432,743
Deferred revenue		54,530	53,820
Future royalty deduction		1,045,721	840,791
Tax losses carried forward		682,082	1,193,462
Deferred tax assets	7d	<b>2,950,977</b>	<b>3,038,225</b>
 <i>Recoverability of deferred tax assets</i>			
The Consolidated Entity has recorded a deferred tax asset relating to the future benefit of tax losses of \$682,082 (2021: \$1,193,462). The Consolidated Entity assesses the impairment of deferred tax assets by taking into account its projected profitability over the foreseeable future and hence its ability to recover the value of the deferred tax asset by reducing future liabilities for income tax. Management's forecasts project that the deferred tax asset is fully recoverable based on the expected sales growth for 2023 and, notably on following financial years.			
Where actual results are lower than expectations as described above a proportion of the deferred tax asset may not be used, and a write-off of the deferred tax asset may be required.			
 d. Movement in temporary differences and tax losses during the year			
Carrying amount at beginning of financial year		3,038,225	3,086,232
Recognised in the consolidated statement of profit or loss	7a	(73,496)	(50,544)
Foreign exchange adjustment		(13,752)	2,537
Carrying amount at end of financial year		<b>2,950,977</b>	<b>3,038,225</b>
 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		4,835,217	2,799,059
Temporary differences		2,950,100	3,116,030
 <i>Franking credits</i>			
Franking credits available for subsequent financial years based on a tax rate of 30%		33,447	33,447
 f. Current Tax Liability		<b>1,110,374</b>	<b>1,005,955</b>

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; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

<b>8. CASH AND CASH EQUIVALENTS</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and on deposit	15,644,331	21,109,841
	<b>15,644,331</b>	<b>21,109,841</b>

**9. TRADE AND OTHER RECEIVABLES**

**Current**

Trade receivables	7,571,797	6,860,257
Less allowance for expected credit losses	(194,719)	(204,010)
	7,377,078	6,656,247
Other receivables	1,556,812	1,434,576
Prepayment	2,379,760	2,462,028
	<b>11,313,650</b>	<b>10,552,851</b>

**10. INVENTORIES**

Raw materials and consumables	3,089,324	2,329,882
	<b>3,089,324</b>	<b>2,329,882</b>

**11. PROPERTY, PLANT AND EQUIPMENT**

**Plant and equipment**

Property and equipment – at cost	12,414,666	12,353,919
Accumulated depreciation	(8,154,676)	(7,857,197)
	4,259,990	4,496,722

**Leasehold improvements**

Leasehold improvements – at cost	723,464	706,029
Accumulated depreciation	(543,353)	(476,065)
	180,111	229,964

<b>Total property, plant and equipment</b>	<b>4,440,101</b>	<b>4,726,686</b>
--	------------------	------------------

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

	<b>Plant and equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2020</b>	<b>3,706,792</b>	<b>214,896</b>	<b>3,921,688</b>
Additions	2,161,037	98,158	2,259,195
Depreciation expense	(1,228,812)	(67,733)	(1,296,545)
FX impact	(142,295)	(15,357)	(157,652)
<b>Balance at 30 June 2021</b>	<b>4,496,722</b>	<b>229,964</b>	<b>4,726,686</b>
Additions	1,131,650	32,018	1,163,668
Depreciation expense	(1,206,522)	(79,456)	(1,285,978)
FX impact	(161,860)	(2,415)	(164,275)
<b>Balance at 30 June 2022</b>	<b>4,259,990</b>	<b>180,111</b>	<b>4,440,101</b>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**12. INTANGIBLE ASSETS**

	2022 \$	2021 \$
Patents and trademarks – at cost	1,820,152	1,854,581
Accumulated amortisation	(1,359,328)	(1,239,956)
	<u>460,824</u>	<u>614,625</u>
Product development expenditure capitalised	7,317,062	1,841,911
Accumulated amortisation	(697,109)	(588,202)
	<u>6,619,953</u>	<u>1,253,709</u>
Software	4,043,521	1,717,773
Accumulated amortisation	(1,714,756)	(1,265,457)
	<u>2,328,765</u>	<u>452,316</u>
Goodwill	6,037,974	6,259,968
	<b><u>15,447,516</u></b>	<b><u>8,580,618</u></b>
<b>Movements in patents and trademarks</b>		
Balance at beginning of year	614,625	653,849
Additions	-	153,688
Amortisation expense	(142,928)	(186,568)
FX impact	(10,873)	(6,344)
Balance at end of year	<u>460,824</u>	<u>614,625</u>
<b>Movements in product development expenditure capitalised</b>		
Balance at beginning of year	1,253,709	299,191
Additions	5,475,151	1,050,508
Amortisation expense	(108,907)	(95,990)
Balance at end of year	<u>6,619,953</u>	<u>1,253,709</u>
<b>Movements in software</b>		
Balance at beginning of year	452,316	506,483
Additions	2,304,922	409,833
Amortisation expense	(440,020)	(458,265)
FX impact	11,547	(5,735)
Balance at end of year	<u>2,328,765</u>	<u>452,316</u>
<b>Movements in goodwill</b>		
Balance at beginning of year	6,259,968	6,469,053
FX impact	(221,994)	(209,085)
Balance at end of year	<u>6,037,974</u>	<u>6,259,968</u>

# SOMNOMED LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2022

#### 12. INTANGIBLE ASSETS (continued)

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. Goodwill has an indefinite useful life.

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

#### 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, as well as a terminal value component beyond the 5-year projection (growth rate of 2.5%).

#### European Division

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

SomnoMed Germany GmbH has a revenue growth per annum of 35% (2021: 33%). The average growth of total costs per annum is at 30% (2021: 27%). A growth of 26% (2021: 22%) is seen for the average growth of operating costs per annum. The average discount rate used was 4.5% (2021: 4.5%). Based on the above, no impairment has been applied as the carrying amount of goodwill (\$607,514) did not exceed its recoverable amount for SomnoMed Germany GmbH.

SomnoMed Nordic AB has a revenue growth per annum of 31% (2021: 30%). The average growth of total costs per annum is at 27% (2021: 26%). A growth of 22% (2021: 22%) is seen for the average growth of operating costs per annum. The average discount rate used was 4.5% (2021: 4.5%). Based on the above, no impairment has been applied as the carrying amount of goodwill (\$519,556) did not exceed its recoverable amount for SomnoMed Nordic AB.

SomnoMed France has a revenue growth per annum of 23% (2021: 19%). The average growth of total costs per annum is at 23% (2021: 19%). A growth of 13% (2021: 19%) is seen for the average growth of operating costs per annum. The average discount rate used was 4.5% (2021: 4.5%). Based on the above, no impairment has been applied as the carrying amount of goodwill (\$484,003) did not exceed its recoverable amount for SomnoMed France.

SomnoMed SG as a revenue growth per annum of 26% (2021: 20%). The average growth of total costs per annum is at 24% (2021: 26%). A growth of 15% (2021:20%) is seen for the average growth of operating costs per annum. The average discount rate used was 4.5% (2021: 4.5%). Based on the above, no impairment has been applied as the carrying amount of goodwill (\$3,961,709) did not exceed its recoverable amount for SomnoMed GS.

SMH Biomaterial AG has a revenue growth per annum of 35% (2021: 26%). The average growth of total costs per annum is at 33% (2021: 23%). A growth of 46% (2021: 23%) is seen for the average growth of operating costs per annum. The average discount rate used was 4.5% (2021: 4.5%). Based on the above, no impairment has been applied as the carrying amount of goodwill (\$290,309) did not exceed its recoverable amount for SMH Biomaterial AG.

#### Asia Pacific Division

There is no Goodwill in the Asia Pacific Division.

#### North America Division

The growth of revenue and expenses in Canada is expected to be 38% (2021: 32%) and 35% (2021: 26%) respectively per annum with a discount rate of 6% (2021: 26%) applied in the valuation. Based on the above, no impairment has been applied as the carrying amount of goodwill (\$154,033) did not exceed its recoverable amount for SomnoMed Canada.

#### Sensitivity

(a) Revenue would need to decrease by 23%-57% (2021:16-60%) 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 29%-201% (2021:27-130%) for the different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**12. INTANGIBLE ASSETS (continued)**

**Sensitivity (continued)**

The following key assumptions were used for each CGU in the year of 2022:

	Decrease in revenue	Increase in discount rate
<b>European division</b>		
SomnoMed Germany GmbH	44%	201%
SomnoMed Nordic AB	23%	89%
SomnoMed France	28%	71%
SomnoMed SG	57%	176%
SMH Biomaterial AG	56%	29%
<b>North America Division</b>		
SomnoMed Canada	33%	135%

**13. TRADE AND OTHER PAYABLES**

	2022	2021
	\$	\$
<b>Current</b>		
Trade payables, other payables and accruals	12,593,253	10,333,612
Deferred revenue	1,339	4,446
Deferred rent	259,668	256,285
	<b>12,854,260</b>	<b>10,594,343</b>

**14. PROVISIONS**

<b>Current</b>		
Warranty	486,080	452,974
Lease make good	109,332	95,292
Employee entitlements	2,167,508	1,959,067
Onerous leases	390,060	133,446
	<b>3,152,980</b>	<b>2,640,779</b>

*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.

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

Employee benefits obligation expected to be settled after 12 months	1,308,055	916,878
<b>Non-current</b>		
Employee entitlements	1,177,371	848,288
	<b>1,177,371</b>	<b>848,288</b>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**14. PROVISIONS (continued)**

<b>Movements in Provisions</b>	<b>Warranty</b>	<b>Lease make good</b>	<b>Employee entitlement</b>	<b>Onerous leases</b>
<b>2022</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at the beginning of the year	452,974	95,292	2,807,355	133,446
Additional provisions recognised	54,735	14,040	1,103,431	-
Amounts used	(22,072)	-	(566,081)	244,236
FX impact	443	-	174	12,378
Balance at end of year	<u>486,080</u>	<u>109,332</u>	<u>3,344,879</u>	<u>390,060</u>

<b>Movements in Provisions</b>	<b>Warranty</b>	<b>Lease make good</b>	<b>Employee entitlement</b>	<b>Onerous leases</b>
<b>2021</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at the beginning of the year	516,115	81,252	2,391,669	38,294
Additional provisions recognised	11,882	14,040	1,052,885	-
Amounts used	(52,948)	-	(531,383)	98,510
FX impact	(22,075)	-	(105,816)	(3,358)
Balance at end of year	<u>452,974</u>	<u>95,292</u>	<u>2,807,355</u>	<u>133,446</u>

<b>15. ISSUED CAPITAL</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Issued and fully paid ordinary shares		
82,759,315 (2021: 82,759,315) ordinary shares		
Balance of issued capital at the beginning of year	84,002,809	84,002,809
Shares issued during period:		
Less issue costs	-	-
Balance of issued capital at end of year	<u>84,002,809</u>	<u>84,002,809</u>
Less shares issued but not recorded in accounts		
- 1,830,000 shares (2021: 1,842,500) issued at \$1.17	(2,141,100)	(2,155,725)
- 150,000 shares (2021: 150,000) issued at \$1.18	(177,000)	(177,000)
- 20,000 shares (2021: 20,000) re-issued at \$1.64	(32,800)	(32,800)
- 200,000 shares (2021: 200,000) issued at \$1.67	(334,000)	(334,000)
- 20,000 shares (2021: 20,000) re-issued at \$1.79	(35,800)	(35,800)
- 456,000 shares (2021: 456,000) re-issued at \$1.87	(852,720)	(852,720)
- 350,000 shares (2021: 350,000) issued at \$2.09	(731,500)	(731,500)
- 664,000 shares (2021: 664,000) re-issued at \$2.184	(1,450,176)	(1,450,176)
- 493,000 shares (2021: 493,000) issued at \$2.40	(1,183,200)	(1,183,200)
- 12,500 shares (2021: 12,500) issued at \$3.44	(43,000)	(43,000)
- 3,000 shares (2021: 3,000) issued at \$3.61	(10,830)	(10,830)
Total advances to executives to acquire shares in the Company	<u>(6,992,126)</u>	<u>(7,006,751)</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><b>74,271,419</b></u>	<u><b>74,256,794</b></u>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**15. 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 2022 there were 8,795,500 (2021: 8,300,000) unissued ordinary shares for which options were outstanding (including 4,198,500 (2021: 4,211,000) issued ordinary shares which are treated as options in these accounts).

\* In prior years ordinary shares were issued to the Company's Employee Share Trust on behalf of management of the Company at issue prices up to \$3.61 per share. These shares were financed by non-recourse loans and have been treated as options in the Company's accounts. In June 2021 share units issued by the EST in 2020 at \$3.44 and in 2019 at \$3.61 to existing employees were cancelled and an identical number of units were reissued at \$1.17 to those employees with extended vesting conditions. The amount payable by the EST to the Company as non-recourse loans relating to those prior issues at \$3.44 and \$3.61 per share was recorded as being non recoverable and a new loan at the lesser amount of \$1.17 per share is reflected in these accounts. The additional share option expense incurred in relation to the issue of units at \$1.17 will be brought to account over the revised vesting periods and no further share option expense will be brought to account for the issues at \$3.44 and \$3.61 per share.

	<b>2022</b>	<b>2021</b>
	<b>#</b>	<b>#</b>
Shares on issue at end of year	82,759,315	82,759,315
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)	(4,198,500)	(4,211,000)
Number of shares recorded as issued capital in Company's accounts	78,560,815	78,548,315

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.

**16. RESERVES**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Share based payment reserve	6,693,258	5,502,907
Foreign currency translation reserve	1,063,102	2,201,166
Capital reserve	56,347	56,347
	<b>7,812,707</b>	<b>7,760,420</b>

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% (2021: 100%)

**SOMNOMED LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022**

<b>17. REMUNERATION OF AUDITORS</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Remuneration of BDO Audit Pty Ltd (Australia)*:		
- Auditing or reviewing the financial report	172,568	176,000
- Other services	16,755	23,000
Remuneration of other auditors (paid to BDO Network firms)		
- Auditing or reviewing the financial reports of subsidiaries	137,361	135,000
- Other services (taxation)	-	-
Total auditors' remuneration included in operating result	326,684	334,000

\* The BDO entity performing the audit of the Group transitioned from BDO East Coast Partnership to BDO Audit Pty Ltd on 28 August 2020. The Disclosures include amounts received or due and receivable by BDO East Coast Partnership, BDO Audit Pty Ltd and their respective related entities.

**18. SEGMENT OPERATIONS**

**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 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 development expenses.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**18. SEGMENT OPERATIONS (continued)**

**Secondary Reporting – Geographical Segments**

<b>Geographical location:</b>	<b>North America</b>	<b>Europe</b>	<b>Asia Pacific</b>	<b>CORE</b>	<b>RSS</b>	<b>GROUP</b>
<b>2022</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total sales/billing revenue	24,829,706	43,517,382	15,450,931	83,798,019	-	83,798,019
Intersegment eliminations	(141,546)	(1,052,082)	(10,023,988)	(11,217,616)	-	(11,217,616)
<b>External sales revenue</b>	<b>24,688,160</b>	<b>42,465,300</b>	<b>5,426,943</b>	<b>72,580,403</b>	<b>-</b>	<b>72,580,403</b>
<b>Segment net profit before tax</b>	<b>3,330,018</b>	<b>8,153,390</b>	<b>1,162,325</b>	<b>12,645,733</b>	<b>-</b>	<b>12,645,733</b>
Unallocated expense items	-	-	(12,111,375)	(12,111,375)	(5,515)	(12,116,890)
Depreciation and amortisation	(635,809)	(1,334,312)	(1,966,069)	(3,936,190)	-	(3,936,190)
Government grant and other income	651	2,790	282,592	286,033	-	286,033
Interest income	-	231	199	430	13,049	13,479
Interest expense	(106,350)	(157,409)	(116,568)	(380,327)	(18,198)	(398,525)
<b>(Loss)/profit before tax</b>	<b>2,588,510</b>	<b>6,664,690</b>	<b>(12,748,896)</b>	<b>(3,495,696)</b>	<b>(10,664)</b>	<b>(3,506,360)</b>
Income tax expense	(91,614)	(644,468)	(194,525)	(930,607)	-	(930,607)
<b>(Loss)/profit after tax</b>	<b>2,496,896</b>	<b>6,020,222</b>	<b>(12,943,421)</b>	<b>(4,426,303)</b>	<b>(10,664)</b>	<b>(4,436,967)</b>

<b>Total Assets</b>	<b>10,498,119</b>	<b>26,499,949</b>	<b>20,729,389</b>	<b>57,727,457</b>	<b>366,090</b>	<b>58,093,547</b>
<b>Total Liabilities</b>	<b>4,802,697</b>	<b>17,255,465</b>	<b>7,704,564</b>	<b>29,762,726</b>	<b>542,586</b>	<b>30,305,312</b>

<b>Geographical location:</b>	<b>North America</b>	<b>Europe</b>	<b>Asia Pacific</b>	<b>CORE</b>	<b>RSS</b>	<b>GROUP</b>
<b>2021</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total sales/billing revenue	18,564,975	40,089,262	13,333,533	71,987,770	-	71,987,770
Intersegment eliminations	(58,893)	(1,258,160)	(7,964,365)	(9,281,418)	-	(9,281,418)
<b>External sales revenue</b>	<b>18,506,082</b>	<b>38,831,102</b>	<b>5,369,168</b>	<b>62,706,352</b>	<b>-</b>	<b>62,706,352</b>
<b>Segment net profit before tax</b>	<b>2,114,025</b>	<b>8,462,024</b>	<b>331,338</b>	<b>10,907,387</b>	<b>-</b>	<b>10,907,387</b>
Unallocated expense items	-	-	(7,793,675)	(7,793,675)	(70,541)	(7,864,216)
Depreciation and amortisation	(553,639)	(1,314,314)	(1,971,531)	(3,839,484)	-	(3,839,484)
Government grant, other income and other expense	146,115	290,442	20,547	457,104	-	457,104
Interest income	12	1,427	2,515	3,954	15,137	19,091
Interest expense	(143,755)	(185,553)	(139,877)	(469,185)	(51,191)	(520,376)
<b>(Loss)/profit before tax</b>	<b>1,562,758</b>	<b>7,254,026</b>	<b>(9,550,683)</b>	<b>(733,899)</b>	<b>(106,595)</b>	<b>(840,494)</b>
Income tax expense	475,893	(761,421)	(63,634)	(349,162)	(3,352)	(352,514)
<b>(Loss)/profit after tax</b>	<b>2,038,651</b>	<b>6,492,605</b>	<b>(9,614,317)</b>	<b>(1,083,061)</b>	<b>(109,947)</b>	<b>(1,193,008)</b>

<b>Total Assets</b>	<b>9,754,616</b>	<b>27,841,276</b>	<b>18,308,632</b>	<b>55,904,524</b>	<b>261,832</b>	<b>56,166,356</b>
<b>Total Liabilities</b>	<b>4,872,768</b>	<b>12,272,474</b>	<b>6,162,069</b>	<b>23,307,311</b>	<b>700,744</b>	<b>24,008,055</b>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**19. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES**

Details of controlled entities are reflected below

Company	Country of Incorporation	Interest %	
		2022	2021
SomnoMed Limited	Australia		
<b>Entities controlled by SomnoMed Limited</b>			
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%	100%
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%	100%
SomnoMed Finance, Inc.	USA	100%	100%

	2022	2021
	\$	\$
<b>20. CASH FLOW INFORMATION</b>		
<b>a. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		
Operating loss after income tax	(4,436,967)	(1,193,008)
Share based payments	1,190,352	33,335
Loan forgiveness (PPP Loan FY20)	-	(146,115)
Depreciation and amortisation	1,977,833	2,037,369
Depreciation and amortisation (AASB 16)	1,950,587	1,803,680
Net exchange differences	(729,625)	74,392
<i>Change in operating assets and liabilities</i>		
Increase in inventories	(759,442)	(87,700)
Increase in trade and other receivables	(373,418)	(2,860,740)
Increase in trade and other payables	2,248,841	1,939,332
Increase in provisions*	702,280	1,057,222
Decrease in deferred tax assets	87,248	48,007
<b>Net cash inflow from operating activities</b>	<b>1,857,690</b>	<b>2,705,774</b>

\* As part of the implementation of AASB16 for RSS as a discontinued business (practical expedient AASB 16.C10(b)), a total of A\$115,628 (FY21: A\$268,085) in provisions were offset against the closing balance of right-of-use assets for RSS.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**20. CASH FLOW INFORMATION (continued)**

**b. CHANGES IN LIABILITIES ARISING FROM FINANCE ACTIVITIES**

<b>Lease liabilities</b>	<b>2021</b>	<b>Cash flows</b>	<b>Non-cash changes</b>		<b>2022</b>
			<b>New leases*</b>	<b>Remeasurements</b>	
	\$	\$	\$	\$	\$
Lease liabilities	6,559,386	(2,412,202)	881,410	90,797	5,119,391
Borrowings	2,348,226	4,542,710	-	-	6,890,936
	8,907,612	2,130,508	881,410	90,797	12,010,327

<b>Lease liabilities</b>	<b>2020</b>	<b>Cash flows</b>	<b>Non-cash changes</b>		<b>2021</b>
			<b>New leases*</b>	<b>Remeasurements</b>	
	\$	\$	\$	\$	\$
Lease liabilities	8,068,016	(2,661,909)	1,389,988	(236,709)	6,559,386
Borrowings	7,461,862	(4,780,153)	-	(333,483)**	2,348,226
	15,529,878	(7,442,062)	1,389,988	(570,192)	8,907,612

\* New lease agreements, increase in lease term and re-measurement of leases under AASB 16.

\*\* Conversion PPP Loan (US INC) to loan forgiveness recognised on statement of profit and loss; impact of exchange rate, notably EUR in Borrowings, measured in AUD.

**21. EARNINGS PER SHARE**

	<b>2022</b>	<b>2021</b>
<b>Earnings per share</b>		
Net loss used in calculating basic and diluted earnings per share	(\$4,436,967)	(\$1,193,008)
Basic earnings per share (cents)	(5.65)	(1.52)
Diluted earnings per share (cents)	(5.65)	(1.52)
<b>Earnings per share – continuing operations</b>		
Net loss used in calculating basic and diluted earnings per share	(\$4,426,303)	(\$1,083,061)
Basic earnings per share (cents)	(5.63)	(1.38)
Diluted earnings per share (cents)	(5.63)	(1.38)
<b>Earnings per share – discontinued operation</b>		
Net loss used in calculating basic and diluted earnings per share	(\$10,664)	(\$109,947)
Basic earnings per share (cents)	(0.01)	(0.14)
Diluted earnings per share (cents)	(0.01)	(0.14)
Weighted average number of shares used in the calculation of basic earnings per share	78,555,610	78,427,082
Weighted average number of shares used in the calculation of diluted earnings per share	82,863,685	83,015,047
Shares on issue at year end per accounts	78,560,815	78,548,315
Number of options on issue at year end – each option is exercisable at between \$2.00 and \$2.33 per share and converts to one ordinary share	4,597,000	4,089,000

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**21. EARNINGS PER SHARE (continued)**

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.

	<b>2022</b>	<b>2021</b>
	<b>#</b>	<b>#</b>
Shares on issue at end of year	82,759,315	82,759,315
Less: Share issued but not recorded in accounts (being units in the Employee Share Trust for executives to acquire shares in the Company by utilising funds advanced by the Company)	(4,198,500)	(4,211,000)
Number of shares recorded as issued capital in Company's accounts	<u>78,560,815</u>	<u>78,548,315</u>

**22. BORROWINGS**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Current borrowings	4,877,475	-
Non-current borrowings	2,013,461	2,348,226
	<u>6,890,936</u>	<u>2,348,226</u>

*HSBC credit facility (Commercial Borrowing)*

- In June 2019, SomnoMed Limited secured a EUR 3 million (A\$4.8 million) credit facility, in the form of an overdraft facility, with HSBC France, Amsterdam Branch. The facility was fully repaid by SomnoMed on 21st July 2022.

*Unsecured loan facilities (Government Borrowings)*

- In March 2020, SomnoMed AG (Switzerland) secured a CHF 0.5 million (A\$0.756 million) Government-backed unsecured loan facility with Credit Suisse (maturity of 5 years). The interest payable is currently at 0.50% per annum. This loan expires on 26 February 2025. This loan was repaid in August-22.
- In May 2020, SomnoMed France SAS (France) secured a EUR 0.515 million (A\$0.832 million) Government-backed unsecured loan facility with Société Générale. The interest payable is at 0.5% per annum in the first year (after a grace period of 12 months. Maturity of 5 years). This loan expires on 20 May 2026.
- In June 2020, SomnoMed Germany GmbH (Germany) secured a EUR 0.5 million (A\$0.807 million) Government-backed unsecured loan facility with Commerzbank (maturity of up to 6 years). The interest payable is 3% per annum. This loan expires on 30 June 2030.

**23. LEASE LIABILITIES**

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$
Less than one year	2,006,166	2,261,182	226,347	305,167	1,779,819	1,956,015
Between one year and five years	3,522,573	4,883,453	289,689	477,996	3,232,884	4,405,457
More than five years	108,095	204,405	1,407	6,491	106,688	197,914
	<u>5,636,834</u>	<u>7,349,040</u>	<u>517,443</u>	<u>789,654</u>	<u>5,119,391</u>	<u>6,559,386</u>

**SOMNOMED LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022**

**24. SHARE BASED PAYMENTS**

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

	<b>2022</b>	<b>2021</b>
	<b>#</b>	<b>#</b>
Opening balance	8,300,000	4,361,000
Granted during the year	508,000	4,089,000
Exercised during the year	(12,500)	(150,000)
Closing balance (refer Note 15)	8,795,500	8,300,000

**(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**

	<b>2022</b>	<b>2021</b>
Shares treated as options in accounts (refer Note 15)	4,198,500	4,211,000

The options and shares issued under the Employee Share and Option plan outstanding at 30 June 2022 had a weighted average exercise price of \$1.88 (2021: \$1.85) and a weighted average remaining contractual life of 3.44 years (2021: 4.14 years). Exercise prices range from \$1.17 to \$3.61 in respect of options outstanding at 30 June 2022 (2021: \$1.17 to \$3.61 range).

The weighted average fair value of the options granted during the year was \$1.00 (2022: \$1.00).

This price was calculated by using a Monte-Carlo Model for 2022 and Black-Scholes option pricing model for 2021 by applying the following inputs:

Weighted average exercise price	\$2.34	\$2.05
Weighted average life of the option	6.00 years	4.38 years
Underlying share price	\$2.24-\$2.33	\$2.45
Expected share price volatility	45.00	45.00
Risk free interest rate	0.33%-0.97%	0.33%-0.97%

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 1,691,500 (2021: 1,173,000).

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 consolidated statement of profit or loss is \$1,190,352 (2021: \$33,335), 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 2022, 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.

**SOMNOMED LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022**

**25. EVENTS SUBSEQUENT TO REPORTING DATE**

On 25th July 2022, SomnoMed Limited entered into a A\$16 million debt facility with Epsilon Direct Lending. The facility, which is supported by a first ranking general security interest, is for a term of 3 years, with no amortisation payments. SomnoMed has currently drawn A\$10 million under the facility. Interest payable is calculated quarterly at BBSW, plus a 9% margin.

SomnoMed was assisted in the establishment of debt facility by Ernst & Young.

In June 2019, SomnoMed Limited secured a EUR 3 million (A\$4.8 million) credit facility, in the form of an overdraft facility, with HSBC France, Amsterdam Branch. The facility was fully repaid and terminated by SomnoMed on 21st July 2022.

In March 2020, SomnoMed AG (Switzerland) secured a CHF 0.5 million (A\$0.756 million) Government-backed unsecured loan facility with Credit Suisse (maturity of 5 years). This loan was repaid and closed on 15th August 2022.

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.

**26. RELATED PARTY DISCLOSURES**

Related party transactions to SomnoMed Limited (parent entity) fall into the following categories:

**(a) Controlled entities**

Interests in controlled entities are disclosed in Note 19. 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.

	<b>2022</b>	<b>2021</b>
	\$	\$
The aggregate amount included in the loss before income tax for the Company that resulted from transactions with non-director related parties are:		
Royalties	5,106,780	3,315,067
Interest income	102,496	204,798
The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are:		
Current receivables	10,420,071	17,138,030
Less allowance for ECL	(7,955,295)	(7,955,295)
	2,464,776	9,182,735

**(b) Director related entities**

During the year consultancy fees of \$0 (2021: \$24,386) were paid to Belgove Pty Limited, a company associated with Dr Neustadt; \$0 (2021: \$11,254) was paid to Leedoc Pty Limited, a company associated with Ms Ausburn; \$45,455 (2021: \$25,000) was paid to TDM Asset Management Pty Limited, a company associated with Mr Corlett (as per director's remuneration); \$45,455 (2021: \$24,998) was paid to Zacoah Trading Pty Limited, a company associated with Mr Gordon.

**(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 24. Directors acquired these shares or options through the public offering, direct issue or on-market purchase.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**27. 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 Verdai-Austin	Global Chief Executive Officer
Hervé Fiévet	Global Chief Financial Officer
Mark Harding	Vice President – Global Marketing
Matthew Conlon	Executive Vice President – Marketing & Sales North America
Marco Van Kleef	Vice President – Marketing & Sales Europe

**(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 24.

**Compensation**

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

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,576,824	2,075,642
Post-employment benefits	213,239	109,245
Other	1,960	2,419
Share-based payments	780,218	67,844
	<u>3,572,241</u>	<u>2,255,150</u>

**28. FINANCIAL INSTRUMENTS**

**Credit Risk**

*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:

Cash and equivalents	15,644,331	21,109,841
Trade receivables	7,377,078	6,656,247
Other receivables - current	1,556,812	1,434,576
	<u>24,578,221</u>	<u>29,200,664</u>

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

North America	2,825,871	2,429,723
Europe	4,199,085	3,614,777
Asia Pacific	352,122	611,747
	<u>7,377,078</u>	<u>6,656,247</u>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**28. FINANCIAL INSTRUMENTS (continued)**

**Credit Risk (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	
	2022	2021	2022	2021	2022	2021	2022	2021
	%	%	\$	\$	\$	\$	\$	\$
<b>Gross receivables</b>								
Not past due	1%	0%	5,386,715	4,750,721	(59,150)	(4,115)	5,327,565	4,746,606
Past due 0 – 30	3%	0%	837,058	982,335	(2,749)	(3,567)	834,309	978,768
Past due 31 – 60	14%	1%	399,746	371,515	(2,006)	(2,485)	397,740	369,030
Past due 61 – 90	36%	2%	372,451	259,815	(2,287)	(4,062)	370,164	255,753
Past due 91 days and over	67%	38%	575,827	495,871	(128,527)	(189,781)	447,300	306,090
			<u>7,571,797</u>	<u>6,860,257</u>	<u>(194,719)</u>	<u>(204,010)</u>	<u>7,377,078</u>	<u>6,656,247</u>

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

	2022	2021
	\$	\$
Balance at 1 July	(204,010)	(994,722)
Allowance movement*	4,598	786,668
Exchange effect	4,693	4,044
Balance at 30 June	<u>(194,719)</u>	<u>(204,010)</u>

\* 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(g).

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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**28. FINANCIAL INSTRUMENTS (continued)**

**Currency Risk**

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

<b>Amounts local currency</b>	<b>KRW</b>	<b>GBP</b>	<b>PHP</b>	<b>JPY</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>SEK</b>	<b>CAD</b>	<b>NOK</b>	<b>DKK</b>	<b>NTD</b>
<b>2022</b>												
Cash and cash equivalents	28,357	250,828	66,633	5,018	2,889,932	10,621,942	209,389	203,365	224,283	43,805	1,904	15,660
Trade receivables	32,443	-	-	40,594	2,681,969	4,199,085	-	-	143,901	-	-	-
Trade payables	-	-	(149,090)	(16,360)	(814,980)	(1,908,582)	-	-	(42,452)	-	-	-
<b>Gross exposure</b>	<b>60,800</b>	<b>250,828</b>	<b>(82,457)</b>	<b>29,252</b>	<b>4,756,921</b>	<b>12,912,445</b>	<b>209,389</b>	<b>203,365</b>	<b>325,733</b>	<b>43,805</b>	<b>1,904</b>	<b>15,660</b>

<b>Amounts local currency</b>	<b>KRW</b>	<b>GBP</b>	<b>PHP</b>	<b>JPY</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>SEK</b>	<b>CAD</b>	<b>NOK</b>	<b>DKK</b>	<b>NTD</b>
<b>2021</b>												
Cash and cash equivalents	9,516	77,431	115,937	37,911	2,334,631	11,832,449	138,890	315,977	653,305	273,496	72,811	14,940
Trade receivables	78,277	-	-	37,944	2,260,884	3,614,777	-	-	168,840	-	-	-
Trade payables	-	-	(490,823)	(1,400)	(782,859)	(2,245,929)	-	-	(10,984)	-	-	-
<b>Gross exposure</b>	<b>87,793</b>	<b>77,431</b>	<b>(374,886)</b>	<b>74,455</b>	<b>3,812,656</b>	<b>13,201,297</b>	<b>138,890</b>	<b>315,977</b>	<b>811,161</b>	<b>273,496</b>	<b>72,811</b>	<b>14,940</b>

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

	<b>Average Rate</b>		<b>Reporting date spot rate</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
AUD = 1				
USD	0.7239	0.7425	0.6875	0.7512
EUR	0.6422	0.6237	0.6584	0.6315
JPY	85.19	79.22	93.86	83.04
PHP	37.03	36.00	37.81	36.56
KRW	868.95	845.09	894.42	850.37
CAD	0.9157	0.9562	0.8865	0.9309

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**28. 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.

The Consolidated Entity is exposed to interest rate risks in Australia.

*Profile*

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

<b>Carrying amount</b>	<b>2022</b>	<b>2021</b>
<b>Variable rate instruments</b>	<b>\$</b>	<b>\$</b>
Financial assets	317,181	317,142

**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.

<b>2022</b>	Effective interest rate p.a.	Carrying amount \$	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	0.003%	15,644,331	15,644,331	-	-
Receivables	-	8,933,890	8,933,890	-	-
Payables	-	(5,045,954)	(5,045,954)	-	-
Lease liabilities	-	(5,636,834)	(2,006,166)	(3,522,573)	(108,095)
Borrowings	1.40%	(6,890,936)	(4,877,476)	(1,728,690)	(284,771)
<b>Total</b>		<b>7,004,497</b>	<b>12,648,625</b>	<b>(5,251,263)</b>	<b>(392,866)</b>

<b>2021</b>	Effective interest rate p.a.	Carrying amount \$	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	0.02%	21,109,841	21,109,841	-	-
Receivables	-	8,090,824	8,090,824	-	-
Payables	-	(4,549,613)	(4,549,613)	-	-
Lease liabilities	-	(7,349,040)	(2,261,182)	(4,883,453)	(204,405)
Borrowings	1.12%	(2,348,226)	-	(1,648,550)	(699,676)
<b>Total</b>		<b>14,953,786</b>	<b>22,389,870</b>	<b>(6,532,003)</b>	<b>(904,081)</b>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**28. FINANCIAL INSTRUMENTS (continued)**

**Fair Values**

The fair values of financial assets and liabilities, together with carrying amounts in the consolidated statement of financial position are as follows:

	2022		2021	
	\$		\$	
Consolidated	Carrying amount	Fair value	Carrying amount	Fair value
Cash and equivalents	15,644,331	15,644,331	21,109,841	21,109,841
Trade and other receivables - current	8,933,890	8,933,890	8,090,824	8,090,824
Trade and other payables - current	(5,045,954)	(5,045,954)	(4,549,613)	(4,549,613)
Lease liabilities	5,636,834	5,636,834	7,349,040	7,349,040
<b>Total</b>	<b>25,169,101</b>	<b>25,169,101</b>	<b>32,000,092</b>	<b>32,000,092</b>

**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.

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**28. 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 2022, 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 \$ 953 and for the year ended 30 June 2021 the effect would have been to decrease the Consolidated Entity's loss after income tax and equity by approximately \$280,953. 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 2022, and decreased the Consolidated Entity's equity by approximately \$367,000. For the year ended 30 June 2021 the effect would have been to increase the Consolidated Entity's loss and decrease the equity by \$367,000.

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 2022, and increased the Consolidated Entity's equity by approximately \$448,000. For the year ended 30 June 2021 the effect would have been to decrease the Consolidated Entity's loss and increase the equity by \$448,000.

**29. RIGHT-OF-USE ASSETS**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Right-of-use assets - non-current	4,675,691	5,615,740
	<u>4,675,691</u>	<u>5,615,740</u>
Land and buildings - right-of-use	7,773,518	7,423,016
Lease modifications*	129,128	60,620
Less: accumulated depreciation	(4,044,483)	(2,562,075)
	<u>3,858,163</u>	<u>4,921,561</u>
Plant and equipment - right-of-use	168,332	135,528
Lease modifications*	-	1,228
Less: accumulated depreciation	(110,162)	(82,091)
	<u>58,170</u>	<u>54,665</u>
Vehicles - right-of-use	1,717,060	1,218,147
Lease modifications*	-	13,980
Less: accumulated depreciation	(957,702)	(592,613)
	<u>759,358</u>	<u>639,514</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.

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

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**29. RIGHT-OF-USE ASSETS (continued)**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Balance at the beginning of the year	5,615,740	6,317,333
Additions	881,410	1,026,259
Lease modifications*	129,128	75,828
Depreciation expense	(1,950,587)	(1,803,680)
<b>Balance at end of the year</b>	<b>4,675,691</b>	<b>5,615,740</b>
Depreciation expense - land and buildings	(1,542,220)	(1,440,382)
Depreciation expense - plant and equipment	(29,299)	(37,371)
Depreciation expense - vehicles	(379,068)	(325,927)
Total depreciation expense	(1,950,587)	(1,803,680)

The consolidated entity leases land and buildings for its offices and laboratories under agreements of between one to eleven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The consolidated entity leases office equipment under agreements of three and five years and property under agreements of one and nine years whilst vehicle lease agreements have a duration between one and five years.

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

**30. INTEREST EXPENSE**

Interest expense due to Borrowings and Capital Leases	(84,033)	(129,750)
Interest expense due to AASB 16	(296,294)	(339,435)
	(380,327)	(469,185)

**31. CASH OUTFLOWS – LEASES**

Total Cash outflows - leases	(2,830,860)	(2,917,464)
	(2,830,860)	(2,917,464)
Interest payment due to Borrowings and Capital Leases	(84,033)	(103,667)
Interest payment due to AASB 16	(296,294)	(390,626)
Total interest paid - leases (cash outflow from operating activities)	(380,327)	(494,293)
Principal payment of Capital Leases	(172,308)	(182,567)
Principal payment due to AASB 16	(2,412,202)	(2,479,342)
Proceeds from leases as lessor (RSS)	133,977	238,738
Total principal payment - leases (cash outflow from financing activities)	(2,450,533)	(2,423,171)

**SOMNOMED LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022**

**32. COMMITTED AND NOT YET COMMENCED LEASES**

There were no leases committed at the end of June 2021 which had not initiated before 30 June 2022 and which are not represented on the Consolidated Statement of Financial Position.

**33. SHORT-TERM AND LOW VALUE LEASES**

The table below outlines leases which were elected not to apply AASB 16 paragraphs 22 to 49 and, as such, are recognised directly as an expense on the consolidated statement of profit or loss.

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Expenses with short-term leases (2022: 3 agreements; 2021: 8 agreements)	(18,409)	(35,114)
Expenses with low-value assets (2022: 7 agreements; 2021: 2 agreements)	(7,659)	(2,366)
	<b>(26,068)</b>	<b>(37,480)</b>

**34. DEPRECIATION AND AMORTISATION – CONTINUING OPERATIONS**

Depreciation – Property, plant and equipment	1,285,978	1,294,980
Amortisation of intellectual property	699,625	740,824
Depreciation – AASB 16	1,950,587	1,803,680
<b>Total depreciation and amortisation</b>	<b>3,936,190</b>	<b>3,839,484</b>

**SOMNOMED LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

**35. PARENT ENTITY DISCLOSURES**

At and throughout the financial year ended 30 June 2022, the parent company was SomnoMed Limited, which has adopted the accounting policies consistent with those of the Consolidated Entity, except for investments in controlled entities that are carried at their cost of acquisition less any provision for impairment.

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Result of the parent entity</b>		
Net loss	(6,349,555)	(5,740,600)
Other comprehensive income/(loss)	-	-
<b>Total comprehensive loss</b>	<b>(6,349,555)</b>	<b>(5,740,600)</b>
<b>Financial position of the parent entity at year end</b>		
Current assets	4,035,262	7,885,102
Non-current assets	16,876,405	16,343,565
<b>Total assets</b>	<b>20,911,667</b>	<b>24,228,667</b>
Current liabilities	4,615,196	3,024,905
Non-current liabilities	291,913	13,136
<b>Total liabilities</b>	<b>4,907,109</b>	<b>3,038,041</b>
<b>Total equity of the parent entity comprising of:</b>		
Issued capital	74,229,929	74,256,794
Share option reserve	6,693,258	5,502,907
Foreign exchange reserve	(701,535)	(701,545)
Accumulated losses	(64,217,094)	(57,867,530)
<b>Total Equity</b>	<b>16,004,558</b>	<b>21,190,626</b>

**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 the notes 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 2022 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



Mr Neil Verdal-Austin  
Managing Director

27<sup>th</sup> September 2022

## 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 2022, 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 2022 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 (including Independence Standards)* (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.

### *Capitalisation and recoverability of product development costs*

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in note 12, product development costs of \$5,475,151 have been capitalised as an intangible asset during the year.</p> <p>The capitalisation of product development costs was a key audit matter due to the significance of the costs capitalised and the judgement involved in assessing whether the criteria set out in AASB 138 <i>Intangible Assets</i> have been met. This criteria involves management judgement with respect to the technical feasibility of the projects and the likelihood of the projects delivering future economic benefits, the ability to measure the costs reliably and determine whether the costs are directly attributable to the projects.</p> <p>There is also management judgement involved in assessing if there are any indicators of impairment of the capitalised product development costs at 30 June 2022.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Evaluating the nature of the type of product development costs incurred that are capitalised as intangible assets and assessing the reasonableness of the capitalisation based on our knowledge of the business and industry.</li> <li>• Evaluating the key assumptions made in capitalising product development costs, including an assessment of whether capitalised costs related to the development phase of the projects and the generation of probable future economic benefits.</li> <li>• Evaluating the appropriateness of costs capitalised, on a sample basis, by agreeing the costs incurred to external invoices.</li> <li>• Enquiring and considering as to whether there are any indicators of impairment that may require further consideration.</li> <li>• Reviewing management’s impairment assessment and ensuring the assumptions are reasonable and consistent with our understanding of the business including the potential impact of reasonably possible downside changes in these key assumptions.</li> <li>• Assessing the adequacy of the disclosures in the financial report.</li> </ul>

## 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 2022, 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:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2022.

In our opinion, the Remuneration Report of SomnoMed Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.



## Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

*BDO*

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

Tim Aman  
Director

Sydney, 27 September 2022

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

As lead auditor of SomnoMed Limited for the year ended 30 June 2022, 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 Audit Pty Ltd

Sydney, 27 September 2022

## ADDITIONAL INFORMATION\*

### 1. Shareholding

a. Distribution of Shareholders as at 6 September 2022	Shareholders	Shares	Percentage
Category (size of Holding)			
1-1,000	611	189,595	0.230%
1,001-5,000	379	997,120	1.200%
5,001-10,000	124	920,873	1.110%
10,001-100,000	200	5,791,643	7.000%
100,001 and over	60	74,860,084	90.460%
	<b>1,374</b>	<b>82,759,315</b>	<b>100.000%</b>

b. The number of shareholdings held in less than marketable parcels is 391

c. The names of the substantial shareholders listed in the holding company's register as at 6 September 2022 are:

Shareholder	Number of Ordinary Shares	Percentage
TDM Growth Partners Pty Ltd & Associates	22,127,303	26.737%
National Nominees Ltd ACF Australian Ethical Investment Limited	10,164,745	12.28%
Dottie Investments Pty Ltd and associated entities	6,568,250	7.94%
FIL Limited and associated entities	6,372,330	7.70%
FMR LLC and associated entities	4,592,368	5.55%

### 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 6 September 2022

Name	No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. HSBC Custody Nominees (Australia) Limited	31,202,988	37.703%
2. National Nominees Limited	10,616,815	12.829%
3. Equity Plan Services Pty Ltd	4,654,268	5.624%
4. Dottie Investments Pty Ltd	3,650,487	4.411%
5. Howarth PAF Pty Ltd <The Howarth Foundation A/C>	2,156,722	2.606%
6. Ginga Pty Ltd	1,729,045	2.089%
7. Bond Street Custodians Ltd <Salter – D79836 A/C>	1,462,000	1.767%
8. BNP Paribas Nominees Pty Ltd <ACF Clearstream A/C>	1,427,657	1.725%
9. J P Morgan Nominees Australian Pty Limited	1,304,609	1.576%
10. Citicorp Nominees Pty Limited	1,235,155	1.492%
11. Belgove Pty Ltd	2,053,265	2.481%
12. P Neustadt Holdings Pty Ltd <Belgove Super Fund A/C>	1,082,171	1.308%
13. Timbina Pty Ltd <Timbina Super Fund A/C>	1,073,764	1.297%
14. REM Medical Pty Ltd <Cocoon Super Fund A/C>	800,641	0.967%
15. Golden Words Pty Ltd	775,399	0.937%
16. Honne Investments Pty Limited	600,000	0.725%
17. Thirty Sixth Vilmar Pty Ltd	581,993	0.703%
18. The Mulloon Institute Ltd	533,048	0.644%
19. Howarth PAF Pty Ltd <Howarth Charitable Fund A/C>	523,771	0.633%
20. Mr Edward Palmisano	484,631	0.586%
	<b>67,948,429</b>	<b>82.103%</b>

\* Non-audited

## CORPORATE DIRECTORY

### Registered Office and Principal Place of Business

Level 3  
20 Clarke St, Crows Nest 2065  
Telephone: (02) 9467 0400

### Directors

Guy Russo	Non-executive Chairman
Neil Verdal-Austin	Managing Director
Amrita Blickstead	Non-executive Director
Hamish Corlett	Non-executive Director
Hilton Brett	Non-executive Director
Michael Gordon	Non-executive Director
Karen Borg	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 Audit Pty Ltd

### 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](http://www.boardroomlimited.com.au)

### Company Website

[www.somnomed.com.au](http://www.somnomed.com.au)

### Stock Exchange listing

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



2022 ANNUAL REPORT



[somnomed.com](https://www.somnomed.com)

