

Rhinomed Limited

Appendix 4E

Preliminary Final Report

Year ended 30 June 2017

Name of entity: Rhinomed Limited

ABN or equivalent company reference:

ABN 12 107 903 159

Year ended:

30 June 2017

(Previous corresponding period: 30 June 2016)

Results for announcement to the market

					\$
Revenue for ordinary activities	Up	69.6%	to		1,717,225
Loss after tax attributable to members	Down	26.0%	to		(4,441,578)
Net loss for the period attributable to members	Down	26.0%	to		(4,441,578)

Distributions

No dividends have been paid or declared by the Group since the beginning of the current reporting period. No dividends were paid for the previous reporting period. The Company has no dividend reinvestment plan.

Explanation of results

Revenue for the period is comprised of sales revenue for the Turbine and Mute product.

The revenue for the reporting period from ordinary activities was \$1,717,225 (2016: \$1,012,433).

The loss for the Group after income tax for the reporting period was \$4,441,578 (2016: \$5,998,529).

For further details relating to the current period's results, refer to the Review of Operations contained within the attached documents. No change to the Group's structure occurred during the year.

Net Tangible Assets

	30 June 2017	30 June 2016
Net Tangible Assets/(Liabilities)	\$1,653,842	\$3,075,491
Shares (No.) (*Post consolidation - 03/05/2017)	93,637,159	81,423,401*
Net Tangible Assets/(Liabilities) – (cents)	1.77	3.80

Status of Audit of Accounts

The accounts are currently in the process of being audited. An Annual Report for the year ended 30 June 2017 containing the Audit Report shall be provided in due course.

R H I N O M E D

ABN 12 107 903 159

Appendix 4E
Preliminary Final Report

For the Year Ended 30 June 2017

In Compliance with ASX Listing Rule 4.3A

Operating and financial review

The Directors of Rhinomed Limited ('Rhinomed', 'RNO', or 'the Company' and its controlled entities 'the Group') provide the following Report in relation to the Group for the year ended 30 June 2017.

Results

Total receipts for the financial year were \$2.02m up 139% from \$0.85m in for the year 2016. Revenue from continuing operations for the financial year increased 70% to \$1.7m up from \$1.0m in 2016.

The Group reported a loss of \$4.5m for the financial year, down 26% from \$6.0m in 2016. Net cash used in operating activities more than halved (down 51%) to \$3.0m. Operating expenses have tightened, as the Company focused on streamlining and building its global distribution presence and leveraging key relationships with key retailers.

This solid progress reflects the significant efforts made over the course of the financial year opening distribution channels, principally in the North American and Australian markets. Into this growing base of stores the Company shipped close to 150,000 product units throughout the financial year.

Over the course of the current financial year the Company set several key milestones:

- Increase distribution amongst our existing key accounts in our three core markets
- Increase the overall retail footprint through strategic focus on high value retail/pharmacy networks
- Expand awareness of Mute amongst clinical channels to begin establishing referrals

Pleasingly, the Company has made significant progress in achieving each of these milestones.

Key products

Turbine and Mute are individually customisable nasal dilators that enhance nasal breathing and reduce congestion without placing pressure on the septum.

Mute is designed to increase airflow and reduce snoring, thereby supporting sleep quality. Mute is light and flexible and can be worn comfortably during sleep. An independent in-home User Trial, peer-reviewed literature reviews and market research in the US, UK and Australia has assisted in developing an understanding of the scope of the global market opportunity for breathing technologies.

Turbine is designed to make breathing easier during aerobic exercise and activity. Because retention in the nose during these activities is vital, Turbine employs more robust materials and retention features on the paddles and curved arms to hold the device in place during intense exercise.

Regulatory status

The Company launched Turbine in 2014. Mute was launched initially online in December 2014, then into the Australian retail market in late March 2015.

Mute and Turbine are registered with regulatory authorities in several key markets in Australia with the TGA, in the USA with the FDA, in Europe where it has received a CE Mark and in Canada with Canada Health. During the course of the year the Company sought to expand and subsequently achieved regulatory approval in Taiwan with the Taiwanese FDA.

The Company's products are now sold over-the-counter and online through pharmacies, sleep clinics and sports stores.

Operating and financial review (*continued...*)

Distribution

Over the course of this financial year the Company was able to build relationships with several important wholesalers in both the USA and Australia. These included AmerisourceBergen Corporation, McKesson, Vittoria Industries, Sigma Healthcare, Symbion and The Linde Group (BOC Limited).

These wholesalers play an important role in expanding our retail footprint and provide access to a significant retail footprint. During the current financial year, the Company stocked approximately 2800 stores and opened up access to an additional 4,800* stores during Q4 of 2017.

Post June 30, the Company subsequently announced an increase in its Walgreens store count from 891* to 4,300* stores and that the Hamacher Resource Group has included Mute in its Planogram, which is utilised by some 10,000 independent pharmacies throughout the USA.

**Stores numbers are estimated at the date of this report.*

Operations

In line with the Company's strategy, Mute continues to be a major area of growth for the Company. Mute contributed approximately 90% of reported revenues. Nasal congestion, snoring and poor sleep continue to emerge as major contributors to poor health outcomes and chronic disease. The Company continues to believe that the unmet clinical need for an over-the-counter, non-drug, low cost, low invasive, well tolerated solution is compelling.

Turbine's role as a core brand that socialises and raises awareness of nasal breathing remains critical. In July of 2017 Chris Froome - one of the Company's key ambassadors - won his fourth Tour de France. He continues to use the Turbine as a part of cycling his kit and Turbine continues to be worn by key sporting personalities, globally.

The Company continues to deliver strong gross margins and has maintained these throughout the sell-in process with major retailers. Sales and marketing costs for the financial year have been high reflecting the cost of promotional campaigns to support new retail accounts and growth in brand awareness in these markets. This investment has been important in ensuring the Company meets store sell-through expectations in these markets. The Company has leveraged growing awareness and endorsement amongst sleep and dental professionals and intends to continue build this as it focuses on in-store presence, merchandising and PR opportunities.

Mute has featured in a significant number of US, UK and Australian media stories during the year: including Live with Kelly, Sirius Radio, ABC, NBC TV, Channel 7 National News and Marie Claire. Many of these media opportunities have involved key opinion leaders in the sleep and respiratory fields.

Staff numbers remained stable over the course of the year. The Company will continue to monitor corporate and overhead costs to ensure timely investment and appropriate levels of expenditure.

Operating and financial review (*continued...*)

Corporate

During the year the Company undertook several capital management initiatives in anticipation of its planned growth. In January 2017, it secured a \$2.0m working capital facility. This facility was not utilised during the current financial year. In March 2017, the Company raised \$2.1m with two key US based shareholders and subsequently welcomed Mr Whitney George as its cornerstone investor who now controls 17% of the Company's equity.

Additionally, at a Shareholders general meeting held in March 2017, shareholders voted to consolidate the Company's stock on a one share for every ten shares held basis. Shareholders also voted to alter the constitution to allow for the sale of unmarketable parcels.

The consolidation was subsequently completed on May 11 and in July 2017 a letter regarding the unmarketable parcels was dispatched to shareholders. The sale of unmarketable parcels is slated to take place in late August. Both these initiatives are designed to ensure shareholders are able to optimise their holdings in Rhinomed, ensure the Company manages prudently its administrative costs and position the business to best capture the considerable progress that has been made to date.

The Company received research and development tax rebates of \$280k compared with \$437k in the previous financial year. This decrease reflects the Company's increasing focus on expanding the distribution footprint for its lead products.

R&D

As a result of the Company's focus on commercialisation, R&D expenditure was significantly down for the year. Amount of costs incurred in the current year has been \$65k comparing to the \$234k incurred in calendar year 2016.

Interest in the Company's technologies from the sleep medicine community continues to grow at a rapid rate. Rhinomed exhibited at both the American Sleep Medicine conference and the American Dental Sleep Medicine conference in June and both strongly illustrated the growing recognition of the importance of the nose and nasal airflow and its positive impact on both efficacy and compliance with a range of other sleep therapies, including CPAP and oral devices. Rhinomed continues to build a reputation and be recognised as an innovator and global leader in improving nasal airflow, breathing and sleep.

Events after the reporting date

On 19 July 2017, the Company announced that it had received purchase orders confirming US Pharmacy giant Walgreens had placed Rhinomed's 4 SKU product range (Trial, Small, Medium and Large pack) of the MUTE sleep and breathing technology product in approximately 4,300 pharmacy/drugstores across the USA. In addition, the Hamacher Resource group confirmed that 2 of the Mute range (Trial and Medium) would be included in their planogram. This planogram is utilised by some 10,000 independent pharmacy/drugstores throughout the USA.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Financial position

The Group held cash reserves of \$1,666,883 at 30 June 2017, a decrease of \$945,874 from the previous period end. The Group's net assets were \$5,332,093 compared with \$7,115,370 for the previous year. The net carrying value of the Group's intangible assets was \$3,678,251 compared with \$4,039,879 for the previous year.

Rhinomed Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	Consolidated entity	
		2017	2016
		\$	\$
Revenue from continuing operations		1,717,225	1,012,433
Other income		25,090	84,882
Expenses			
Raw materials and consumables used		(388,309)	(312,375)
Employee benefits expense		(2,198,595)	(1,855,783)
Depreciation and amortisation		(470,228)	(527,315)
Impairment of assets		-	(1,622)
Fair value adjustment of investment		-	(25,000)
Administration		(1,399,803)	(1,412,979)
Marketing		(1,510,672)	(2,372,521)
Research and development		(64,546)	(234,269)
Other expenses		(542,639)	(791,437)
Loss before income tax		(4,832,477)	(6,435,986)
Income tax benefit		390,899	437,457
Loss for the period		(4,441,578)	(5,998,529)
Other comprehensive loss			
Exchange differences on translation of foreign operations	4(b)	(4,961)	(24,024)
Total comprehensive loss for the period		(4,446,539)	(6,022,553)
Total comprehensive loss for the period is attributable to:			
Non-controlling interests		-	-
Owners of Rhinomed Limited		(4,446,539)	(6,022,553)
		Cents	Restated** Cents
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic loss per share*		(6.61)	(9.43)
Diluted loss per share*		(6.61)	(9.43)

* On 3 May 2017 the share capital of the Company has been consolidated through the conversion to one share for every ten shares held.

** Basic and diluted loss per share for the prior financial year have been restated to align with the current year's amount based on post consolidation of one share for every ten shares held.

Rhinomed Limited
Consolidated statement of financial position
As at 30 June 2017

	Note	Consolidated entity	
		2017	2016
		\$	\$
ASSETS			
<u>Current assets</u>			
Cash and cash equivalents		1,666,883	2,612,757
Trade and other receivables		514,275	510,645
Inventories		429,118	546,337
Other assets		78,032	149,235
Total current assets		2,688,308	3,818,974
<u>Non-current assets</u>			
Other financial assets		51,475	103,775
Property, plant and equipment		23,926	127,811
Intangible assets	3(a)	3,678,251	4,039,879
Total non-current assets		3,753,652	4,271,465
Total assets		6,441,960	8,090,439
LIABILITIES			
<u>Current liabilities</u>			
Trade and other payables		979,615	895,818
Provisions		122,632	79,251
Total current liabilities		1,102,247	975,069
<u>Non-current liabilities</u>			
Provisions		7,620	-
Total non-current liabilities		7,620	-
TOTAL LIABILITIES		1,109,867	975,069
NET ASSETS		5,332,093	7,115,370
EQUITY			
Issued capital	4(a)	50,934,839	48,919,157
Reserves	4(b)	795,104	3,605,594
Non-controlling interest reserve		(6,158,687)	(6,158,687)
Accumulated losses		(40,239,163)	(39,250,694)
TOTAL EQUITY		5,332,093	7,115,370

Rhinomed Limited
Consolidated statement of changes in equity
For the year ended 30 June 2017

	Note	Issued capital \$	Option reserve \$	Reserves NCI \$	FX reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2015		41,927,021	3,624,910	(6,158,687)	-	(33,425,765)	5,967,479
Loss for the period		-	-	-	-	(5,998,529)	(5,998,529)
Other comprehensive expense		-	-	-	(24,024)	-	(24,024)
Total comprehensive loss for the period		-	-	-	(24,024)	(5,998,529)	(6,022,553)
<u>Transactions with equity holders in their capacity as equity holders:</u>							
Shares issued net of issue costs		6,992,136	-	-	-	-	6,992,136
Options expired		-	(173,600)	-	-	173,600	-
Options issued		-	178,308	-	-	-	178,308
Balance at 30 June 2016		48,919,157	3,629,618	(6,158,687)	(24,024)	(39,250,694)	7,115,370
Loss for the period		-	-	-	-	(4,441,578)	(4,441,578)
Other comprehensive expense		-	-	-	(4,961)	-	(4,961)
Total comprehensive loss for the year		-	-	-	(4,961)	(4,441,578)	(4,446,539)
<u>Transactions with equity holders in their capacity as equity holders:</u>							
Shares issued net of issue costs		2,015,682	-	-	-	-	2,015,682
Options expired		-	(3,453,110)	-	-	3,453,110	-
Options issued		-	647,580	-	-	-	647,580
Balance at 30 June 2017		50,934,839	824,088	(6,158,687)	(28,985)	(40,239,163)	5,332,093

Rhinomed Limited
Consolidated statement of cash flows
For the year ended 30 June 2017

	Note	Consolidated entity	
		2017	2016
		\$	\$
<u>Cash flows from operating activities</u>			
Receipts from customers		2,024,000	845,323
Payments to suppliers and employees		(5,432,071)	(7,416,624)
Interest received		35,000	23,605
Interest and other costs of finance paid		(14,000)	(14,776)
Receipt of R&D tax refund		279,860	437,457
Government grants		110,955	-
Net cash outflow from operating activities		(2,996,256)	(6,125,015)
<u>Cash flows from investing activities</u>			
Payments for purchase of property, plant and equipment		(4,714)	(20,004)
Proceeds from sale of equity investments		-	310,125
Proceeds from sale of intellectual property		-	104,500
Withdrawal/(investment) from/(in) term deposits		51,510	-
Net cash inflow from investing activities		46,796	394,621
<u>Cash flows from financing activities</u>			
Proceeds from issues of shares and other equity securities	4(a)	2,198,440	7,232,589
Capital raising costs		(182,758)	(240,453)
Net cash inflow from financing activities		2,015,682	6,992,136
Net (decrease) increase in cash and cash equivalents		(933,779)	1,261,742
Cash and cash equivalents at the beginning of the year		2,612,757	1,368,621
Effects of exchange rate changes on cash and cash equivalents		(12,096)	(17,606)
Cash and cash equivalents at end of period		1,666,883	2,612,757

Rhinomed Limited
Note to the consolidated financial statements
30 June 2017

1 Segment information

The Group has operated in one segment, being the identification, acquisition and commercialisation of late stage therapeutic delivery technologies. The segment details are therefore fully reflected in the body of the financial report.

2 Revenue

	Consolidated entity	
	2017	2016
	\$	\$
Revenue		
Sale of goods	1,717,225	1,012,433
Other income		
Interest received	25,090	23,605
Gain on sale of equity investment	-	61,277
	25,090	84,882
Total revenue and other income	1,742,315	1,097,315

3 Non-financial assets and liabilities

(a) Intangible assets

	Consolidated entity	
	2017	2016
	\$	\$
Goodwill		
At cost	4,951,996	4,951,996
Less: impairment	(3,386,992)	(3,386,992)
Net carrying value	1,565,004	1,565,004
Development costs		
At cost	602,503	602,503
Less: impairment	(213,576)	(213,576)
Less: amortisation	(134,936)	(104,248)
Net carrying value	253,991	284,679
Intellectual property		
At cost	(9,516,217)	(9,516,217)
Less: impairment	6,492,957	6,492,957
Less: amortisation	1,164,004	833,064
Net carrying value	1,859,256	2,190,196
Total intangible assets	3,678,251	4,039,879

3 Non-financial assets and liabilities (continued)

(a) Intangible assets (continued)

(i) Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill \$	Development costs \$	Intellectual property \$	Total \$
Balance at 30 June 2015	1,565,004	326,010	2,511,483	4,402,497
Amortisation charge	-	(41,331)	(321,287)	(362,618)
Balance at 30 June 2016	1,565,004	284,679	2,190,196	4,039,879
Amortisation charge	-	(30,688)	(330,940)	(361,628)
Balance at 30 June 2017	1,565,004	253,991	1,859,256	3,678,251

4 Equity

(a) Issued capital

(i) Movements in ordinary shares on issue:

Details	Notes	Number of shares (thousands)	\$
Balance at 30 June 2015		539,438,635	41,927,021
23/09/2015 Private placement at \$0.032		64,062,500	2,050,000
25/09/2015 Private placement at \$0.032		10,937,500	350,000
23/12/2015 Private placement at \$0.032		4,687,500	150,000
11/03/2016 Private placement at \$0.024		139,583,340	3,350,000
20/05/2016 Private placement at \$0.024		55,524,532	1,332,589
Less: Transaction costs arising on share issue		-	(240,453)
Balance at 30 June 2016		814,234,007	48,919,157
14/03/2017 Private placement at \$0.018		105,135,000	1,892,430
20/03/2017 Private placement at \$0.018		13,000,000	234,000
21/03/2017 Private placement at \$0.018		4,000,000	72,000
23/03/2017 Private placement at \$0.10		100	10
Less Costs of Capital Raising Year ended 30 June 2017		-	(182,758)
03/05/2017 Share consolidation		(936,369,107)	-
03/05/2017 Share consolidation		93,637,159	-
Balance at 30 June 2017		93,637,159	50,934,839

4 Equity (continued)

(b) Reserves

	Consolidated entity	
	2017	2016
	\$	\$
Other reserves	824,088	3,629,616
Foreign exchange reserve	(28,984)	(24,022)
	795,104	3,605,594

(i) Reconciliations

	Option reserve	NCI reserve	FX reserve	Total
	\$	\$	\$	\$
Balance at 30 June 2015	3,624,910	(6,158,687)	-	(2,533,777)
Share-based payments	-	-	-	-
Options issued/(expired)	4,708	-	-	4,708
FX movements	-	-	(24,024)	(24,024)
Balance at 30 June 2016	3,629,618	(6,158,687)	(24,024)	(2,553,093)
Share-based payments	-	-	(4,961)	(4,961)
Options issued/(expired)	(2,805,530)	-	-	(2,805,530)
FX movements	-	-	-	-
Balance at 30 June 2017	824,088	(6,158,687)	(28,985)	(5,363,584)

The option reserve is used to record the expense associated with the valuation of options. The NCI reserve is used to record adjustments arising from transactions with non-controlling interests. The FX reserve is used to record exchange differences arising on translation of a foreign controlled subsidiary.

4 Equity (continued)

(b) Reserves (continued)

(ii) Movements in options

	No.	\$
Balance at 30 June 2015	245,150,000	3,624,910
Options lapsed/expired	(2,000,000)	(173,600)
Options issued	28,769,230	178,308
Balance 30 June 2016	271,919,230	3,629,618
Options lapsed/expired	(243,150,000)	(3,453,110)
Consolidation 10:1	2,876,923	-
Options issued	6,150,000	647,580
Balance at 30 June 2017	9,026,923	824,088

On 28 of April 2017 the Company has issued 6,000,000 of options to its key management personnel and 150,000 of options to other employees. The options are not listed and expire on the 30 April 2020 and 20 October 2020. The options have an exercise price of \$0.27 and \$0.40. The fair value of the options granted during the year was \$0.1053.

5 Events occurring after the reporting period

On 19 July 2017, the Company announced that it had received purchase orders confirming US Pharmacy giant Walgreens had placed Rhinomed's 4 SKU product range (Trial, Small, Medium and Large pack) of the MUTE sleep and breathing technology product in approximately 4,300 pharmacy/drugstores across the USA. In addition, the Hamacher Resource group confirmed that 2 of the Mute range (Trial and Medium) would be included in their planogram. This planogram is utilised by some 10,000 independent pharmacy/drugstores throughout the USA.

No other matter or circumstances has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.