SomnoMed®

Dental • Sleep • Medical

2012
Annual Report

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EXECUTIVE CHAIRMAN'S REPORT

Dear SomnoMed Shareholder,

It is again with pleasure that we submit to you our Annual Report for the financial year to June 2012.

SomnoMed continues to grow rapidly within the Sleep Disordered Breathing market building upon a strengthening global platform in production, technology, marketing, sales and distribution. This forms the foundation for our future endeavours and plans on our way to build a global mainstream medical device company, specialized in diagnosis and treatment of sleep disordered patients.

The year gone by will be seen as a milestone year, with the FDA approval of our new SomnoDent®G2 and the MATRx diagnostic system, globally marketed and distributed by SomnoMed, but also with the registration of our SomnoDent® products in France. It was also the year in which the directors of your company reviewed the global strategy of SomnoMed and focused future activities even more on allowing SomnoMed to become a recognized mainstream medical device company. As a result, the composition of the SomnoMed Board and the USA management structure changed. We have appointed proven and highly experienced Board members and executives with lifelong careers in medical devices and look forward to the successful implementation of the various new initiatives to enable your company's continued growth.

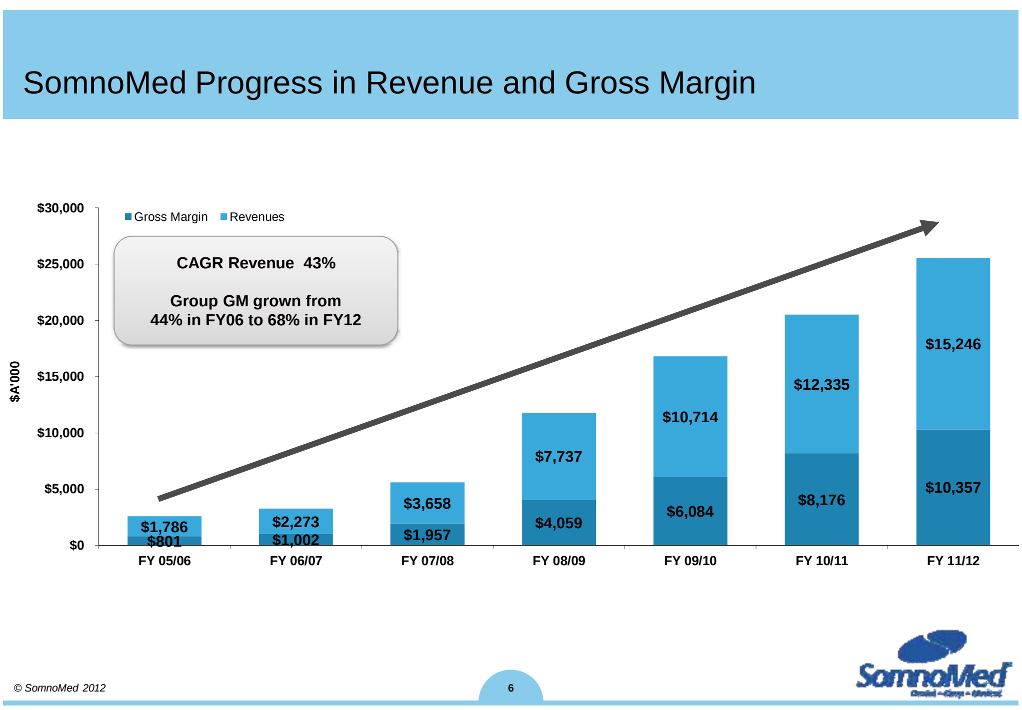
RESULTS

Your company has achieved unit growth of 23% over last year, posting sales of the SomnoDent® Sleep Apnea device of 30,878 units for the twelve months to June 2012. During the course of the 2011/12 all regions were able to achieve new record sales and particularly strong growth was recorded in Europe. As a result, the European share of our unit sales rose from 25% to over 27%, notwithstanding that the North American market represents the majority of our global sales with 61% of our global volume and APAC now represents around 12% of our units sold.

Total sales revenues were $15.2m, growing by 23% (28% on constant exchange rates) year on year and generating a gross margin of $10.3m or 68%, compared to 66% in the previous year.

Operating profit before corporate and R&D expenses was $3.2m with an EBITDA posted of $1.08m, up 9%. Profits were generated despite extra costs being absorbed during the year relating to the acquisition of a Dutch distribution company, the establishment of regulatory departments, as well as the cost of further development and approvals relating to our new SomnoDent®G2 and new packaging concepts.

SomnoMed's progress and financial development is shown below as presented to the market following the release of our yearly results at the end of September 2012:



RESULTS (CONTINUED)

The company posted sales records in all regions and surpassed 100,000 patients treated with SomnoDent® devices during the fiscal year reflecting the fact that SomnoDent® is recognized as the leading and most comfortable oral appliance in the treatment of Obstructive Sleep Apnea around the world. The SomnoMed Dental Network has now reached over 4,000 dentists worldwide educated in providing the SomnoDent treatment on a regular basis.

NORTH AMERICA

Sales in the USA market have increased year on year, however there are indications that even higher growth could have been achieved. Whilst the acceptance of oral appliance treatment is growing, it is SomnoMed's job to better connect with the various medical specialties involved with sleep disordered breathing patients and work with them and the health insurance providers, so that the benefits of our device are better understood from a treatment efficacy point of view and patient comfort perspective, which delivers high level of compliance. There is also scope to deliver significant savings to insurance providers and patients when SomnoDent® and CPAP treatment costs are compared over a three to five year period.

The Board determined that for us to make progress in this area in the United States it was essential to recruit quality candidates with a solid medical device background, so that we can build on the strength of our products and the fulfillment network we have established in this market over the past five years. Based on our information, only 10–15% of sleep specialists in the USA are referring patients for oral appliance treatment. This participation is well behind many other countries and an indication that future growth can be achieved through systematic and planned activities enhancing the communication between SomnoMed and medical specialists, as well as targeted sales and marketing activities. The push into the medical space is the beginning of the next chapter in the development of our company which we believe will boost sales at a greater rate than would otherwise have been the case.

We were very pleased to have appointed Kien Nguyen as the new head of our North American business. Kien is an outstanding individual with an impeccable career, focused on strategy development and marketing & sales in medical devices and biological products. After an extensive search process all directors were of the opinion that Kien was the candidate of choice and the executive most likely to succeed in building a significant business for our company in North America in the future.

Additional appointments to strengthen our medical capabilities have been made and will continue to be made during the new financial year. These include a highly reputable Chief Medical Officer, the formation of a Medical Advisory Board and a Vice President Managed Care.

During the year the SomnoMed Health Claim Support Line has been established, helping dentists with their medical insurance claims, with great success. This additional service has enabled SomnoMed to offer a unique service in the overall treatment process and also allows us to develop and grow our reimbursement and payor base. With the recent appointment of a new Vice President Managed Care we anticipate the improved development of our business relationship with US health care providers and for our insurance billing department. The reimbursement of all or part of the device and dentist service cost is important in making SomnoDent part of the mainstream medical device industry treating sleep disordered breathing patients and we are hopeful that we can establish SomnoDent oral appliance therapy as an accepted and more and more broadly used therapy to treat obstructive sleep apnea offering an effective alternative to CPAP.

Our sales through the medical channel have grown and it is anticipated that this will continue over the medium to longer term. The Sleep 2012 congress held in Boston this year was another highlight and success story for SomnoMed. The interest shown in our company and our products was significant and again proved our leadership in the Oral Appliance market compared to any other company in the field.

Our recent announcements of the partnership with both Benco Dental and Burkhart Dental Supply indicate the alliances we have now reached with well-known and respected dental distributors with whom we will continue to build our dental fulfillment network and conduct our seminar and education programs in the US.

EXECUTIVE CHAIRMAN’S REPORT (CONTINUED)

EUROPE

SomnoMed’s European region has maintained its strong sales growth seen previously and now represents 27% of SomnoDent® units sold world-wide. SomnoMed owns subsidiaries in Switzerland, Germany, Holland, Sweden and France which cover a range of countries in Europe. During the year we have strengthened our management and sales staff capabilities across the various markets. As a result sales have increased strongly in each of these markets. New markets to be opened within Europe in the current financial year will be France, Belgium, Luxembourg, Denmark and Finland and allow us to be confident that continuing growth can be delivered in the future.

During the year the European business was also enhanced with the acquisition of the Dutch distributor, Goedegebuure Slaaptechniek BV which became effective on 1 January 2012. This acquisition has solidified our presence in Holland and will allow us to extend our leadership position. SomnoMed initially acquired 50% of Goedegebuure Slaaptechniek BV with the remaining 50% to be acquired over the next 5 years on an earn-out basis. Holland has taken a lead in prescribing and fully reimbursing oral appliance therapy as a first line treatment for all patients with an AHI of 30 or less and for all patients suffering from a higher level of severity if CPAP is rejected. SomnoDent is the product of choice in Holland and all nine major health insurers have entered into contracts with our Dutch company. Building on the strong position we have built in Holland, Belgium and Luxembourg are being developed as markets for SomnoDent during the new financial year. At the end of the financial year gone by SomnoMed also achieved the important product registration for reimbursement of the SomnoDent® product in France. This was a precondition for us to enter that market in the current financial year.

Our Swedish subsidiary has achieved excellent growth and was able to commence building a position for our product in Norway. Expansion into Denmark and Finland are planned in the new financial year.

Given the population and its wealth the German speaking region of Germany, Switzerland and Austria are well behind in their adoption of oral appliance treatment. The main reason is the lack of reimbursement from public health insurers, as private health insurers enjoy relatively low memberships. During the year our German subsidiary was able to enter a first contract with a German health insurer, which now offers full reimbursement of SomnoDent® and the dentist’s service fee to its members. It is our principal objective to increase the number of insurers reimbursing the SomnoDent® treatment during the new financial year.

AUSTRALIA, NEW ZEALAND, JAPAN, SOUTH KOREA, ISRAEL and ASIA

This region has performed well for SomnoMed this year, with sales steadily improving in Australia and as well as within Japan, South Korea and Israel, where in each of these markets sales continue to increase year on year. The dominant market in the APAC region is Australia. After a period of low growth acceleration could be achieved during the financial year by strengthening our sales team and focusing more on the medical side of our business. There are now close to 1,000 educated and active SomnoMed dentists in Australia, which gives us a network sufficient in size to fulfill growing referrals from medical specialists. However, the limitations in the development of the Australian markets are the lack of government reimbursement for oral appliance therapy, which we don’t believe will change in the short term given current and future economic and political circumstances.

Our subsidiary in Japan generated good growth during the year following subdued business in the Tsunami affected previous year. Current numbers are very small given that Japan is seen as the second biggest medical market in the world. Adoption of new developments generally and of medical treatments in particular are very slow but product registration, market presence and a network of practitioners connected to our Japanese company represent a barrier of entry for others. Plans are being implemented during the new financial year to expand our operation in Japan, as we are confident that this market offers tremendous long term growth potential.

Significant growth has been recorded in South Korea and in Israel. Further expansion potential for SomnoMed exists especially in South Korea where the registration of SomnoDent® as a medical device will hopefully be achieved during the new financial year.

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

PRODUCTION & REGULATORY

During the year passed we have invested in our production capabilities and improved our manufacturing capacities and standards. Our manufacturing efficiencies and operational processes have been lifted, resulting in further improvements in our gross margin. Further expansion is planned for this year and we are confident that significant growth in demand in the future can be accommodated.

SomnoMed has also established regulatory departments in all three main regions of North America, Europe and Australia. This is a necessity as a professional medical device company and further differentiates SomnoMed from most of its competitors. We believe that the fulfillment of all regulatory medical requirements is an important pre-condition in the acceptance of oral appliance treatment, not only by medical specialists but also by health insurance companies. This commitment to strictly monitored quality processes will ensure the delivery of reliable, safe and effective medical devices for the treatment of sleep disordered breathing conditions, protecting patients and practitioners alike.

SomnoMed Limited is now a truly global operation, with sales in over 23 countries on three continents and utilising the highest standards of manufacturing quality in all devices to all markets.

PRODUCT INNOVATION AND DEVELOPMENT

Following a much longer than anticipated FDA approval process, the SomnoDent®G2 has now been launched in all three sales regions, with broad distribution planned from January 2013. This innovative and metal free device allows for even greater patient comfort and consequently will lead to even better patient compliance. The G2 is not only the first truly new device concept in many years but it is also a product which is difficult to copy by small dental labs and individual dental technicians. The results achieved with SomnoDent®G2 in clinical trials and the positive response experienced during our "soft launch" period with selected dental practitioners gives us confidence that the SomnoMed will continue to be seen as the global leader in this industry

Likewise, the SomnoMed MATRx diagnostic device, manufactured by the Canadian company Zephyr Sleep Technologies Inc., was launched in June at the Sleep 2012 congress in Boston, after receiving FDA clearance. This revolutionary sleep diagnostic device allows the practitioner to identify patients who will respond positively to the SomnoDent® therapy during a Polysomnography ("PSG") sleep test conducted in sleep laboratories and prove the efficacy of the SomnoDent® treatment for a particular patient. This allows SomnoMed to become proactive in lifting the acceptance of oral appliance treatment and the establishment of SomnoDent® as the oral appliance of choice for medical specialists and sleep laboratories. The three-way partnership between SomnoMed, our educated dental network and medical specialists will be instrumental in determining the therapeutic decision is taken in the treatment of individual patients and will broaden the use of oral appliance in the future. SomnoMed is proud to be the exclusive, global distributor of the MATRx device, invented and developed by the well-known Dr John Remmers, the inventor of the Respironics APAP. We believe the MATRx will contribute to our profitability in the future, both as a result of us distributing the MATRx device but more importantly as a result of the increased number of MAS devices prescribed, due to the improved diagnosis and increased certainty of treatment success.

Further product developments and technology enhancements are currently being investigated, planned and researched to ensure that your company's products remain at the forefront of this industry delivering first world, quality products that can be used effectively by a large number of patients suffering from obstructive sleep apnea, many of whom are rejecting or are non-compliant in the use of CPAP and would otherwise remain untreated.

During the year SomnoMed participated and supported clinical research in Australia and in Germany on a larger scale and gave product support to research projects in a number of other countries. We see it as our obligation as global leaders in oral appliance treatment to continue supporting clinical research projects, especially those investigating the impact of SomnoDent® treatment on co-morbidities in the cardiovascular and diabetes areas where a strong link to obstructive sleep apnea has been found.

SMH BIOMATERIAL AG

Our joint venture SMH Biomaterial AG in Switzerland which is the owner and distributor of the SMH "Flex" lining material, used in over 60% of SomnoDent® devices, is continuing to grow its revenues and profits, in line with the success of the material delivering higher patient comfort. The proprietary SMH material gives our SomnoDent® products a further point of difference to competing products and we see the potential to broaden its use in the future.

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

BOARD AND MANAGEMENT

During the year changes were made to the board of directors of your company. I would like to extend my gratitude to Mr. Paul Hopper and Mr. Graham Hurst who served on the company's board for many years.

New appointments to the board were made in September 2011. I welcome Ms Lee Ausburn, previously head of Merck Sharp & Dohme's marketing and sales in South East Asia and Mr. Robert Scherini, previously executive Chairman of Johnson & Johnson Medical responsible for the Australia/New Zealand/Pacific region. Both new directors had a distinguished lifelong career in pharmaceutical and the medical device industries and bring a very significant pool of experience building businesses operating in the medical field to success.

In June 2012 organisational changes led to the resignation of Mr. Ralf Barschow, global CEO and President of our North American business. I would like to thank Mr. Barschow for his outstanding work during his five year tenure to build the dental foundation of SomnoMed on a global basis. His dedication and loyalty to our company was exemplary.

Following Mr. Barschow's departure from our company I accepted to fulfill the role as Executive Chairman for our global business. The appointment of a global CEO is envisaged to take place during the 2013/14 financial year.

I would like to take this opportunity to thank all our ever growing members of our management and staff. Building a medical device company from scratch is not an easy task and requires hard work and willingness to work in a highly entrepreneurial and challenging environment. Planning, implementing and monitoring new action programs, constantly questioning what was yesterday's practice is a daily occurrence in our working life. On behalf of all our shareholders and directors I would like to express our gratitude for the long hours, dedication and loyalty you have shown in 2011/12. We are looking forward seeing you participating in creating a successful, respected and meaningful mainstream medical device company for the benefit of our patients and all stakeholders.

CONCLUSION

We believe that SomnoMed is still at the beginning of a significant, long term journey. It is now well poised to take the next strategic steps in expanding the medical sales and marketing divisions, initially in the US but also step by step in our other core markets, which we believe will build a well-recognised mainstream medical device company specialized in diagnosis and treatment of sleep disordered patients around the world.

On behalf of the SomnoMed board of directors, management and staff I would like to extend my thanks and gratitude for your ongoing support and for sharing this exciting journey with us.

Yours faithfully

Dr Peter Neusadt

Executive Chairman

SOMNOMED LIMITED
ACN 003255221
DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2012.

Directors

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

Peter Neustadt	
Robert Scherini	(appointed 30th September 2011)
Lee Ausburn	(appointed 30th September 2011)
Paul Hopper	(resigned 30th September 2011)
Graham Hurst	(resigned 5th April 2012)

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

Principal Activity

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

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

Operating Results

The net profit of the Consolidated Entity amounted to $699,745 (2011: $739,537)

Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

Significant Changes in State of Affairs

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

After Balance Date Events

The directors are not 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

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

Future Developments

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

Directors

Peter Neustadt
Executive Chairman, Member of the Audit Committee

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

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

He is currently Chairman of mortgage and financial services group Vow Financial Holdings Pty Limited and technology group FireWatch Australia Pty Limited. He is a member of a number of private company boards in Australia and in Europe.

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

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

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

More recently Rob has devoted his time to consulting and mentoring. He is a senior partner of a healthcare consultancy focused on Asia Pacific and a member of the Board of a large privately owned medical device company. Rob is also a member of the Executive Advisory Council of Nursing & Midwifery at the University of Technology, Sydney (UTS).

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

Lee has had a long career in the health industry, beginning as a pharmacist before joining Merck and Co. Inc., a global pharmaceutical company. During this period, she progressed through a range of roles, beginning in marketing before becoming responsible for reimbursement and pricing of Merck products in Australia.

In 1998 she moved into a regional role and was ultimately Vice President, Asia Merck & Co. Inc. responsible for the general management and strong growth of Merck organisations and their products across Asia reporting directly to the executive responsible for the geographic area in the US. During this time, Lee built businesses in a number of countries, often from the very beginning, planned and launched new products, liaised with regulatory authorities and government agencies and built and supervised management teams responsible for building Merck's business in that part of the world. After leaving Merck in 2008, she has taken on a number of non-executive director roles.

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

In addition she is a member of two NSW government boards which are responsible for the implementation of the Garling recommendations to improve the quality of care in NSW hospitals- the Clinical Excellence Commission and the Agency for Clinical Innovation. She is currently the Vice President Pharmacy Faculty Foundation, University of Sydney.

Paul Hopper
Director (Non-executive) - resigned 30th September 2011

Mr. Hopper has over 20 years international experience in the management and funding of biotechnology and healthcare public companies, and has served on the Boards of more than a dozen public companies in the US, Asia and Australia.

Mr. Hopper is a Director of pSivida Corp and the Chairman of Viralytics Limited

Mr. Hopper is Managing Director at the Los Angeles investment bank, Cappello Group.

Graham P. Hurst
Director (Non-executive) – resigned 5th April 2012

Graham Hurst is an experienced investor with over forty years experience in capital markets. He became a member of the Sydney Stock Exchange in 1968 and was subsequently a director of the Sydney Stock Exchange for five years and on the Exchange's national listing committee during this time.

Graham has acted as financial advisor to a number of companies.

Company Secretary
Terence Flitcroft B Comm CA FSIA

Terence has been Company Secretary since 1995.

DIRECTORS’ REPORT (CONTINUED)

Board Member’s Directorships

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

Director	**Directorship of**	**Date Appointed**	**Date Resigned**
Peter Neustadt	No other listed public company directorship	-	-
Robert Scherini	No other listed public company directorship	-	-
Lee Ausburn	Australian Pharmaceutical Industries Ltd	7 October 2008	Current
Graham Hurst	Ormil Energy Limited	2 November 2006	23 August 2010
Paul Hopper	pSivida Corp	14 July 2008	Current
	Viralytics Pty Limited	4 September 2008	Current
	Fibro Science Inc.	9 September 2009	September 2010
	iSonea Limited	30 October 2010	3 April 2012

Directors’ Interests in Securities

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

Director	**Shares**	**Options over Ordinary Shares**
Peter Neustadt *	3,496,023	-
Robert Scherini	-	-
Lee Ausburn	19,499	-

* Held by entities associated with the Director and in which he 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 2012 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
Paul Hopper	3	3	-	-	1	1
Peter Neustadt	12	12	2	2	3	3
Graham Hurst	9	9	1	1	1	1
Robert Scherini	9	9	1	1	2	2
Lee Ausburn	9	9	-	-	2	2

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.

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 page 16 of this annual report for more information.

Environmental regulations

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

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

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

Options

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

Grant Dates	Date of Expiry	Exercise Price	Number under Option
3 September 2009	30 September 2012	$0.58	72,500
15 October 2009	31 October 2012	$0.58	132,500
3 September 2010	30 September 2013	$0.99	90,000
15 October 2010	31 October 2013	$1.03	125,000
31 October 2011	31 October 2013	$1.37	150,000
			570,000

Options that 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 are detailed below:

Option holder	Exercise price	Options
Ralf Barschow*	$1.58	260,000
		260,000

* Reported in previous year's Directors' Report and lapsed subsequent to end of the financial year.

A total of 1,305,000 options have been exercised since the end of the end of the last financial year.

A total of 120,000 options expired or lapsed since the end of the previous financial year, which were not reported in the previous year's Directors' Report and a total of 520,000 options have lapsed since the end of the current financial year, as a result of Mr Barschow's resignation, which took effect in July 2012.

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.

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 two years for the listed entity, as well as the share price at the end of the respective financial years.

	2012	**2011**
Revenue	$15,453,116	$12,606,497
Net profit	$699,745	$739,537
Share price at year end	$0.88	$1.25

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

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

The performance of executives is measured with each executive and is based predominantly on the forecast growth of the company financial performance and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. Any 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 long-term growth in shareholder wealth.

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

Senior executives based in Australia receive a superannuation guarantee contribution required by the government, which is currently 9%, 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 and Scholes methodology.

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

Performance Based Remuneration

As part of senior executives' remuneration packages there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with executives. The measures are specifically tailored to the areas each executive is involved in and has a level of control over. The KPIs target areas the board believes 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.

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

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

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

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

Performance Income as a proportion of Total Remuneration

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

All senior executives' remuneration for the year ended 30 June 2012 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 2012

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to directors and executives of SomnoMed Limited and its subsidiaries to increase long term goal congruence between executives, directors and shareholders.

Company Directors/ Executives	Granted Number	Grant Date	Value per Option at Grant Date	Exercise Price	Earliest Exercise Date	Last Exercise Date
Ralf Barschow	260,000	19 September 2011	21.4 cents	158 cents	30 September 2013	30 September 2014

Employment Contracts of Directors and Senior Executives

The employment conditions of the chief executive officer and specified executives are formalised in contracts of employment or its wholly owned subsidiary. All executives are permanent employees of SomnoMed. No contract is for a fixed term. Each 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.

DIRECTORS' REPORT (CONTINUED)

Directors' remuneration

The following table discloses the remuneration of Directors of the company for the year ended 30 June 2012, as specified for disclosure by AASB 124. The information contained in this table is audited.

	Short-term Benefits		Post-Employment Benefits		
	Salary & Fees	Other	Superannuation	Termination Benefits	Total
Director	**$**	**$**	**$**	**$**	**$**
Peter Neustadt (1)					
-2011	116,332	-	-	-	116,332
-2012	120,000	-	-	-	120,000
Robert Scherini					
- 2011	-	-	-	-	-
- 2012	36,788	-	-	-	36,788
Lee Ausburn (2)					
- 2011	-	-	-	-	-
- 2012	36,788	-	-	-	36,788
Graham Hurst					
-2011	43,750	-	3,938	-	47,688
-2012	45,000		4,050	-	49,050
Paul Hopper					
-2011	47,687	-	-	-	47,687
-2012	12,263	-	-	-	12,263
TOTAL 2011	**207,769**		**3,938**	**-**	**211,707**
TOTAL 2012	**250,839**		**4,050**		**254,889**

(1) Dr Neustadt is a director of Belgove Pty Limited, which received consultancy fees during this and the previous year. Refer Note 28 (b) of the accounts for further information.

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

(3) No Director receives any performance related remuneration.

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 2012, as specified for disclosure by AASB 124. The information in this table is audited.

	Short-term Benefits		Post-Employment Benefits	Share-based Payment			
Executive	**Salary & Fees**	**Other**	**Superannuation**	**Options (1)**	**Termination Benefits**	**Total**	**Percentage of Remuneration Performance Related**
Chris Bedford							
-2011	156,030	-	13,662	11,500	-	181,192	14%
-2012	180,550	-	14,450	-	-	195,000	10%
Ralf Barschow							
- 2011	346,386	2,381	37,494	59,800	-	446,061	13%
- 2012	424,512	14,148	-	55,640	-	494,300	12%
Neil Verdal-Austin							
- 2011	213,879	-	18,167	37,500	-	269,546	9%
- 2012	241,009	-	18,991	-	-	281,000	11%
John Truitt (2)							
-2011	30,994	-	-	-	-	30,994	-
-2012	-	-	-	-	-	-	-
TOTAL 2011	**747,289**	**2,381**	**69,323**	**108,800**	**-**	**927,793**	
TOTAL 2012	**846,071**	**14,148**	**33,441**	**55,640**	**-**	**970,300**	

(1) The option amounts disclosed are based on the assessed fair value at the date of grant using the Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. All options discussed above have vested in the current reporting period on the grant date.

(2) Resigned July 2010.

For the year ended 30 June 2012 the Company had three (2011 – three) persons employed who were deemed to be specified executives.

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

Other Information

Non-audit Services

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

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

Fees of $6,000 for non-audit services were paid/payable to the external auditors during the year ended 30th June 2012.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30th June 2012 is set out on page 52 of this annual report.

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

Peter Neustadt

Chairman

27th September 2012

CORPORATE GOVERNANCE STATEMENT

Corporate Governance

The Company formally has adopted corporate governance policies and practices as provided by the ASX Listing Rules and the principles of the ASX Corporate Governance Council. The Directors are of the opinion that the Company has complied with the above-mentioned policies. Set out below is more information on the Company's corporate governance policies.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The Board reviews its composition and assesses nominations for new appointments from time to time to ensure the right balance of skills and experience.

The majority of the Board are to be independent directors, having no business or other relationship that could compromise their autonomy.

The Chairman and Chief Executive Officer roles are to be held by different persons. Upon the resignation of Mr Barschow, Dr Neustadt assumed the role of Executive Chairman. It is intended he will remain in this role until a global CEO is appointed in the 2013/14 financial year, at which time the abovementioned roles will be filled by different persons.

The Chief Executive Officer may also be a director of the Company. Non-executive directors retire by rotation in accordance with clause 16 of the Constitution.

Newly appointed directors must stand for re-election at the next Annual General Meeting in accordance with clause 16 of the Constitution, with the exception of the Managing Director.

The Board regularly assesses the independence of each non-executive director in the light of interests disclosed by them. The Company does not consider length of tenure as disqualifying criteria for independence.

An independent director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In assessing the independence of each director, the board takes into consideration whether the director's shareholding in the Company, relationships with suppliers, customers and competitors, or tenure as a director of the Company would materially affect the director's ability to exercise unfettered and independent judgement in the interests of the Company's shareholders.

Dr Peter Neustadt holds the position of Chairman. Dr Neustadt is also the major shareholder in the Company.

Given the depth of his company experience and the size of the company he is considered to be excellently placed to serve as Chairman, notwithstanding that pursuant to the ASX recommendation he is not considered an 'independent' Chairman. The Non-Executive Directors meet as required without the Executive Chairman being present. For these reasons the ASX recommendation for an independent Chairman has not been adopted. The Board considers all of its Non-Executive Directors to be independent. The Board regularly assesses the independence of each Non-Executive Director.

Consistent with the emphasis on 'substance over form' advocated by the ASX Guidelines, the Board takes a qualitative approach to materiality, rather than setting strict numerical thresholds, and considers each director's individual circumstances on its merits.

The independence of each director is formally reviewed annually in June each year and at any time when a change occurs that may affect a director's independence. Non-executive directors must formally advise the Chairman of any relevant information, and update the Chairman if their circumstances change at any time.

The names of independent directors of the company are Lee Ausburn and Robert Scherini.

Independent directors have the right to seek independent professional advice at the company's expense in the furtherance of their duties as directors. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

The Board has created a number of standing committees being the Audit Committee and the Remuneration Committee.

Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the Constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Somnomed Limited, to lodge questions to be responded by the Board and/or the CEO, and are able to appoint proxies.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Role of the Board

The Company recognises that corporate governance is fundamental to the effective operation of the Company. The Board is the pivotal element of corporate governance, and the Company desires its Board to be effective, independent, representative of stakeholders and valuable to the organisation.

The Board's role is to provide governance of the Company in the best interests of shareholders, having regard to the interests of all stakeholders of the Company. The specific responsibilities of the Board include:

- the overall corporate governance of the Company including its strategic direction, financial objectives, and overseeing (or supervision) of control and accountability systems;
- Input into and approval of strategic plans and goal and performance objectives, key operational and financial matters, as well as major investment and divestment proposals;
- appointing and removing the chief executive officer (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the Company Secretary;
- approving the nominations of Directors to the Board;
- ensuring Management maintains a sound system of internal controls to safeguard the assets of the Group;
- monitoring the performance of the Group;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other Board reporting; and
- the approval of the annual and half yearly financial report.

Performance Evaluation

An annual self-assessment of the board and all board members is conducted by the board in such manner, as the board deems appropriate.

Trading Policy

The company's policy regarding directors and employees trading in its securities has been set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit Committee

The names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee are included in the directors' report.

The role of the Audit Committee is to:

- to review proposed reportable financial information and to recommend its approval or otherwise by the Board;
- to review and assess the Company's accounting policies, and determine in consultation with the Chief Financial Officer if any changes to policy should be enacted;
- to communicate with, and monitor the effectiveness of the Company's external auditor; and
- to make recommendations to the Board for the appointment, reappointment or replacement and remuneration of an appropriate independent external auditor.

Remuneration Committee

The Remuneration Committee comprises the full Board and their attendance at meetings of the committee is detailed in the Directors' Report. The responsibilities of the Remuneration Committee include:

- Assessing the skills and competencies required on the Board, from time to time assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual directors and the Board as a whole;
- Encouraging and supporting directors' professional development to enhance director competencies;
- Establishing processes for the identification of suitable candidates for appointment to the Board;
- Developing Board succession plans to maintain an appropriate balance of skills, experience and expertise on the Board;
- Considering recommendations for the appointment and removal of Directors;
- Approving remuneration strategy and policies for senior management and selected packaged employees as well as the individual remuneration arrangements and terms of employment for positions/individuals who are direct reports to the Chief Executive Officer (or similar), ensuring that remuneration policies are not only effective, but that they are also reported and explained to shareholders.

Additional information on the Company's remuneration principles is contained in the Remuneration Report contained in the Directors' Report.

Continuous Disclosure and ASX Announcements

- Directors and Executive Management are to be aware of the continuous disclosure regulations in the ASX Listing Rules.

In the event that any Director or member of management becomes aware of any fact or circumstance which may give rise to a requirement to disclose such information under the Listing Rules, they are required to immediately inform either the Company Secretary, the CEO (or similar), the CFO or the Chairman.

- Prior to disclosure, the CFO will review the information to enable a judgement as to the appropriate disclosure, if any, to be made.
- If there is uncertainty over the requirement to comply with the continuous disclosure requirements, then the Company will seek external legal advice. The Company, through the Company Secretary, will notify the ASX of any information it is determined is required to be disclosed.

Where announcements are made to the market through the ASX, such announcements are pre-vetted by the CFO, Chairman and Board of Directors to ensure that such statements are:

- factual;
- do not omit material information; and
- expressed in a clear and objective manner.

Corporate Reporting

The Company strives to convey to its shareholders and the investing public pertinent information in a detailed, regular, factual and timely manner. Information is communicated to shareholders through: the Annual Financial Report, disclosures to the ASX, notices and explanatory memoranda of Annual General Meetings; and SomnoMed's website at www.somnomed.com.au.

Risk Management

The board is committed to the Senior executives and management are expected to practise sensible risk management in the day-to-day performance of their duties and are required to escalate any material issues, which arise or have the potential to arise. The CEO has the primary responsibility to advise the Board of material risk items, which arise and together the Board and senior management are responsible for taking all reasonable steps to address and mitigate such risk items.

SOMNOMED LIMITED
ACN 003255221
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 $	2011 $
Sales revenue	5	15,246,451	12,335,730
Cost of sales		(4,888,898)	(4,159,333)
Gross margin		**10,357,553**	**8,176,397**
Sales and marketing expenses		(4,258,860)	(3,396,279)
Administrative expenses		(2,838,918)	(1,789,160)
Net foreign exchange gain on derivative		20,643	70,911
Operating profit before corporate, research and business development expenses, non cash items and income tax		**3,280,418**	**3,061,869**
Corporate, research and business development expenses		(2,355,989)	(2,303,124)
Other revenue and grants	5	82,376	177,097
Revenue from investment activities	5	124,289	93,670
Share and options expense	25c	(85,879)	(122,600)
Depreciation and amortization		(441,565)	(220,819)
Share of profit of associated company		75,091	55,606
Unrealised foreign exchange loss		(89,905)	(73,778)
Operating profit before income tax	6	**588,836**	**667,920**
Income tax benefit attributable to operating profit	7	110,909	71,617
Operating profit		**699,745**	**739,537**
Profit for the period is attributable to:			
Non-controlling interest		175,065	-
Owners of the parent		524,680	739,537
		699,745	739,537
Diluted earnings per share (cents per share)	23	1.27	1.8
Basic earnings per share (cents per share)	23	1.27	1.8

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	2012 $	2011 $
Profit for the period	699,745	739,537
Other comprehensive income:		
Foreign exchange translation difference for foreign operations	237,138	(629,693)
Other comprehensive income for the period	237,138	(629,693)
Total comprehensive income	**936,883**	**109,844**
Total comprehensive income for the period is attributable to:		
Non-controlling interest	175,065	-
Owners of the parent	761,818	109,844
	936,883	109,844

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012

	NOTE	2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	8	3,537,587	3,948,718
Trade and other receivables	9	3,741,407	2,201,657
Inventory	10	500,229	177,350
TOTAL CURRENT ASSETS		7,779,223	6,327,725
NON-CURRENT ASSETS			
Trade and other receivables	9	313,400	-
Property, plant and equipment	12	1,068,831	1,140,456
Intangible assets	13	1,808,536	328,204
Investment in associate entity	11	159,795	84,704
Deferred tax asset	7d	1,181,726	850,791
TOTAL NON-CURRENT ASSETS		4,532,288	2,404,155
TOTAL ASSETS		12,311,511	8,731,880
CURRENT LIABILITIES			
Trade and other payables	14	3,041,511	2,201,822
Provisions	15	338,219	307,493
TOTAL CURRENT LIABILITIES		3,379,730	2,509,315
NON CURRENT LIABILITIES			
Trade and other payables	14	12,034	5,483
TOTAL LIABILITIES		3,391,764	2,514,798
NET ASSETS		8,919,747	6,217,082
SHAREHOLDERS' EQUITY			
Issued capital	16	25,700,829	24,040,829
Reserves	17	1,150,192	827,175
Accumulated losses		(18,126,242)	(18,650,922)
Parent interests		8,724,779	6,217,082
Non-controlling interests		194,968	-
TOTAL EQUITY		8,919,747	6,217,082

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2010	23,706,829	1,374,796	(40,528)	(19,390,459)	5,650,638	-	5,650,638
Shares issued during the year	334,000	-	-	-	334,000	-	334,000
Share option reserve on recognition of remuneration options	-	122,600	-	-	122,600	-	122,600
Total other comprehensive income	-	-	(629,693)	-	(629,693)	-	(629,693)
Profit for the period	-	-	-	739,537	739,537	-	739,537
Balance at 30 June 2011	24,040,829	1,497,396	(670,221)	(18,650,922)	6,217,082	-	6,217,082
Shares issued during the year	1,660,000	-	-	-	1,660,000	-	1,660,000
Recognition of non-controlling interest	-	-	-	-	-	19,903	19,903
Share option reserve on recognition of remuneration options	-	85,879	-	-	85,879	-	85,879
Total other comprehensive income	-	-	237,138	-	237,138	-	237,138
Profit for the period	-	-	-	524,681	524,681	175,065	699,745
Balance at 30 June 2012	25,700,829	1,583,275	(433,083)	(18,126,242)	8,724,779	194,968	8,919,747

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		14,267,454	11,524,564
Grants received		200,376	166,821
Payments to suppliers and employees		(14,235,936)	(11,593,125)
Interest received		115,318	88,322
Tax paid		(57,430)	-
Net cash inflow from operating activities	22	289,782	172,682
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(300,577)	-
Payments for intangible assets		(211,669)	(148,649)
Proceeds from settlement of forward exchange contract		-	188,465
Payments for property, plant and equipment		(270,170)	(481,507)
Net cash outflow from investing activities		(782,416)	(441,691)
Cash flows from financing activities			
Proceeds from issue of shares		144,000	334,000
Proceeds from lease facility		10,145	-
Net cash inflow from financing activities		154,145	334,000
Net increase/(decrease) in cash held		(338,489)	64,991
Cash at beginning of the financial year		3,948,718	4,293,676
Exchange rate adjustment		(72,642)	(409,949)
Cash at the end of the financial year	21	3,537,587	3,948,718

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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 2012 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. 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.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

d. Use of judgments 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 and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

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

Transactions eliminated on consolidation

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

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

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products. Revenue from the sale of goods is recognised upon dispatch of goods to customers.

Other income

Other income, including government grants, 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. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

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 balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority, are classified as operating cash flows.

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 income statement.

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. Cash and cash equivalents

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

f. Financial Instruments

Derivative Financial Instruments

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

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for as described below.

Non-derivative financial assets and liabilities

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

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

Accounting for finance income is discussed in accounting policy (o).

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 impairment losses.

g. Provisions

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

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rates and respective product populations. The provision is determined on a discounted cash flow basis. Warranty periods on MAS devices are for up to two years.

Make good lease costs

The Consolidated Entity has operating leases over premises that require the premises to be returned to the lessor in their 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 income statement over the life of the leases.

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.

Other intangible assets

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

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

Patents- 10 years

h. Impairment

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

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date. The allowance for impairment is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions.

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.

Reversals of Impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Property, Plant and Equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (h)). 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 income statement as incurred.

Leased assets - Operating leases

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

Lease incentives under operating leases are recognized as a liability and amortised on a straight line basis over the lease term.

Depreciation

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

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

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

j. 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.

k. Employee Benefits

Wages, salaries and annual leave

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

Share based payments

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

l. Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (h)).

m. Taxation

Income tax expense in the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement 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.

m. Taxation (continued)

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit, or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be 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.

n. Payables

Trade and other payables are stated at amortised cost.

o. Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest method.

p. 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/(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.

q. 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.

r. Accounting judgment 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:

- Intangible assets, Provisions, Employee benefits and Financial instruments

s. Share Capital

Ordinary shares

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

t. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. None of these are expected to have a significant effect on the consolidated financial statements of the Consolidated Entity except for AASB 9 Financial Instruments, which becomes mandatory for the Consolidated Entity's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

4. FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

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

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

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are not 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 is 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 incurred losses in respect of trade and other receivables.

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.

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 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), Singapore dollar (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, CHF, SGD, JPY, SKR and PHP.

Over 84% (2011-85%) of the Consolidated Entity's revenues and over 75%(2011-95%) 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. See note 30 for effective interest rates.

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 approach to capital management during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

5. REVENUE	NOTE	2012 $	2011 $
Operating activities			
Other revenue and grants		82,376	177,097
Interest received - other persons		124,289	93,670
Revenue from sale of goods, net of discounts		15,246,451	12,335,730
		15,453,116	12,606,497

6. PROFIT FOR THE YEAR			
Profit for the year is after charging:			
Operating lease rentals		494,242	373,434
Employee benefits expense		5,673,867	4,257,962
Depreciation		389,605	168,860
Amortisation of intellectual property		51,960	51,960
Research and development expenditure		465,157	343,577

7. INCOME TAX EXPENSE

a. The components of tax expense comprise:			
Current tax		(237,068)	(123,173)
Deferred tax	7e	347,976	194,790
		110,909	71,617

b. The prima facie tax on profit/(loss) before income tax is reconciled to the income tax expense as follows:			
Prima facie income tax (expense)/benefit calculated at 30% of loss using the Company's domestic tax rate		(176,651)	(200,376)
Increase/(decrease) in income tax expense due to non-deductible/(assessable) items		32,521	13,442
Deferred tax asset due to tax losses and temporary differences		255,039	258,551
Income tax (expense)/benefit		110,909	71,617

c. 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 3(m) occur			
Tax losses		2,887,009	3,153,905
Temporary differences		1,760,116	1,391,103
		4,647,125	4,545,008

d. Deferred tax assets			
Recognised deferred tax assets			
Plant and equipment		(29,593)	(34,931)
Accruals		73,481	45,349
Provisions		30,188	14,167
Other			
Tax loss carry-forwards		1,107,650	826,206
Deferred tax assets		1,181,726	850,791

7. INCOME TAX EXPENSE (Continued)

e. Movement in temporary differences during the year	NOTE	2012 $	2011 $
Carrying amount at beginning of financial year		850,791	856,701
Recognised in the income statement	7a	347,976	194,790
Foreign exchange adjustment		17,041	(200,700)
Carrying amount at end of financial year		1,181,726	850,791

8. CASH AND CASH EQUIVALENTS

Cash at bank and on deposit and money market securities	3,537,587	3,948,718
	3,537,587	3,948,718

9. TRADE AND OTHER RECEIVABLES

Current		
Trade Debtors	3,485,410	1,946,233
Less provision for doubtful debts	(261,465)	(63,709)
	3,223,946	1,882,524
Other debtors	496,817	319,134
Forward exchange contract	20,644	-
	3,741,407	2,201,657
Non-current		
Other debtors	313,400	-
	313,400	-

Current amounts are not interest bearing and are normally settled within 60 days.

Non-current amounts bear interest and are non-recourse advances to executives to acquire shares in the Company. Loans are repayable the earlier of two years from the provision of the advances and the date the borrower ceases to be the legal owner of the shares.

10. INVENTORY

Raw materials and consumables	500,229	177,350

11. INVESTMENT IN ASSOCIATED COMPANY

Interests are held in the following associated company

Name	Principal Activities	Country of Incorporation	Ownership Interest		Carrying amount of Investment (note11(a))	
			2012	2011	2012	2011
			%	%	$	$
SMH Biomaterial AG	Material manufacturer	Switzerland	50	50	159,795	84,704

		Note	2012 $	2011 $
a.	**Movements During the Year in Equity Accounted Investment in Associated Company**			
	Balance at beginning of the financial year		84,704	29,098
	Share of associated company’s profit after income tax	11b	75,091	55,606
	Balance at end of the financial year		159,795	84,704
b.	**Equity accounted profit of associate is broken down as follows:**			
	Share of associate’s profit before income tax expense		85,901	60,426
	Share of associate’s income tax expense		(10,810)	(4,820)
	Share of associate’s profit after income tax		75,091	55,606
c.	**Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associated Company**			
	Current assets		443,992	313,930
	Non-current assets		2	2
	Total assets		443,994	313,932
	Current liabilities		40,770	30,812
	Non-current liabilities		16,755	18,279
	Total liabilities		57,525	49,091
	Net assets		386,469	264,841
	Revenues		335,770	288,240
	Profit after income tax of associated company		150,182	111,212

12. PROPERTY, PLANT AND EQUIPMENT

	2012 $	2011 $
Property, plant and equipment -at cost	2,601,509	2,463,437
Accumulated depreciation	(1,532,678)	(1,322,981)
	1,068,831	1,140,456
Movements in the carrying amounts of plant and equipment during the current financial year:		
Balance at the beginning of the year	1,140,456	641,924
Additions	270,051	715,273
Disposals	(64,100)	-
Depreciation expense	(389,605)	(168,860)
Effect of movements in foreign exchange	112,030	(47,881)
Carrying amount at the end of the year	1,068,831	1,140,456

Included in property, plant and equipment additions for the 2011 year are capitalised lease incentives of $301,950. Lease incentives are recognised as an asset and a liability in the financial statements and amortised over the term of the lease.

13. INTANGIBLE ASSETS

Patents and trademarks – at cost	519,620	519,620
Accumulated amortisation	(391,866)	(339,906)
	127,754	179,714
Product development expenditure capitalised	359,592	148,490
Goodwill on consolidation*	1,321,190	-
	1,808,536	328,204

*Goodwill on consolidation is translated at 30th June 2012 closing exchange rate, which differs to the goodwill calculation in note 20 (c) as that calculation used the exchange rate on the date of acquisition.

	2012 $	2011 $
14. TRADE AND OTHER PAYABLES		
CURRENT		
Trade creditors, other payables and accruals	2,503,101	1,656,884
Income received in advance	538,410	544,938
	3,041,511	2,201,822

All amounts are not interest bearing and are normally settled on 45 day terms

	2012 $	2011 $
NON CURRENT		
Other creditors	12,034	5,843
15. PROVISIONS		
Warranty	117,564	100,523
Lease make good	81,023	67,212
Employee entitlements	139,632	139,758
	338,219	307,493
16. ISSUED CAPITAL		
Issued and fully paid ordinary shares		
42,018,420 (2011-40,467,756) ordinary shares	25,700,829	24,040,829
Balance at the beginning of year	24,040,829	23,706,829
Shares issued during period:		
- 625,000 pursuant to exercise of options at 20 cents on 13 September 2010	-	125,000
- 260,000 pursuant to exercise of options at 40 cents on 3 September 2010	-	104,000
- 125,000 pursuant to exercise of options at 72 cents on 29 June 2011	-	90,000
- 25,000 pursuant to exercise of options at 60 cents on 22 June 2011	-	15,000
- 460,000 pursuant to exercise of options at 72 cents on 15 September 2011	331,200	-
- 125,000 pursuant to exercise of options at 80 cents on 31 October 2011	100,000	-
- 160,000 pursuant to executive share plan at 124 cents on 31 October 2011	198,400	-
- 805,664 pursuant to acquisition of subsidiary at 128 cents on 18 January 2012	1,031,250	-
- Less issue costs	(850)	-
Balance at end of year	25,700,829	24,040,829

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 2012 there were 1,350,000 (2011: 1,542,000) unissued ordinary shares for which options were outstanding.

	2012 $	2011 $
17. RESERVES		
Share option reserve	1,583,275	1,497,396
Foreign currency translation reserve	(433,083)	(670,221)
	1,150,192	827,175

The share option reserve records items recognised as expenses on valuation of share option issues as remuneration.

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

18. REMUNERATION OF AUDITORS

	2012 $	2011 $
Remuneration of the Company's auditors for:		
Auditing or reviewing the financial report	42,500	41,345
Other services	6,000	-
Remuneration of other auditors for auditing or reviewing the financial reports of subsidiaries	75,145	63,710
Total auditors' remuneration included in operating result	123,645	105,056

19. SEGMENT OPERATIONS

Primary Reporting – Business Segments

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders, which is the only business segment.

Secondary Reporting – Geographical Segments

Geographic location:	Asia Pacific	USA	Europe	Total
2012	**$**	**$**	**$**	**$**
External sales revenue	**2,432,183**	**8,859,987**	**3,954,280**	**15,246,451**
Segment net profit before tax	**585,884**	**1,837,820**	**446,465**	**2,870,169**
Unallocated expense items				(2,405,622)
Interest received				**124,289**
Profit before tax				**588,836**
Income tax benefit				110,909
Profit after tax				**699,745**

Geographic location:	Asia Pacific	USA	Europe	Total
2011	**$**	**$**	**$**	**$**
External sales revenue	**1,935,640**	**7,924,227**	**2,475,864**	**12,335,730**
Segment net profit before tax	**267,343**	**2,228,831**	**325,925**	**2,822,099**
Unallocated items				(2,247,849)
Interest Received				**93,670**
Profit before tax				**667,920**
Income tax benefit				71,617
Profit after tax				**739,537**

20. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES

(a) Details of controlled entities are reflected below

Company	Country of Incorporation	Interest % 2012	Interest % 2011
SomnoMed Limited	Australia		
Entities controlled by SomnoMed Limited			
SomCentre Pty Limited	Australia	100%	100%
SomnoMed Inc.	USA	100%	100%
SomnoDent Pty Limited	Australia	100%	100%
SomnoMed Pte Ltd	Singapore	100%	100%
SomnoMed AG	Switzerland	100%	100%
SomnoMed Corporation Japan	Japan	100%	100%
SomnoMed Nordic AB	Sweden	100%	100%
SomnoMed Philippines Inc.	Philippines	100%	100%
SomnoMed Netherlands BV	Netherlands	100%	-
SomnoMed France	France	100%	-
Goedegebuure Slaaptechniek BV	Netherlands	50%	-

(b) Details of associated entity of SomnoMed Limited

SMH Biomaterial AG	Switzerland	50%	50%

(c) Subsidiary Company acquired during the year

Effective 1st January 2012, the Group acquired 50% of the issued capital of the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V.for a total consideration of $1,391,569. The remaining 50% of GS will be acquired by SomnoMed over a period of 5 years in four equal annual portions commencing in April 2014. The price for these 12.5% tranches will be linked to the net profits generated by Goedegebuure Slaaptechniek B.V's business in the Netherlands and will be payable by way of cash and shares in SomnoMed Limited.

(i) The purchase was satisfied by the issue of 805,664 ordinary shares at an issue price of $1.28 each and cash of $320,513.

Purchase consideration	$
Cash paid to vendors	320,513
Working capital paid	39,806
Issue of 805,664 ordinary shares at an issue price of $1.28 each	1,031,250
Total purchase consideration	1,391,569
Non-controlling interest	19,903
	1,411,472
Fair value of net identifiable assets	(39,806)
Goodwill (at the date of acquisition)	1,371,666

(ii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:	Acquiree's carrying amount $	Fair Values $
Cash and cash equivalents	49,445	49,445
Receivables	853,676	853,676
Inventory and sundry assets	128,716	128,716
Payables and provisions	(992,031)	(992,031)
Net identifiable assets	39,806	39,806
50% Net identifiable assets acquired	19,903	19,903

(iii) Revenue and Net Profit after tax of Goedegebuure Slaaptechniek B.V. included in the consolidated revenue and results since the acquisition date amounted to $1,776,834 and $350,130. The consolidated profit for the group would not be materially different had the results of Goedegebuure Slaaptechniek B.V. been consolidated from 1 July 2011.

21. RECONCILIATION OF CASH

	2012 $	2011 $
Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash at bank and on deposit and money market securities	3,537,587	3,948,718
	3,537,587	3,948,718

22. RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2012 $	2011 $
Operating Profit after income tax	699,745	739,537
Share and Option expense	85,880	122,600
Share of associate company profit	(75,091)	(55,606)
Net exchange differences	69,260	2,867
Depreciation and amortization	441,565	220,819
Change in operating assets and liabilities		
(Increase)/Decrease in inventories	(308,828)	(16,067)
(Increase)/Decrease in receivables	(977,685)	(951,956)
Increase/(Decrease) in other payables	509,350	308,940
Increase/(Decrease) in provisions	193,447	(3,532)
Increase/(Decrease) in deferred tax assets	(347,861)	(194,390)
Net Cash inflow from operating activities	289,782	172,682

23. EARNINGS PER SHARE

The following reflects the profit and share data used in the calculations of basic and diluted earnings per share.

	2012	2011
Net profit used in calculating basic and diluted earnings per share	$524,680	$739,537
Basic and diluted profit per share (cents per share)	1.27	1.8
Weighted average number of shares used in the calculation of diluted earnings per share	41,184,334	40,609,847
Weighted average number of shares used in the calculation of basic earnings per share	41,381,209	40,144,057
Shares on issue at year end	42,018,420	40,467,756
Number of options on issue at year end – each option is exercisable at between 58 cents and $1.58 per share and converts to one ordinary share	1,350,000	1,542,500

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

24. CAPITAL AND LEASING COMMITMENTS	2012 $	2011 $
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	450,388	411,687
— later than 1 year but not later than 5 years	962,720	817,435
— later than 5 years	-	15,973
	1,413,108	1,245,095

Included in the operating lease commitments are non-cancellable property leases with terms of between two years and five years. All leases have rent payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased by between 2.7% and 4% per annum. No option exists to renew the leases at the end of the terms, except for the lease in Frisco, Dallas, which allows an option to extend the lease term by a further 5 years.

The leases allow for subletting of all lease areas.

25. SHARE BASED PAYMENTS

(a) Movements in the number of share options held by employees are:	2012 \#	2011 \#
Opening balance	1,342,500	1,307,500
Granted during the year	510,000	495,000
Exercised during the year	(385,000)	(285,000)
Lapsed during the year	(117,500)	(175,000)
Closing Balance	1,350,000	1,342,500

25. SHARE BASED PAYMENTS (Continued)

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

Grant Date	Expiry and Exercise Date	Exercise Price	**2012**	**2011**
3 September 2008	30 September 2010 30 September 2011	$0.72	-	260,000
15 October 2008	31 October 2010 31 October 2011	$0.80	-	125,000
3 September 2009	30 September 2011 30 September 2012	$0.58	332,500	340,000
15 October 2009	31 October 2011 31 October 2012	$0.58	132,500	132,500
3 September 2010	30 September 2012 30 September 2013	$0.99	260,000	260,000
3 September 2010	30 September 2012 30 September 2013	$0.99	90,000	100,000
1 October 2010	31 October 2012 31 October 2013	$1.03	125,000	125,000
19 September 2011	30 September 2013 30 September 2014	$1.58	260,000	-
31 October 2011	1 October 2013 30 October 2013	$1.37	150,000	-
			1,350,000	1,342,500

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

(c) Options

The options outstanding at 30 June 2012 had a weighted average exercise price of $1.01(2011: $0.772) and a weighted average remaining contractual life of 1.13 years (2011: 1.2 years). Exercise prices range from $0.58 to $1.58 in respect of options outstanding at 30 June 2012 (2011: $0.58 to $1.03 range).

The weighted average fair value of the options granted during the year was $0.195 (2011: $0.2477).

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

	2012	**2011**
Weighted average exercise price	$1.49	$1.00
Weighted average life of the option	2.61 years	3.06 years
Underlying share price between	$1.37-$1.58	$0.88 - $1.01
Expected share price volatility	36.291	36.291
Risk free interest rate	4.5%	5.0%

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 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 income statement is $85,879 (2011: $122,600), that relates, in full, to equity-settled share-based payment transactions.

25. SHARE BASED PAYMENTS (continued)

(d) Shareholdings

Number of Shares held by Key Management Personnel, including shares held by associated entities

	Balance 1.7.11	Net Change /Other	Balance 30.6.12
Peter Neustadt	3,496,023	-	3,496,023
Lee Ausburn*	-	19,499	19,499
Robert Scherini*	-	-	-
Paul Hopper**	100,000	(100,000)	-
Graham Hurst***	791,000	(791,000)	-
Ralf Barschow	-	260,000	260,000
Christopher Bedford	25,000	50,000	75,000
Neil Verdal-Austin	140,000	225,000	365,000
Total	4,552,023	(336,501)	4,215,522

* appointed 30 September 2011 ** resigned 30 September 2011 *** resigned 5 April 2012

(e) Share based payments

There were no other share-based payment arrangements in the year to 30 June 2012, other than options issued to directors and executives.

(f) Options and Rights Holdings

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

	Balance 1.7.11	Granted as Remuneration/ (Exercised or Lapsed/Expired)	Balance 30.6.12	Total Vested 30.6.12	Total Exercisable	Total Un-exercisable
Ralf Barschow	780,000	(260,000)	520,000	520,000	260,000	260,000
Neil Verdal-Austin	375,000	(125,000)	250,000	250,000	125,000	125,000
Christopher Bedford	100,000	-	100,000	100,000	50,000	50,000
Peter Neustadt	-	-	-	-	-	-
Robert Scherini	-	-	-	-	-	-
Lee Ausburn	-	-	-	-	-	-
Paul Hopper	50,000	(50,000)				-
Graham Hurst	50,000	(50,000)	-	-	-	-
Total	1,355,000	(485,000)	870,000	870,000	435,000	435,000

26. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the directors are not aware of any matter that has significantly affected or may significantly affect the operations of the Company in subsequent financial years.

27. CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2012 no contingent liabilities or capital commitments existed other than the remaining 50% of the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V will be acquired by SomnoMed over a period of 5 years in four equal annual portions commencing in April 2014. The price for these 12.5% tranches will be linked to the future net profits generated by this business in the Netherlands and will be payable half in cash and half in shares in SomnoMed Limited.

28. RELATED PARTY DISCLOSURES

Related party transactions fall into the following categories:

(a) Controlled entities

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

	2012	2011
	$	$
The aggregate amount included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
License fees	2,364,997	1,958,514
Revenue from provision of services	500,511	642,490
Interest income	96,060	54,804
The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are:		
Current receivables	9,097,876	6,490,318
Less impairment	(3,589,257)	(2,247,831)
	5,508,619	4,242,487

(b) Director related entities

During the year consultancy fees of $120,000 (2011: $116,332) were paid to Belgove Pty Limited, a company associated with Dr Neustadt and consultancy fees of $36,788 (2011: nil) were paid to Leedoc Pty Limited, a company associated with Ms Ausburn.

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

(d) Loans to key management personnel

Balance beginning of the year	-	-
Loans advanced	488,200	-
Interest charged – advance	38,080	-
Interest received	(38,080)	-
Balance end of the year	488,200	-
Provision for impairment	-	-
The highest amount of indebtedness during the reporting period for each key management personnel who received the loans:		
Ralf Barschow *	187,200	-
Neil Verdal-Austin	224,000	-
Christopher Bedford	77,000	-

Loans included above are to enable key management personnel to acquire shares in the company and/or exercise options over shares in the Company. These loans incur interest at 7.8% p.a. payable in advance, refer note 9 for further information.

*Received in full subsequent to the reporting period.

29. 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

Peter Neustadt	Executive Chairman
Lee Ausburn	Director — Non-Executive (appointed 30 September 2011)
Robert Scherini	Director — Non-Executive (appointed 30 September 2011)
Graham Hurst	Director — Non-Executive (resigned 5 April 2012)
Paul Hopper	Director — Non-Executive (resigned 30 September 2011)
Ralf Barschow	Chief Executive Officer (resigned effective 31 July 2012)
Neil Verdal-Austin	Chief Financial Officer
Christopher Bedford	General Manager – Production and Technology

(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 25.

30. 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:

	2012	2011
	$	$
Cash and equivalents	3,537,587	3,948,718
Trade receivables	3,223,946	1,882,524
Other receivables - current	517,461	319,134
Other receivables – non-current	313,400	-
	7,592,394	6,150,376

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

United States	1,241,629	1,193,486
Europe	1,757,177	510,243
Asia Pacific	225,140	178,795
	3,223,946	1,882,524

Impairment Losses

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

Gross receivables

Past due 0 – 30	2,321,429	1,180,698
Past due 31 – 60	380,448	491,402
Past due 60 – 90	191,633	92,798
Past due 90 days and over	591,900	181,336
	3,485,410	1,946,233
Impairment	(261,464)	(63,709)
Trade receivables net of impairment loss	3,223,946	1,882,524

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

Balance at 1 July	(63,709)	(75,534)
Impairment movement	(48,542)	4,013
Acquisition of subsidiary	(154,999)	-
Exchange effect	5,785	7,812
Balance at 30 June	(261,464)	(63,709)

Impairment losses recognised in the year relate to significant individual customers, which have been assessed as impaired under the Consolidated Entity's accounting policy as detailed in Note 3(h).

Based upon past experience, the Consolidated Entity believes that no impairment 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 impairment 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.

30. FINANCIAL INSTRUMENTS (continued)

Currency Risk

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

Amounts local currency	SGD	PHP	JPY	USD	EUR	CHF	SKR
2012							
Cash and cash equivalents	-	27,016	18,491	1,323,270	413,037	2,440	29,823
Trade receivables	-	-	15,602	1,241,629	1,757,177	-	-
Trade payables	-	(17,859)	(10,052)	(488,423)	(766,909)	-	-
Gross balance sheet exposure	**-**	**9,157**	**24,041**	**2,076,476**	**1,403,305**	**2,440**	**29,823**

Amounts local currency	SGD	PHP	JPY	USD	EUR	CHF	SKR
2011							
Cash and cash equivalents	2,876	141,129	10,040	1,503,980	445,896	-	-
Trade receivables	-	-	7,546	1,193,486	510,243	-	-
Trade payables	-	(12,513)	-	(493,157)	(156,752)	-	-
Gross balance sheet exposure	**2,876**	**128,616**	**17,586**	**2,204,309**	**799,387**	**-**	**-**

SomnoMed enters into forward exchange contracts to hedge its exposure to the USD. The amounts of forward cover taken are in accordance with approved policy and internal forecasts.

The following table sets out the gross value to be received (sell) or paid (buy) under forward exchange contracts and the weighted average contracted exchange rates of outstanding contracts:

	Foreign exchange rates		Gross Value	
	2012	2011	2012	2011
Sell USD				
Not later than one year	-	-	508,543	-
Weighted average exchange rates contracted	0.9832	-	-	-

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

	Average Rate		Reporting date spot rate	
AUD = 1	2012	2011	2012	2011
USD	1.0248	0.9889	1.0404	1.0731
EUR	80.98	0.7246	0.7742	0.7417
JPY	81.80	81.68	81.63	86.48
PHP	43.20	43.502	44.398	46.51

30. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

Profile

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

Carrying amount	2012	2011
	$	$
Variable rate instruments		
Financial assets	1,358,385	1,295,885

Liquidity Risk

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

2012	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	2.58%	3,537,587	3,537,587	-	-
Receivables	7.8%*	4,054,807	3,741,407	313,400	-
Payables	-	(2,461,472)	(2,449,438)	(12,034)	-
Total	-	5,130,922	4,829,556	301,366	-

* Interest is received on advances to executives to purchase shares in Somnomed Limited, with no interest received on trade and other receivables.

2011	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	2.63%	3,948,718	3,948,718	-	-
Receivables	-	2,201,657	2,201,657	-	-
Payables	-	(2,207,305)	(2,201,822)	(5,483)	-
Total	-	3,943,070	3,948,553	(5,483)	-

30. 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 2012, it is estimated that a general increase of one percent in interest rates would have increased the Consolidated Entity's profit after income tax and equity by approximately $40,000 and for the year ended 30 June 2011 the effect would have been to increase the Consolidated Entity's profit after income tax and equity by approximately $42,000. A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's profit for the year ended 30 June 2012, and decrease the Consolidated Entity's equity by approximately $247,000. For the year ended 30 June 2011 the effect would have been to increase the Consolidated Entity's profit and increase the equity by $225,000.

It is estimated that a general decrease of ten percent in the value of the AUD against other foreign currencies would have increased the Consolidated Entity's profit for the year ended 30 June 2012, and increase the Consolidated Entity's equity by approximately $476,000. For the year ended 30 June 2011 the effect would have been to decrease the Consolidated Entity's profit and decrease the equity by $276,000.

Fair Values

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

	2012		2011	
	$		$	
Consolidated	Carrying amount	Fair value	Carrying amount	Fair value
Cash and equivalents	3,537,587	3,537,587	3,948,718	3,948,718
Trade and other receivables - current	3,720,763	3,720,763	2,201,657	2,201,657
Trade and other receivables - non current	313,400	313,400	-	-
Financial assets at fair value through profit or loss:				
- Forward exchange contract	20,644	20,644	-	-
Trade and other payables - current	(3,041,511)	(3,041,511)	(2,201,822)	(2,201,822)
Trade and other payables - non current	(12,034)	(12,034)	(5,483)	(5,483)
Total	4,538,849	4,538,849	3,943,070	3,943,070

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).

	Level 2	**Total**
30 June 2012		
Derivative financial assets - Forward exchange contracts	20,644	20,644
30 June 2011		
Derivative financial assets - Forward exchange contracts	-	-

There are no other financial instruments carried at fair value or valued using the above criteria.

31. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2012, the parent company was SomnoMed Limited.

	Company	
Result of the parent entity	**30 June 2012**	**30 June 2011**
	$	**$**
Net profit/(loss)	(207,169)	(459,144)
Other comprehensive income/(loss)	-	-
Total comprehensive income	**(207,169)**	**(459,144)**
Financial position of the parent entity at year end		
Current assets	7,888,517	6,821,059
Total assets	9,214,902	7,662,516
Current liabilities	714,982	701,307
Total liabilities	714,982	701,307
Total equity of the parent entity comprising of:		
Issued capital	25,700,829	24,040,829
Share option reserve	1,583,275	1,497,396
Accumulated losses	(18,784,184)	(18,577,016)
Total Equity	**8,499,920**	**6,961,209**

Parent entity contingencies

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

SOMNOMED LIMITED
ACN 003255221
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 19 to 49 are in accordance with the Corporations Act 2001*:*
   a. comply with Accounting Standards and the Corporations Regulations 2001*;* and
   b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the company and Consolidated Entity;
2. The Executive Chairman and Chief Finance Officer have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b. The financial statements and notes for the financial year comply with the Accounting Standards; and
   c. The financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Peter Neustadt

Chairman

27th September 2012

STIRLING INTERNATIONAL
CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOMNOMED LIMITED

Report on the Financial Report

We have audited the accompanying financial report of SomnoMed Limited (the company) and the consolidated entity, which comprises the consolidated balance sheet as at 30 June 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of SomnoMed Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOMNOMED LIMITED

Auditor's Opinion

In our opinion:

a. the financial report of SomnoMed Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the report of the directors for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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 the Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of SomnoMed Limited for the year ended 30 June 2012, complies with s 300A of the Corporations Act 2001.

Stirling International

Chartered Accountants

P. Turner

Peter Turner

285 Clarence St Sydney 2000

27th September 2012

Liability limited by a scheme approved under Professional Standards Legislation

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SOMNOMED LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Stirling International

Chartered Accountants

P. Turner

Peter Turner

27th September 2012

285 Clarence St Sydney 2000

ADDITIONAL INFORMATION

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of Holding)	Shareholders	Shares
1-1,000	368	102,167
1,001-5,000	225	638,227
5,001-10,000	105	876,547
10,001-100,000	195	6,065,900
100,001 and over	52	34,595,579
	945	**42,278,420**

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

c. The names of the substantial shareholders listed in the holding company's register as at 18 September 2012 are:

Shareholder	**Number of Ordinary Shares**	**Percentage**
Dottie Investments Pty Ltd	3,892,779	9.207
Belgove Pty Limited & P Neustadt Holdings Pty Limited	3,496,023	8.269
Golden Words Pty Ltd	3,361,978	7.952
TDM Asset Management Pty Ltd & Associates	2,940,869	6.956
National Nominees Ltd as Custodian for Australian Ethical Smaller Companies Trust	2,252,642	5.328

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 18 September 2012**

Name		No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	Dottie Investments Pty Ltd	3,892,779	9.207
2.	Belgove Pty Limited	3,371,023	7.973
3.	UBS Wealth Management Australia Nominees Pty Ltd	2,966,713	7.017
4.	National Nominees Limited	2,853,441	6.749
5.	Golden Words Pty Ltd	2,543,215	6.015
6.	Carnethy Evergreen Pty Ltd	1,400,976	3.314
7.	J P Morgan Nominees Australia Limited	1,383,174	3.272
8.	Ginga Pty Ltd	1,357,370	3.211
9.	R E M Medical Pty Ltd	1,161,031	2.746
10.	M F Custodians Ltd	1,160,974	2.746
11.	BNP Paribas Noms Pty Ltd	1,150,000	2.720
12.	Ms Georgia Quick & Mr Rodney Victor Palmisano	1,106,000	2.616
13.	Timbina Pty Ltd	861,737	2.038
14.	Mr Trevor Kennedy & Mrs Christina Kennedy & Mr Daniel Kennedy <Golden Eggs Super Fund A/C>	818,763	1.937
15.	Buzi Bear Pty Ltd	737,656	1.745
16.	Atroop Pty Ltd	650,000	1.537
17.	Mr Graham Perrin Hurst & Mrs Susan Margaret Hurst	477,000	1.128
18.	Equity Trustees Limited	463,000	1.095
19.	Wolter Jagt Beheer B V	402,832	0.953
20.	Paul Goedegebuure Beheer B V	402,832	0.953
		29,160,516	**68.972**

CORPORATE DIRECTORY

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

Directors

Peter Neustadt	Executive Chairman
Lee Ausburn	Non-executive Director
Robert Scherini	Non-executive Director

Chief Financial Officer
Neil Verdal-Austin

Company Secretary
Terence Flitcroft

Patent Attorneys
Spruson & Ferguson

Banker
Westpac Banking Corporation

Auditors
Stirling International

Share Registry
Boardroom Pty Limited
SYDNEY NSW 2000

(GPO Box 3993 Sydney NSW 2001)

Telephone (02) 9290 9600

Facsimile (02) 9279 0664

wwwboardroomlimited.com.au

Company Website
www.somnomed.com.au

HEAD OFFICE

SomnoMed Limited
Level 3, 20 Clarke Street
Crows Nest NSW 2065
Australia

Phone: 1800 445 660
Fax: +61 2 9467 0467

EUROPE

SomnoMed Europe AG
Kreuzstrasse 54
CH-8032 Zürich
Switzerland

SomnoMed France
21 Place de la Republique
75003 Paris
France

SomnoMed Germany GmbH
Oeggstrasse 2
97070 Würzburg
Germany

SomnoMed Netherlands BV
Fred Roeskestraat 123
1076 EE Amsterdam
The Netherlands

SomnoMed Nordic AB
Karlaväge 100,
115 26 Stockholm
Sweden

ASIA

SomnoMed Japan Corporation
La-ju Oimachi,6F
Oi 4-13-17, Shinagawa-ku
Tokyo, 140-0014
Japan

SomnoMed Singapore Pte Ltd
8 Temasek Boulevard,
#35-03 Suntec Tower 3,
Singapore 038988

NORTH AMERICA

SomnoMed Inc.
7460 Warren Parkway
Suite 190
Frisco, TX 75034
U.S.A.