

**Smiles Inclusive Limited and Target
Dental Practices**

Management Financial Report

for the period ended 31 December 2017

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Smiles Inclusive Limited
Combined Statement of Profit or Loss
for the period ended 31 December 2017

	Smiles Inclusive Consolidated 31 December 2017 \$	Combined Target Practices 31 December 2017 \$	Combined Group 31 December 2017 \$
Gross practice revenue	-	25,376,387	25,376,387
Direct Costs	-	(7,704,146)	(7,704,146)
Net practice revenue	-	17,672,241	17,672,241
Employee expenses	(180,502)	(5,669,690)	(5,850,192)
Consumables supplies expenses	-	(1,824,035)	(1,824,035)
Occupancy expenses	-	(1,826,617)	(1,826,617)
Marketing expenses	(62,752)	(306,689)	(369,441)
Professional fees	(240,314)	-	(240,314)
Consulting fees	(88,969)	-	(88,969)
Travel and accommodation	(39,470)	-	(39,470)
Depreciation	(228)	(419,301)	(419,529)
Practice administration and other expenses	(30,390)	(1,008,859)	(1,039,250)
Operating profit/(loss) before financing costs	(642,626)	6,617,050	5,974,424
Financing income/ (expense)	(87)	-	(87)
Profit/(loss) before income tax	(642,713)	6,617,050	5,974,337

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

Smiles Inclusive Limited
Combined Statement of Financial Position
as at 31 December 2017

	Smiles Inclusive Consolidated 31 December 2017	Impact of Offer and Acquisitions 31 December 2017	Combined Group 31 December 2017
	\$	\$	\$
Assets			
Cash and cash equivalents	2,393,796	3,468,000	5,861,796
Prepayments and other assets	288,455	-	288,455
Property, plant and equipment	3,611	4,759,000	4,762,611
Goodwill	-	61,017,000	61,017,000
Total assets	2,685,862	69,244,000	71,929,862
Liabilities			
Trade and other payables	119,067	-	119,067
Convertible notes	4,732,000	(4,732,000)	-
Borrowings	-	13,000,000	13,000,000
Other financial liabilities	-	21,431,000	21,431,000
Provisions	-	447,000	447,000
Total liabilities	4,851,067	30,146,000	34,997,067
Net assets	(2,165,205)	39,098,000	36,932,795
Equity			
Contributed equity	116	38,527,000	38,527,116
Accumulated losses	(642,713)	-	(642,713)
Contribution Reserve	(1,522,608)	571,000	(951,608)
Total equity	(2,165,205)	39,098,000	36,932,795

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

Smiles Inclusive Limited

Notes to the Combined Financial Statements

for the period ended 31 December 2017

1. BASIS OF PREPARATION

(a) Reporting Entity

Smiles Inclusive Limited was incorporated on 15 August 2017 and, through its subsidiary entity Totally Smiles Pty Ltd, has entered into Business Sale Agreements ('BSA's') with various unrelated business structures, including sole traders, family trusts, partnerships and private companies to acquire the business operations of independently operated dental practices, as part of the proposed listing process (hereinafter collectively referred to as 'The Smiles Inclusive Combined Group' or 'The Combined Group'). These Combined Financial Statements have been prepared for the purpose of presenting historical financial information as part of the listing process for Smiles Inclusive Limited and comprise Smiles Inclusive Limited and its controlled entities (hereinafter referred to as Smiles Inclusive Consolidated) and the target practices to be acquired on execution of BSA's (hereinafter referred to as Combined Target Practices). As such, these Combined Financial Statements have been prepared as special purpose financial statements.

The Smiles Inclusive Consolidated information was extracted from the interim financial report of Smiles Inclusive covering the period from incorporation to 31 December 2017 (Interim Financial Report), which was reviewed by KPMG in accordance with Australian Auditing Standards. KPMG issued an unmodified review opinion on the Interim Financial Report.

The Combined Target Practice Information (other than the Pro Forma Historical Balance Sheet) is based on:

- management information for the Combined Target Practices to 31 December 2017 which were unaudited; and
- pro forma adjustments applied to the financial information for the Aggregated Target Practices to 31 December 2017. No adjustment has been made for the JV Partner EBIT Share expense as it only becomes payable by The Combined Group from the date the acquisitions occur.

The Combined Statement of Financial Position is based on the Smiles Inclusive Consolidated balance sheet as at 31 December 2017, and includes pro forma adjustments to reflect:

- the impact of the offer, including the offer costs and convertible note conversion;
- the impact of the Combined Target Practice acquisitions; and
- the operating and capital structures that will be in place following completion of the acquisitions of the Combined Target Practices as if they had occurred or were in place as at 31 December 2017.

The Combined Group is domiciled in Australia. The address of The Combined Group is Unit 3/38-40 Township Drive, West Burleigh, QLD, 4219.

The Combined Group is for-profit and it is proposed to be primarily involved in operating dental practices throughout Australia at which independent dentists practice and provide clinical treatments and services to patients.

(b) Statement of Compliance

The Combined Financial Statements of The Combined Group have been drawn up as a special purpose financial report for distribution to the Directors and does not comply with the *Corporations Act 2001*.

The special purpose Combined Financial Statements have been prepared in accordance with the recognition and measurement aspects of all applicable Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standard Board ('AASB'), except for:

- IFRS 10 *Consolidated Financial Statements* as there is no single parent entity, the combination of The Combined Group is not a consolidation and therefore, the Combined Financial Statements have not been prepared on a consolidation basis.

The Combined Financial Statements do not include the disclosure requirements of all AASBs.

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the period ended 31 December 2017

1. BASIS OF PREPARATION (continued)

The Combined Financial Statements do not comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The Combined Financial Statements have been prepared by management and they have determined that the accounting policies and disclosures adopted are appropriate for the purpose of the users of the Combined Financial Statements.

Consistent accounting policies are employed in the preparation and presentation of the Combined Financial Statements.

The Combined Financial Statements are presented in Australian dollars.

(c) Historical cost convention

The Combined Financial Statements has been prepared on an accrual basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected assets, financial assets and financial liabilities.

(d) Critical accounting estimates and judgements

The preparation of the Combined Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Combined Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of combination

No business combination accounting adjustments have been made to the aggregated financial information. Consistent accounting policies have been applied in the preparation and presentation of financial information.

Each of the dental practices listed in Note 3 have entered in to conditional Business Sale Agreements (BSA's) with Smiles Inclusive Limited. The BSA's will become unconditional at the time of the initial public offering. At this time Smiles Inclusive Limited will complete business combination accounting in accordance with AASB 3 Business Combinations.

(b) Revenue recognition

The Combined Group provides dental services to patients. Revenue is recognised at the fair value of consideration received or receivable, being the amount of fees charged to the patient.

The Combined Group recognises revenue from the rendering of dental services when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity, which is once the services have been provided.

Revenue from treatment plans, which are generally provided over a period of greater than one month, is recognised on an accrual basis as the services are provided.

Government subsidies are recognised at their fair value when the dental services have been rendered and when there is reasonable assurance that the subsidy will be received and The Combined Group will comply with the attached conditions.

Interest income is recognised as it accrues in profit and loss.

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the period ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Employee benefits

Short-Term Obligations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The liabilities are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Long-Term Obligations

The Combined Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

The obligations are presented as a liability in the balance sheet if The Combined Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in liabilities in the balance sheet.

(e) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment if applicable. Trade receivables are generally due for settlement within 30 days.

(f) Property, plant and equipment

Items of property, plant and equipment are measured at cost less depreciation, amortisation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to The Combined Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the reporting period in which they are incurred.

Depreciation is calculated using the diminishing value method to allocate the costs of assets, net of their residual values, over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 1(j)).

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the period ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Payables

These amounts represent liabilities for goods and services provided to The Combined Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of

recognition. Trade and other payables are presented as liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(h) Borrowings

Borrowings are measured at amortised cost. Borrowing costs are expensed as incurred.

(i) Impairment of assets

Financial assets

Collectability of financial assets, such as trade receivables, is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that The Combined Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired.

The Combined Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics

In assessing collective impairment, The Combined Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit and loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit and loss.

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the period ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

Non-financial assets

Non-financial assets, such as goodwill and intangible assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Other assets, including those that are subject to depreciation or amortisation, are reviewed at each balance date to determine whether there is any indication of impairment. If such an indicator exists, then the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Cash inflows considered for the purposes of impairment testing are discounted to present value.

Significant judgement has been used in testing assets for impairment and in determining the amounts recognised as impairment losses at reporting date.

(k) Provisions

A provision is recognised if, as a result of a past event, The Combined Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the period ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leases

Leases of property, plant and equipment where The Combined Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The interest element of the finance cost is charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to The Combined Group as lessee are classified as operating leases. Payments made under operating leases, net of incentives received from the lessor, are charged to profit and loss on a straight-line basis over the period of the lease.

(m) Goods and Services Tax (GST)

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 an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the period ended 31 December 2017

3. COMBINED TARGET PRACTICES

The Combined Target Practice financial information are based on the aggregated assets and liabilities, and results of operations, of the following dental practices as at and for the period-ended 31 December 2017:

- HiQu Dental
- MK Dental
- Warren Dental
- M.A Dental Pty Ltd
- Cairns Square Dental
- Redbank Plaza Dental
- Distinctive Dental Care
- Dental Central - Nelson St
- Dental Central – Victoria Street
- Whitehouse Dental
- Q Dental – Mt Gravatt
- Q Dental – Bulimba
- Q dental - Manly
- Ken Gover Dental
- Gympie Family Dental
- Surfers Dental Surgery
- GP Nichols Dental – West End
- GP Nichols Dental – Alexander Hills
- Clayfield Family Dentist
- Peninsula Dental
- James Street Dental
- Basil Fletcher Periodontist
- Graham Irving & Assoc
- Pakenham Dental Group
- Yarram Dental Group
- Dentserve – Jukes Road
- Dentserve – Bundoora Road
- SPA Dental
- Kippax Dental
- Smiles on Site
- AADC
- The Smile Club - Karrinyup
- The Smile Club – Mt Hawthorne
- Prime Children's Dental - Joondalup
- Prime Children's Dental - Wembley
- Dalyellup Dental
- Lake Grace Dental
- Dentures Direct
- Denturist Australia
- Laidley Dental Surgery
- Gatton Dental Surgery
- Dentures Direct (SA) Trust
- Watkins Dental & Orthodontics
- North Brisbane Dental Central

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the period ended 31 December 2017

3. COMBINED DENTAL PRACTICES (Continued)

- Refresh Dental
- Steve Baker Dentist
- Bruce Stevens Dental
- Elite Dental
- Cosmos Dental
- Mossman Dental
- Central Dental
- Complete Dental