Smiles Inclusive Limited

ACN 621 105 824

Financial

Report

30 June 2019

Table of Contents

Annual report	
Corporate directory	**[3]**
Directors Report	**[4]**
Corporate governance statement	**[20]**
Auditor independence	**[21]**
Financial Statements	
Statement of profit or loss	**[22]**
Balance sheet	**[23]**
Statement of changes in equity	**[24]**
Statement of cash flows	**[25]**
Notes to the financial statements	**[26]**
Section A How the numbers are calculated	**[27]**
A1: Profit and loss information	**[28]**
Revenue	**[28]**
Particular expenses	**[29]**
Income tax expenses	**[30]**
A2: Financial assets and liabilities	**[31]**
Receivables and other assets	**[31]**
Payables and other liabilities	**[33]**
Interest bearing loans and borrowings	**[34]**
Joint venture partner contribution	**[36]**
A3: Non-Financial assets and liabilities	**[38]**
Inventory	**[38]**
Property, plant and equipment	**[39]**
Intangibles	**[41]**
Deferred tax assets and liabilities	**[45]**
A4: Equity	**[47]**
Contributed equity	**[47]**
Dividends and distributions	**[47]**
A5: Segment information	**[48]**
Segment information	**[48]**
Section B Risk Management	**[49]**
Critical estimates and judgements	**[49]**
Financial risk management	**[50]**
Capital management	**[52]**
Section C Group Structure	**[53]**
Business combinations	**[53]**
Interest in other entities	**[55]**
Appendix 1 How the numbers are calculated – other items	**[56]**
Earnings per security	**[56]**
Cash and cash equivalents	**[57]**
Provisions	**[57]**
Retained profits/ (accumulated losses)	**[58]**
Notes to the cash flow statements	**[59]**
Appendix 2 Other information	**[60]**
Related party transactions	**[60]**
Auditor's remuneration	**[61]**
Parent entity	**[62]**
Deed of cross guarantee	**[64]**
Contingent assets and liabilities	**[66]**
Commitments	**[67]**
Events occurring after balance date	**[68]**
Going concern	**[69]**
Other accounting policies	**[70]**
Directors Declaration	**[74]**
Independent Auditors Report	**[75]**
Shareholders and other information	**[83]**

Corporate Directory

Registered Office
C/- Talbot Sayer
Level 27, 123 Eagle Street Brisbane QLD 4000
(07) 3160 2900

Principal Place of Business
Totally Smiles
Unit 3, 38/40 Township Drive West Burleigh QLD 4219
(07) 5568 7645

Directors
David Usasz (Chairman)
Peter Evans
Peter Fuller

Company Secretary
Emma Corcoran

Auditor
KPMG

Share Registry
Link Market services
Level 12, 680 George Street Sydney NSW 2000
(02) 8280 7100

Stock Exchange Listing
Smiles Inclusive Limited shares are listed on the Australian Security Exchange under the code "SIL".

Directors' report

The Directors present their report on the consolidated entity consisting of Smiles Inclusive Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the period ended 30 June 2019. Throughout the report, the consolidated entity is referred to as the Group.

Directors and company secretary

The following persons were Directors of the Company at any time during or since the end of the financial year:

Current Directors	
D Usasz	Chairman (appointed 22 May 2019)
P Evans	Non-Executive Director (appointed 1 August 2018)
P Fuller	Non-Executive Director (appointed 25 June 2019)
Former Directors	
J Lowcock	Non-Executive Director (resigned 26 February 2019)
T Penn	Non-Executive Director (resigned 30 June 2019)
D Herlihy	Former Chairman (ceased 22 May 2019)
M Timoney	Executive Director (ceased 22 May 2019)

The Directors qualifications, experience and responsibilities, and interest are as follows:

D Usasz – Bachelor of Commerce, Fellow Chartered Accountant Chairman & Independent Non-Executive Director		
Experience and expertise	Independent Non-Executive Director and Chairman. Provides counsel on financial and strategic matters drawing on 31 years of service at PricewaterhouseCoopers, including 20 years as partner.	
Other current directorships	None	
Former directorships in last 3 years	GARDA Capital Group, and GARDA Capital Limited as responsible entity for the GARDA Diversified Property Fund.	
Special responsibilities	Chair of Board Chair of Audit and Risk Committee Member of Nomination and Remuneration Committee	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	1,750,000

P Evans – Bachelor of Commerce, GradDipAdvAcc, F Fin, FSIA Independent Non-Executive Director		
Experience and expertise	Independent Non-Executive Director. 30-year stockbroking career and extensive Board experience with a range of private and ASX-listed companies.	
Other current directorships	Intrepid Mines Limited	
Former directorships in last 3 years	Talon Petroleum Limited	
Special responsibilities	Member of Audit and Risk Committee Chair of Nomination and Remuneration Committee	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	556,000

Directors and company secretary (continued)

P Fuller – Bachelor Dental Technology and Dental Prosthetics Non-Executive Director		
Experience and expertise	Founded Q Dental Australia Pty Ltd in 2009. Over 30 years' experience in the dental industry.	
Other current directorships	Nil public companies	
Former directorships in last 3 years	Nil	
Special responsibilities	Member of the Nomination and Risk Committee	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	1,903,788

Company Secretary

Ms Emma Corcoran CA B.Comm, MAppFin was appointed the Company Secretary on 20 June 2019. Ms Corcoran has 23 years' experience in commercial advisory and accounting roles, including Australian General Manager of the Infrastructure Advisory business of a global engineering firm and a Principal/ Partner, Corporate Finance of William Buck (now Findex). The joint company secretaries previous to Ms Emma Corcoran were Mr P D Innes CA B.Bus (Acc) and Ms J Watter LLB, who ceased on 28 February 2019 and 20 June 2019, respectively.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Meeting of Directors		Committee Meetings: Audit and Risk		Committee Meetings: Nomination and Remuneration	
	A	B	A	B	A	B
D Usasz	15	15	2	2	1	1
P Evans (appointed 1 August 2019)	14	14	2	2	1	1
P Fuller (appointed 25 June 2019)	-	-	-	-	-	-
T Penn* (ceased 30 June 2019)	14	12	1	1	-	-
J Lowcock (ceased 26 February 2019)	4	4	-	-	-	-
D Herlihy (ceased 22 May 2019)	11	11	-	-	-	-
M Timoney* (ceased 22 May 2019)	11	11	-	-	-	-

A= Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year

Principal activities

The principal continuing activities of the Company during the financial year were concerned with the operation of 56 dental practices throughout Australia.

In November 2018 and December 2018, the Company, acquired four of the 56 practices, whose operations can be broken into the following:

- Fixed Location Practices: 19 general dentistry practices, 23 special interest practices, seven specialist practices operating in all Australian states and territories except Tasmania and the Northern Territory.
- Mobile Business: operating in New South Wales and Victoria with a current focus on primary schools.
- Dentures Business: operating predominately in South Australia but also country New South Wales and Victoria with 3 primary and 19 visited clinics.

Objectives

The high cost and resounding failure of the original implementation of the business model has required wholesale changes within the Business.

Whilst the current Board and Management remain committed to the original vision, model and targets for the business over the longer term, the current position means that substantial changes to stabilise operations, rebuild the company's balance sheet and restore shareholder value. These changes involve:

- Effective and complete integration of the acquired practices into the business
- Engagement initiatives - normalisation of cooperative business planning, analysis and performance management activities with JVPs and Practice Leaders.
- Establishment and implementation of standardised systems and operational processes
- Realising the benefits of scale including increased efficiencies, purchasing power and enhanced patient management and experience,
- Increasing practice revenues by improving marketing capability, upskilling providers, improving chair utilisation and reviewing prices.
- More focused, efficient and prudent operating expenditure - efficient and effective support office; removal of cost duplication; elimination of uncommercial agreements and contracts.
- Planned investment initiatives - necessary, targeted, limited practice fit out upgrades, equipment upgrades, compliance upgrades and maintenance.

The focus of the business is on the creation of a sustainable platform to enable continued organic growth and return to acquisition growth when appropriate.

Operating and Financial Review

Overview of the Business

The first year of operations for the Company failed to realise the expected financial performance of the group. Many operational issues arose and these together with the continued corporate and public disruptions saw the management and board concerned with much more than the bedding down of the business model and operations – essential tasks for the success of a newly amalgamated and publicly listed business.

The key financial metrics for the business for the financial year ended 30 June 2019 are presented below:

Adjustments to the statutory income statement (unaudited)	30 Jun 19 $'000	30 Jun 18 $'000	Change $'000	Change %
Underlying loss after tax	**(4,329)**	**(2,813)**	**(1,516)**	**(53.9)%**
Integration costs	(549)	(307)	(242)	(78.8)%
Business acquisition costs: once-off costs	(391)	(2,648)	2,257	85.2%
Net impairment and revaluation	(23,957)	-	(23,957)	n/a
Deferred tax assets not recognised	(1,995)	-	(1,995)	n/a
Income tax effect of adjustments	219	813	(594)	(73.1)%
Statutory loss after tax	**(31,002)**	**(4,955)**	**(26,047)**	**(525.7)%**

Underlying Group Financial Performance (unaudited)	30 Jun 19 $'000	30 Jun 18 $'000	Change $'000	Change %
Financial Performance				
Gross practice revenue	34,629	7,211	27,418	380.2%
Practice EBITDA (excl JVP profit share)	2,201	1,423	778	54.7%
Group EBITDA	(5,275)	(8,417)	3,142	37.3%
EBIT	(6,685)	(8,527)	1,842	21.6%
Underlying loss	(4,329)	(2,813)	(1,516)	(53.9)%
Operational metrics				
Number of practices	56	52	4	7.7%
Patient fees	48,003	8,442	39,561	468.6%
Financial metrics				
Underlying loss after tax per share (cents)	(0.07)	(0.18)	0.11	59.5%
Share price	0.12	0.85	(0.73)	(85.9)%
Practice EBITDA margin	6.4%	19.7%	(13.3)%	n/a
Practice EBITDA to patient fees margin	4.6%	16.9%	(12.3)%	n/a
Group EBITDA margin	(15.2)%	(116.7)%	101.5%	n/a
Group EBIT margin	(19.3)%	(118.2)%	98.9%	n/a

[1] Underlying refers to Non-IFRS financial information. Underlying earnings are categorised as non-IFRS financial information and therefore have been presented in compliance with ASIC Guide 230 – Disclosing non-IFRS information and are unaudited. Underlying adjustments have been considered in relation to their size and nature and have been adjusted from the Statutory information, for disclosure purposes, to assist readers to better understand the financial performance of the underlying business in each reporting period.

Operating and Financial Review (continued)

Key performance outcomes for SIL for the financial year ended 30 June 2019 are:

- statutory loss after tax of $31.0 million;
- impairment of goodwill and property, plant and equipment of $31.1 million;
- revaluation gain on joint venture partner contribution liability of $7.1Million;
- practice revenue (net of direct costs) of $30.4 million;
- underlying loss after tax of $4.3 million;
- cash balances $1.6 million.

The poor financial performance of the business was driven by:

- Unsuccessful integration of the business and associated ongoing business approach;
- Breakdown of relationships with some Joint Venture Partners (JVP's), which led to a low level of engagement;
- Operational issues within the mobile division, leading to significant losses and its temporary closure;
- Disruption associated with the calling of the Extraordinary General Meeting on 22 May 2019, and ongoing actions of individuals seeking to further their personal agenda – ahead of the best interests of shareholders; and
- Litigation issues which have distracted management from the operations of the business and resulted in significant legal costs.

Past management failed to adequately prepare and plan for the successful integration of the acquired businesses and as a result a new CEO was appointed in late Q3. The management team was entirely refreshed and a new board in place by the end of Q4. These actions were the beginning of the development of a Turnaround plan for the business. Turnaround will be an ongoing iterative process and the first stage of the plan has been independently reviewed and is supported by the key stakeholders of the business, most notably is primary banker.

Preliminary initiatives undertaken by the current management in Q4 2019 to commence turnaround have included:

- Cost savings associated with support office staff reductions. This has also necessarily lead to smaller focused teams, but delayed implementation.
- Focus on unprofitable businesses involved contact centre priority, staff training and other improvement strategies.
- Establishment of the Contact Centre and associated telecommunications capability to enable direct bookings.
- Review of the marketing strategy and identification of required strategic capabilities, performance management requirements and suitable service providers.
- Development of daily practice performance management strategies that requires practice accountability – implementation imminent.
- Development of practice staff training requirements, resources and delivery.
- Identification of the strategic focus required to improve the quality and sustainability of future revenue.
- Review of the Mobile business and strategic opportunities, associated relationship development and appointment of a General Manager.
- Review of the Dentures business and development of strategies to consolidate, computerise and improve efficiencies and profitability.

The group is in the initial stages of its Turnaround plan and although there are early signs of improvements - management accounts for July 2019 showed a small return to EBITDA - a significant amount of work needs to be completed to restore the respect of the Groups Joint Venture Partners, shareholders and other stakeholders. The Group expects there to be some volatility over the coming 12 months and therefore is unable to provide guidance.

Investments for Future Performance

As the business is in Turnaround investment in the immediate financial year will be limited. The business does need to invest to enable its future growth, and to this end management will be working with specific parts of the business to identify a prioritized plan for capital investment.

No further practice acquisitions are forecast for the FY20 year as the business will use this year to stabilse the existing operations.

As part of this the Board will be considering performance of a small number of under-performing practices and will determine the appropriate course of action for future investment in those regards.

Review of Financial Condition

For the year ended 30 June 2019 SIL incurred a statutory net loss before tax of $31.0 Million and net cash outflows from operating activities of $7.1 Million. As at 30 June 2019, the Group had net assets of $3.3 Million, including cash of $1.6 Million.

The business is currently in Turnaround. Following the failed attempt by former management to effectively integrate 56 dental practices, the Board approved the appointment of a new CEO in February 2019 and shareholders ratified a new Chairman in May 2019. Following this a Turnaround plan was developed and reviewed by Deloitte on behalf of our primary banker, National Australia Bank. Implementation of the plan began in June 2019.

Success in turning around the business is dependent upon the continued support of our stakeholders including National Australia Bank as our senior secured lender. Securing sufficient additional funding to support the specific actions of the plan, which include a number of revenue generation initiatives - reviewing (and where appropriate) increasing prices, decreasing whitespace, increasing provider utilization, upskilling providers and adding new chairs - together with targeted cost cutting is essential and expected to occur progressively throughout FY20.

The Company has considered all funding options and notes the following:

- The Company successfully raised $1.2 Million via a placement that was completed on 21 June 2019, representing the first stage of its equity raising campaign.
- At 30 June a second equity raising was being planned. Subsequent to balance date, it was resolved to proceed with a non-renounceable pro-rata equity entitlement 1 for 1 in September 2019. The accelerated component of this offer was completed 27 September 2019, with those funds to be received by 3 October 2018. The retail offer funds will be received 17 October 2019.
- The Company has financing facilities with the National Australia Bank (refer to note 6) which are drawn to $18.7 million at 30 June 2019. The facilities consist of an acquisition facility, a working capital facility and other ancillary facilities. The Group is not in compliance with existing covenants of the facilities. These covenants have been conditionally waived and will be reconsidered during the turnaround process. The National Australia Bank are working with the Company during the turnaround and the Company is not aware of any impending change of National Australia Bank's position in this regard.

The Directors have prepared cash flow projections for the coming 12 months that support the ability of the Group to continue as a going concern. The cash flow projections assume that the turnaround is successful - operational matters are resolved, the trading results of the Group improve, and that National Australia Bank agrees to continue to support the business.

These conditions give rise to material uncertainties that may cast doubt upon the Group's ability to continue as a going concern. In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Group during the financial period were as follows:

- On 28 February 2019 Tony McCormack was appointed as CEO to replace Mike Timoney to help implement the Company's turnaround plan. Tony McCormack is an experienced senior executive with a track record in general management, operations, business planning and change management.
- Paul Innes resigned as CFO in December 2018 and was replaced by Emma Corcoran. Emma is a Chartered Accountant with broad management experience in financial, commercial, operational and project management functions. Her previous roles include leading Commercial Advisory services for two global engineering consultancies, and Principal/Partner at William Buck (Finex).
- During the financial year, the Group became aware that it would breach the covenants associated with its bank facilities and sought a waiver from its Financier. The covenants were waived in March 2019 and are to be reviewed in November 2019. The Group is currently working with its Financier on developing operating and financial metrics with which the Group will be measured during the turnaround phase. At the date of this report the scope and timing of the metrics have yet to be agreed.
- On 21 June 2019 the Company issued 8,689,935 new shares at 14c raising $1,216,591 to assist with the implementation of the Company's turnaround plan and to meet working capital requirements. The shares rank equally with existing fully paid ordinary shares.

Dividends

No dividends were declared by the group for the period ended 30 June 2019 or up to the date of signing.

Events Subsequent to Reporting Date

On 25 September 2019 the company announced an accelerated non-renouncable entitlement offer to raise $3.33 million at $0.05 per fully paid ordinary share. The entitlement offer was fully underwritten by Morgans At 27 September 2019 the company had received applications for approximately 12.8 million fully paid ordinary shares to raise approximately $640,000.

No other matters or circumstances have arisen since 30 June 2019 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Likely Developments and Expected Results of Operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Indemnification and Insurance of Officers

Indemnification

The Company has agreements with each of the Directors and Officers of the Company in office at the date of this report indemnifying them against liabilities to any person other than the Company or a related body corporate that may arise from their acting as Directors or Officers of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The indemnity continues to have effect when the Directors and Officers cease to hold office other than where such liabilities arise out of conduct involving a wilful breach of duty by the Officers or the improper use by the Directors or Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability, as such disclosures are prohibited under the terms of the contract.

Insurance

Since the end of the previous financial year the Company has paid insurance premiums of $150,000 in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Proceedings on Behalf of the Company

The Group is the subject of several legal proceedings as at the date of this report. The legal proceedings include:

- Employment and contract disputes with the Joint Venture Partners of Totally Smiles Mobile Dentistry (also referred to as Smiles on Site). The Group continues to have settlement discussions with the partners and has provided $255,000 for costs and claims.
- Legal proceedings by the Group against the former Chief Executive Officer, Mike Timoney, for unlawful payments and transactions. It is too early to determine the likelihood of the claim being successful.

The Group is also the subject of a number of possible actions or claims. It is currently not possible to determine whether the threatened actions will result in legal proceedings and what the financial impact of them, if any, may be for the Group in the future. In the event the legal proceedings are initiated, the Group intends to defend its position.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 21.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Pursuant to this instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Going Concern

These financial statements have been prepared on the basis that the Group is a going concern and is able to realise its assets and settle its liabilities in the ordinary course of business.

During the year ended 30 June 2019 the Group incurred a net loss before tax of $31.0 Million and had net cash outflows from operating activities of $7.1 Million. As at 30 June 2019, the Group had net assets of $3.3 Million, including cash of $1.6 Million.

As a result of significant ongoing operational issues and poor trading performance over the past 12 months the Group has recorded an impairment expense of $31.1 Million in relation to goodwill and property, plant and equipment, and a reduction in the Joint Venture Partner Contribution liability of $7.1 Million at 30 June 2019.

The Group has financing facilities with National Australia Bank (refer to Note 6) which are drawn to $18.708 Million at 30 June 2019. The facilities consist of an acquisition facility, a working capital facility and other ancillary facilities. The facilities have covenant requirements which must be complied with at all times. In March 2019 National Australia Bank (NAB) advised the Group that they were in breach of financial covenants, and have agreed to a conditional waiver and extension of the existing facilities until the end of November 2019 which includes:

- the ongoing review of the Group and regular reporting by an investigating accountant;
- a reduction of $675,000 in the existing facilities by 21 October 2019;
- provision of ongoing financial information including a 3-way financial forecast; and
- development of modified covenants.

Following the appointment of a new management team, the Group has developed a turnaround plan which is being reviewed by advisors on behalf of the Group's primary banker, National Australia Bank (NAB). The implementation of the turnaround plan commenced in June 2019 and is dependent upon the continued support of stakeholders including financiers and creditors.

On 21 June 2019 the group raised $1.2 Million through a share purchase plan which was utilised to make a capital repayment in June to NAB and for working capital. On 25 September 2019 the Company announced a further proposed capital raising through a conditional fully underwritten non-renounceable entitlement offer to raise $3.3m less capital raising costs for the partial repayment of temporary banking facilities and working capital. The entitlement offer is expected to be completed by 21 October 2019.

The Directors have prepared cash flow projections for the coming 12 months that support the ability of the Group to continue as a going concern. The cash flow projections and the ongoing operation of the Group are critically dependent upon:

- the Group improving trading performance and generating positive cash flows from operations; and
- the successful completion of the planned conditional underwritten non-renounceable entitlement offer raising $3.3m (before costs) to repay $675,000 to NAB and generate working capital; and
- the Group successfully renegotiating the financial covenants with NAB and NAB providing ongoing support to facilitate the implementation of the turnaround plan.

These conditions give rise to material uncertainties that may cast doubt upon the Group's ability to continue as a going concern. There is a significant risk that the group will not meet the criteria attached to the conditional extension of existing facilities and consequently may not successfully renegotiate its financing facilities on a longer term basis. In addition the Group may not achieve the financial improvements as envisaged by the turnaround plan and the entitlement offer may not be completed as expected, including any additional capital raising initiatives that may be required in the future.

In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations.

Remuneration Report (Audited)

This Remuneration Report for the year ended 30 June 2019 outlines the Directors and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (Cth) (Corporations Act) and the Corporations Regulations 2001 (Cth).

For the purposes of this Report, key management personnel (KMP) of the Group are defined as those personnel having authority and responsibility for planning, directing and controlling major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise).

The disclosures in this Report have been audited. This Report is presented under the following sections:

a) Key Management Personnel
b) Overview of remuneration policy
c) Summary of senior executive remuneration structure
d) Details of performance-based remuneration elements
e) Relationship between remuneration policy and company performance
f) Remuneration details of Non-Executive Directors
g) Remuneration details of Senior Executives

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

(a) Key Management Personnel

The remuneration disclosures in this Report cover the following persons:

Non-executive Directors

D Usasz - Chairman
P Evans (appointed 1 August 2018)
P Fuller (appointed 25 June 2019)
J Lowcock (appointed 17 September 2018 - ceased 26 February 2019)
T Penn (ceased 30 June 2019)
D Herlihy (ceased 22 May 2019)
M Timoney (ceased 22 May 2019)

Executive Directors

T Penn (ceased 30 June 2019)
M Timoney (ceased being an executive director on 28 February 2019)

Other Executives

A McCormack (appointed 1 March 2019)
E Corcoran (appointed 13 May 2019)
P Innes (ceased 28 February 2019)
M Timoney (ceased 28 February2019)
T Penn (ceased 27 September 2019)

In this Report the group of persons comprised of the Executive Directors and Other Executives (listed above) are referred to as "Senior Executives".

Remuneration Report (Audited)

(b) Overview of remuneration policy

Philosophy

The performance of the Group is highly dependent upon the quality of its Directors, Senior Executives, practitioners and employees. Accordingly, it seeks to attract, retain and motivate skilled Directors and Senior Executives given the specific requirements of the business at the point in time. The Group's remuneration philosophy is to ensure that remuneration packages properly reflect a person's duties and responsibilities, that remuneration is appropriate and competitive both internally and against comparable companies and that there is a direct link between remuneration and performance. The Group has in place different remuneration structures for Non-executive Directors and Senior Executives.

Non-executive Directors

The process for determining remuneration of the Non-Executive Directors has the objective of ensuring maximum benefit for the Group by the retention of a high-quality Board, that is skilled appropriately for the specific needs of the business.

The Nomination and Remuneration Committee bears the responsibility of determining the appropriate remuneration for Non-Executive Directors and other senior executives. Non-Executive Directors' fees are reviewed periodically by the Nomination and Remuneration Committee with reference to the fees paid to the Non-executive Directors of comparable companies. The Nomination and Remuneration Committee is subject to the direction and control of the Board.

In forming a view of the appropriate level of Board fees to be paid to Non-Executive Directors, the Nomination and Remuneration Committee may also elect to receive advice from independent remuneration consultants, if necessary. Details regarding the composition of the Nomination and Remuneration Committee and its main objectives are outlined in the Corporate Governance Statement. The Nomination and Remuneration Committee is comprised of a majority of independent Non-executive Directors.

No performance-based fees are paid to Non-Executive Directors. Non-Executive Directors are not entitled to participate in the Group's incentive plans (described more fully below). Non-Executive Directors are not provided with retirement benefits other than statutory superannuation at the rate prescribed under the Superannuation Guarantee (Administration) Act 1992 (Cth) (Superannuation Legislation).

Senior Executives

The remuneration structure for Senior Executives, currently consists solely of a fixed remuneration amount. It is envisaged that it will incorporates a mix of fixed and performance-based remuneration in the future. The following section provides an overview of the fixed and performance-based elements of executive remuneration. The summary tables provided later in this Report indicate which elements apply to each Senior Executive.

The Group's key strategies and business focuses are taken into consideration as part of performance-based remuneration.

(c) Summary of Senior Executive remuneration structure

Fixed Remuneration

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate to the Senior Executive's responsibilities, the geographic location of the Senior Executive and competitive conditions in the appropriate market.

Fixed remuneration is therefore determined with reference to available market data, the scope and any unique aspects of an individual's role and having regard to the qualifications and experience of the individual. From time to time, the Group may seek a range of specialist advice to help establish the competitive remuneration for its Senior Executives.

Remuneration Report (continued)

Fixed remuneration typically includes base salary and superannuation at the rate prescribed under the Superannuation Legislation, mobile telephone costs, and may include, at the election of the Senior Executive, other benefits such as a motor vehicle, additional contributions to superannuation, and car parking, aggregated with associated fringe benefits tax to represent the total employment cost (TEC) of the relevant Senior Executive to the Group.

Fixed remuneration for the Senior Executives is reviewed annually by the Chairman and is approved by the Nomination and Remuneration Committee.

The review process measures the achievement by the Senior Executives of their Key Performance Objectives (KPOs) established at the beginning of the financial year, the performance of Smiles, relevant comparative remuneration in the market and relevant external advice.

Any payments relating to redundancy or retirement are as specified in each relevant Senior Executive's contract of employment.

(d) Remuneration details for Non-executive Directors

Non-executive Directors are entitled to a base fee per annum for acting as a Director of the Group.

Non-executive Directors of the Group are entitled to additional fees if they act as either chair or a member of an active Committee (the Audit and Risk Committee, or the Nomination and Remuneration Committee).

Details of the remuneration of the non-executive Directors of the Group for the financial period are set out in the following table:

	Short term employee benefits		Long term benefits		Total
	Salary and fees	Superannuation	Long Service Leave	Other[1]	
	$	$	$	$	$
Non-executive Directors					
D Usasz	76,066	-	-	-	76,066
P Evans (appointed 1 August 2018)	28,937	3,747	-	-	32,684
P Fuller (appointed 25 June 2019)	-	-	-	-	-
J Lowcock (ceased 26 February 2019)	25,500	-	-	-	25,500
D Herlihy (ceased 22 May 2019)	79,200	-	-	-	79,200
M Timoney[2]	4,923	-	-	-	4,923

[1] In accordance with AASB 119 Employee Benefits, annual leave is classified as an other long term employee benefit.
[2] Ceased being an executive director on 28 February 2019 and became a non-executive director on 1 March 2019. Subsequently ceased being a non executive director on 22 May 2019.

Remuneration Report (continued)

For comparison purposes, the total remuneration of non-executive directors and senior executives for the year ended 30 June 2018:

	Short-term employee benefits		Other	Long term benefits	Total
	Salary and fees	Superannuation		Long Service Leave	
2018	$	$	$	$	$
Non-executive Directors					
D Herlihy	81,000	-	-	-	81,000
D Usasz	53,550	-	-	-	53,550

	Short-term employee benefits			Other	Long term benefits	Total
	Salary and fees	STI	Superannuation		Long Service Leave	
2018	$	$	$	$	$	$
Senior Executives						
M Timoney	238,175	-	5,399	4,372	-	247,946
T Penn	155,729	-	14,370	9,930	-	180,029
P Innes	197,375	-	4,786	3,875	-	206,036

Remuneration Report (continued)

(e) Remuneration details for Senior Executives

Remuneration and other terms of employment for the executives are formalised in employment contracts, which specify the remuneration arrangements, benefits, notice periods and other terms and conditions. Participation in the STI and LTI arrangements are subject to the Board's discretion.

The current executive contracts do not have fixed terms. Contracts may be terminated by the executive with notice, or by the Company with notice or by payment in lieu of notice, or with immediate effect in circumstances involving serious or wilful misconduct.

	Termination notice by executive	Termination notice or payment in lieu of notice by Company
Senior Executives		
A McCormack (appointed 1 March 2019)	3 months	3 months
E Corcoran (appointed 13 May 2019)	3 months	3 months
T Penn**	3 months	3 months
M Timoney*	6 months	6 months
P Innes (ceased 28 February 2019)	3 months	3 months

* Ceased being an executive director on 28 February 2019 and became a non-executive director on 1 March 2019. Subsequently ceased being a non-executive director on 22 May 2019.
** Ceased being an executive director on 30 June 2019 but remained a senior executive.

Details of the remuneration of the senior executives of the Group for the financial period are set out in the following table:

	Short-term employee benefits				Long term benefits	Total
	Salary and fees	STI	Superannuation	Other	Long Service Leave	
	$	$	$	$	$	$
Senior Executives						
A McCormack (appointed 1 March 2019)	88,071	-	8,879	5,936	-	102,886
E Corcoran (appointed 13 May 2019)	35,180	-	3,342	1,953	-	40,475
T Penn	218,196	-	17,841	(295)	338	236,079
M Timoney1	236,344	-	15,717	-	-	252,060
P Innes (ceased 28 February 2019)	180,384	-	13,512	-	-	193,897

[1] Ceased being an executive director on 28 February 2019 and became a non-executive director on 1 March 2019. Subsequently ceased being a non executive director on 22 May 2019.

Remuneration Report (continued)

(f) Key management personnel disclosures

Shareholdings of key management personnel

Set out below is a summary of equity instruments held directly, indirectly or beneficially by KMPs, close family or controlled entities.

Ordinary Shares

2019	Balance at start of year	Net Change	Balance at end of year
Non-executive Directors			
D Usasz	1,330,000	420,000	1,750,000
P Evans (appointed 1 August 2018)	-	556,000	556,000
P Fuller	-	1,903,788	1,903,788
J Lowcock (ceased 26 February 2019)	-	-	-
D Herlihy (ceased 22 May 2019)	500,000	(500,000)	-
Senior Executives			
A McCormack (appointed 1 March 2019)	-	-	-
E Corcoran (appointed 13 May 2019)	-	-	-
T Penn	412,000	62,867	474,867
M Timoney (ceased 22 May 2019)	9,668,000	(9,668,000)	-
P Innes (ceased 28 February 2019)	100,000	(100,000)	-

Loans to key management personnel

There have been no loans made, guaranteed or secured, directly or indirectly by the Company or any of its subsidiaries in the reporting period in relation to KMPs, close family or controlled entities.

Transactions entered into with Key Management Personnel

Key management personnel, their close family and controlled entities entered into a number of transactions with the Company. Amounts recognised in respect of other transactions with key management personnel were:

	30 Jun 19 $	30 Jun 18 $
Dividends paid	-	-
Revenue from rendering of services	3,031	-
Revenue from the sale of goods	9,000	-
Property leasing expenses	-	12,273
Consulting expenses	-	158,158

Remuneration Report (continued)

The company is disputing the validity of a number of transactions entered into with parties associated with the former Chief Executive Officer and approved by the former Chairman and Chief Executive Officer. Further details are provided in note 29.

The Group’s performance in respect of the current financial year and the previous financial year is summarised in the below table:

Group Financial Performance	30 Jun 19 $'000	30 Jun 18 $'000	Change $'000	Change %
Gross practice revenue	34,629	7,211	27,418	380.2%
Statutory loss	(31,002)	(4,955)	(26,047)	(525.7)%
Share price (cents)	0.12	0.85	(0.73)	(85.9)%

This concludes the remuneration report, which has been audited.

Conclusion

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

David Usasz
Chairman

Gold Coast

30 September 2019

Corporate governance statement

Smiles Inclusive Limited and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. Smiles Inclusive Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2019 corporate governance statement is dated as at 30 June 2019 and reflects the corporate governance practices in place for the 2019 financial period. The 2019 corporate governance statement was approved by the Board. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at www.smilesinc.com.au.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Smiles Inclusive Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Smiles Inclusive Limited for the financial year ended 30 June 2019 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.

KPMG

KPMG

Adam Twemlow

Partner

Gold Coast

30 September 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Note	30 Jun 19 $'000	30 Jun 18 $'000
Practice revenue	1	**34,629**	**7,211**
Other income		146	-
Direct costs		(4,185)	(1,156)
Consumables supplies expenses		(2,560)	(443)
Employee expenses		(18,634)	(4,156)
Marketing expenses		(767)	(231)
Occupancy expenses		(3,843)	(605)
Administration and other expenses	2	(9,121)	(6,082)
Depreciation and amortisation expense[1]	2	(1,410)	(110)
Loss before finance costs, income tax, impairment and changes in fair value		**(5,745)**	**(5,572)**
Impairment of goodwill and property, plant & equipment	9-10	(31,059)	-
Change in fair value of joint venture partner contribution	7	7,102	-
Net impairment and changes in fair value		(23,957)	-
Loss before finance costs and income tax		**(29,702)**	**(5,572)**
Net Finance Cost	2	(1,300)	(545)
Loss before income tax		**(31,002)**	**(6,117)**
Income tax benefit / expense[1]	3	-	1,162
Loss for the year		**(31,002)**	**(4,955)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(31,002)**	**(4,955)**

Earnings per share for loss attributable to the ordinary equity holders of the company

	Note	30 Jun 19	30 Jun 18
Basic earnings per share (cents per share)	20	(53.3)	(32.4)
Diluted earnings per share (cents per share)	20	(53.3)	(32.4)

[1] 30 June 2018 restated – refer to note 18

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

Consolidated Balance Sheet
As at 30 June 2019

	Note	30 Jun 19 $'000	30 Jun 18 $'000
Assets			
Cash and cash equivalents	21	1,595	2,009
Receivables and other assets[1]	4	2,837	2,813
Inventories	8	558	-
Deferred tax assets[1]	11	2,687	2,631
Property, plant & equipment[1]	9	8,270	7,319
Intangible assets[1]	10	34,438	58,568
Total Assets		**50,385**	**73,340**
Liabilities			
Interest bearing liabilities	6	23,413	10,940
Payables[1]	5	6,927	5,184
Deferred revenue	5	570	564
Provisions[1]	22	2,405	2,087
Joint Venture Partner Contribution	7	13,730	21,435
Total Liabilities		**47,045**	**40,210**
Net Assets		**3,340**	**33,130**
Contributed equity	12	39,297	38,085
Retained earnings / (accumulated losses)	23	(35,957)	(4,955)
Total Equity		**3,340**	**33,130**

[1] 30 June 2018 restated – refer to note 18

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Contributed Equity $'000	Retained Earnings/ (accumulated losses) $'000	Total $'000
Balance at 15 August 2017		-	-	-
Total comprehensive loss for the year[2]		-	(4,955)	(4,955)
Transactions with owners of the Company, recognised directly in equity:				
Issue of securities	12	35,200	-	35,200
Contribution to Owners[1]	12	5,287	-	5,287
Share issue costs, net of tax	12	(2,402)	-	(2,402)
Balance at 30 June 2018		**38,085**	**(4,955)**	**33,130**
Balance at 1 July 2018		**38,085**	**(4,955)**	**33,130**
Total comprehensive loss for the year		-	(31,002)	(31,002)
***Transactions with owners of the Company, recognised directly in equity*:**		-	-	-
Issue of securities	12	1,217	-	1,217
Share issue costs, net of tax	12	(5)	-	(5)
Balance at 30 June 2019		**39,297**	**(35,957)**	**3,340**

[1] Contribution to owners relates to conversion of convertible notes to equity.
[2] 30 June 2018 restated – refer to note 18

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	Note	30 Jun 19 $'000	30 Jun 18 $'000
Cash flow from operating activities			
Receipts from patients		47,240	7,303
Payments to suppliers and employees		(51,602)	(8,124)
Interest received		3	1
Finance costs including interest and joint venture partner profits paid		(2,752)	(409)
Net cash flows from/(used in) operating activities	**24**	**(7,111)**	**(1,229)**
Cash flows from investing activities			
Payments for property, plant and equipment	9	(1,341)	(1,575)
Proceeds from disposal of property, plant and equipment		56	-
Payments for practices, net of cash received	18	(2,749)	(41,831)
Payment for rental bond term deposits		(63)	(200)
Net cash flows (used in)/ from investing activities		**(4,097)**	**(43,606)**
Cash flow from financing activities			
Proceeds from issue of securities	12	1,217	35,000
Proceeds from issue of convertible notes		-	3,950
Costs associated with issue of securities	12	(6)	(3,036)
Net proceeds from borrowings	6	8,433	11,175
Proceeds from sale & leaseback of property, plant and equipment		1,939	-
Lease payments		(783)	-
Payment for debt issue costs		(6)	(245)
Net cash flows (used in)/ from financing activities		**10,794**	**46,844**
Net increase/(decrease) in cash and cash equivalents		(414)	2,009
Cash and cash equivalents at the beginning of the year		2,009	-
Cash and cash equivalents at the end of the year	**21**	**1,595**	**2,009**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

These are the consolidated financial statements of the Smiles Inclusive Group, comprising Smiles Inclusive Limited and its subsidiaries. A list of subsidiaries is given in note 19 in section C.

Smiles Inclusive Limited is a public company limited by shares, incorporated and domiciled in Australia. On 27 April 2019 the Company was listed on the ASX. Its registered office is located at Level 27, 123 Eagle Street, Brisbane, Qld, 4000 and its principal place of business is located at 38-40 Township Drive, Burleigh Heads, Qld, 4220.

The financial statements are presented in Australian dollars which is the Company's functional currency. The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

These financial statements have been prepared on the basis that the Group is a going concern and therefore able to realise assets in the ordinary course of business and settle liabilities as and when they are due. Refer to Note 32 for further information.

The financial report was authorised for issue by the Directors on 30 September 2019.

Liquidity basis of preparation

The Group has adopted the liquidity basis for presenting its balance sheet, under which assets and liabilities are presented in order of their liquidity.

The Group continues to disclose the amounts expected to be recovered or settled not more than, and more than, twelve months from reporting date for each asset and liability line item that combines amounts expected to be recovered or settled in those periods. This information is given in the note for each relevant line item.

This change has not affected the measurement of amounts presented in the financial statements or the notes.

Notes to the consolidated financial statements

The notes to the consolidated financial statements are set out in the following main sections. Each section or note explains the accounting policies relevant to that section or note. Other significant accounting policies are given in note 33 in section E.

Section A. How the numbers are calculated [27]

Section B. Risk management [49]

Section C. Group structure [55]

Section D. How the numbers are calculated – other items [58]

Section E. Other information [60]

The notes include all disclosures that the Group considers material, either quantitatively or qualitatively. In determining materiality, the Group considers whether the inclusion or omission of a disclosure could reasonably be expected to influence the economic decisions that users make based on the financial statements.

SECTION A. HOW THE NUMBERS ARE CALCULATED

This section provides details of those individual items in the financial statements that the Directors consider most relevant in the context of the operations of the Group. It also explains what accounting policies have been applied to determine these items and how their amounts were affected by significant estimates and judgements. The section includes the following notes on the relevant pages:

Section A1. Profit and loss information

Note 1 Revenue [28]

Note 2 Particular expenses [29]

Note 3 Income tax expense [30]

Section A2. Financial assets and liabilities

Note 4 Receivables and other assets [31]

Note 5 Payables and other liabilities [33]

Note 6 Interest bearing loans and borrowings [34]

Note 7 Joint venture partner contribution [36]

Section A3. Non-financial assets and liabilities

Note 8 Inventory [38]

Note 9 Property Plant & Equipment [39]

Note 10 Intangibles [41]

Note 11 Deferred tax assets and liabilities [45]

Section A4. Equity

Note 12 Contributed equity [47]

Note 13 Dividends and distributions [48]

Section A5. Segment information

Note 14 Segment information [48]

Section A1. Profit and loss information

1. Revenue

	$'000	$'000
Dental service fees	33,824	7,096
Laboratory fees	805	115
Total practice revenue	**34,629**	**7,211**

Dental service fees include patient fees for dental services rendered by dentists contracted by the Group and service fees charged to dentists for the provision of facilities and services.

(a) Revenue recognition

Dental service fees

(i) Patient Fees
The Group provides a range of dental services to patients. Patient fees are recognised as revenue once the services have been provided for the amount charged to the patient, measured in accordance with contractual calculations methods and rates

(ii) Facilities and service fees
The Group provides services and facilities to practitioners practicing out of Group owned dental centres which include staff, marketing and other support services. The Group invoices the practitioners as a percentage of patient receipts net of direct costs, which are costs directly incurred by the practitioners. Revenue is recognised over time as the service is provided to the practitioners. The Facilities and Services Agreement with the practitioners allows notice periods for both parties to terminate the agreement without penalty which are specific to the individual Facilities and Services agreement but will typically be within one to three months.

Laboratory fees
The Group provides a range of laboratory services for dental practitioners. Fees for the services are recognised as revenue as the services are provided.

2. Particular expenses

	30 Jun 2019 $'000	30 Jun 2018 $'000
Profit from continuing operations before income tax includes the following significant costs		
Administration and other expenses		
Management fee charge from related party	-	(1,324)
Stamp duty on acquisitions	(138)	(1,713)
Accounting, legal and professional fees	(1,438)	(960)
IT and telecommunication costs	(1,539)	(476)
Travel and accommodation	(875)	(296)
Insurance	(873)	(100)
Contractor and director fees	(1,417)	(495)
Provision for doubtful debts	(357)	-
Other expenses	(2,484)	(718)
Total administration and other expenses	**(9,121)**	**(6,082)**
Depreciation and amortisation		
Plant and equipment[1]	(361)	(76)
Leasehold improvements[1]	(252)	(34)
Leased assets	(783)	-
Amortisation of intangible	(14)	-
Total depreciation and amortisation	**(1,410)**	**(110)**
Finance costs		
Interest from bank loans and borrowings	(1,376)	(197)
Joint Venture Partner profit share	125	(338)
Amortisation of borrowing costs	(49)	(10)
Total finance costs	**(1,300)**	**(545)**

[1] 30 June 2018 restated – refer to note 18

3. Income tax benefit

(a) Income tax expense

	30 Jun 19 $'000	30 Jun 18 $'000
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Current year movement[1]	-	1,162
Under/(over) provision	-	-
Income tax benefit reported in the income statement	**-**	**1,162**

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated at the statutory income tax rate

	30 Jun 19 $'000	30 Jun 18 $'000
Accounting loss before income tax	(31,002)	(6,117)
Income tax at the Australian rate of 27.5%	(8,526)	(1,682)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income		
Non-assessable income/expense	-	-
Non-deductible impairment of goodwill	7,847	-
Non-deductible revaluation of JVP contribution liability	(1,951)	-
Non-deductible JVP contribution liability forgiveness	(119)	-
Non-deductible expenses	59	520
Derecognition of deferred tax assets	2,690	-
Under/(over) provision	-	-
Income tax expense (benefit)	**-**	**(1,162)**

(c) Accounting for current income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Section A2. Financial assets and liabilities

Accounting for financial assets

Financial assets within the scope of AASB 9 Financial Instruments replaced AASB 139. Financial assets under AASB 9 are classified as either 'financial assets measured at amortised cost', 'financial assets at fair value through profit or loss', or 'financial assets at fair value through other comprehensive income'. Classification of assets under AASB 9 Is determined by how the company manages its financial assets (business model test) and the characteristics of their contractual cash flow (cash flow test).

AASB 9 introduces an expected credit loss' (ECL) model, which replaces the 'incurred loss' model in AASB 139. These provisions are based on historical credit loss experience, adjusted for expected deterioration of other receivables.

The AASB 9's impairment requirement at 1 July 2018 did not result in a material change to the impairment allowance.

4. Receivables and other assets

	30 Jun 19	30 Jun 18
	$'000	$'000
Trade receivables	1,472	1,096
Other assets	1,689	1,471
Prepayments	243	376
Allowance for impairment of trade receivables	(567)	(130)
Total Receivables and other assets	**2,837**	**2,813**
Expected to be recovered		
No more than twelve months	2,158	2,654
More than twelve months	679	159
Total receivables and other assets	**2,837**	**2,813**

(a) Accounting for receivables

Receivables are non-derivative financial assets with fixed or determinable payments that the Group intends to hold to collect the contractual cashflows of principal and, if applicable, any interest. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment losses.

The Group measures loss allowances on trade receivables using a life-time expected loss model. During the year ended 30 June 2019 the Group assessed its expected losses and made a provision for doubtful debts of $437,000.

4. Receivables and other assets (continued)

(b) Accounting for other assets

The Group has utilised Bartercard over the period, which is an alternative currency and operates as a trade exchange. Bartercard trade dollars are initially recorded at cost, being the face value, less any future transaction fees. The Group has assessed it forecast usage of Bartercard trade dollars and determined the following classification:

	$'000	$'000
Expected to be settled		
No more than twelve months	366	502
More than twelve months	548	-
	914	**502**

As a result of the review of the forecast spend, the Bartercard dollars expected to be settled more than 12 months were discounted using an effective interest rate of 6.8% resulting in a reduction to the carrying amount totalling $54,000. The carrying amount of Bartercard dollars included in other assets after discounting and impairment totals $914,000 at 30 June 2019.

The Group intends to utilise Bartercard in ongoing expenditure and is not currently accepting Bartercard for payment of dental services.

(c) Fair value and credit risk

The maximum exposure to credit risk is the fair value of receivables. The fair values of receivables approximate their carrying amount, net of provisions.

5. Payables and other liabilities

	30 Jun 19 $'000	30 Jun 18 $'000
Trade accounts payable	2,880	1,901
Interest accrued	265	195
Other payables and accruals	3,782	3,088
Total payables	**6,927**	**5,184**
Deferred revenue	570	564
Total deferred revenue	**570**	**564**
Expected to be settled		
No more than twelve months	7,497	5,748
More than twelve months	-	-
Total payables and deferred revenue	**7,497**	**5,748**

(a) Accounting for payables

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(b) Deferred revenue

Deferred revenue arises as a result of the benefit received from the sale of dental vouchers to third parties. The recognition of revenue is deferred until the services have been provided.

6. Interest bearing loans and borrowings

	30 Jun 19	30 Jun 18
	$'000	$'000
Secured		
Bank Loans	18,708	11,175
Borrowing Costs (Deferred)	(192)	(235)
Lease liability	3,997	-
Other loans	900	-
	23,413	**10,940**
Expected to be settled		
No more than twelve months	20,611	500
More than twelve months	2,802	10,440
	23,413	**10,940**

(a) Accounting for interest bearing loans and borrowings

Interest bearing loans and borrowings are recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

(b) Financing arrangements

The Group has the following loan facilities:

			2019			2018		
	Maturity Date	Interest Rate	Facility Limit	Drawn	Undrawn	Facility Limit	Drawn	Undrawn
			$'000	$'000	$'000	$'000	$'000	$'000
Acquisition facility (secured)	Apr-23	4.7%	14,708	14,708	-	30,000	10,675	19,325
Working capital facility (secured)	Nov-19	4.7%	4,000	4,000	-	4,000	500	3,500
Multi-option facility (secured)[1]	Nov-19	0.0%	2,000	476	1,524	2,000	205	1,795
Equipment lease facility (secured)	Apr-24	2.0%	3,997	3,997	-	-	-	-
3rd party loan (unsecured)	N2	9.95%	900	900	-	-	-	-
			25,605	**24,081**	**1,524.00**	**36,000**	**11,380**	**24,620**

[1]Multi-option facility includes bank guarantees (see note 29), amounts due on credit cards and a transactional facility to use direct debits. The undrawn amounts cannot be drawn as cash.
[2] Refer to the following page for the expiry

The weighted average interest rate including margin and line fees on all loans (including both drawn and undrawn amounts) at 30 June 2019 was 4.4%.

6. Interest bearing loans and borrowings (continued)

Acquisition, working capital and Multi-option facility (National Australia Bank)

The acquisition, working capital and multi option facilities are with the Group's Financier, National Australia Bank. These facilities were subject to the Group complying with covenants concerning such matters as net leverage ratio and fixed charges ratio.

During the financial year and subsequent to year end, the Group was in breach of the covenants associated with its bank facilities and sought a waiver from its Financier. The covenants were conditionally waived in March 2019 for a period to and the financier has agreed to a conditional extension to 2019 (Refer Note 33). The Group is currently working with its Financier on developing operating and financial metrics with which the Group will be measured during the turnaround phase. At the date of this report the scope and timing of the metrics have yet to be agreed.

In accordance with the security arrangements of the acquisition, working capital and multi-option facilities, all current and non-current assets of the Group are secured by floating charge except as identified below.

Equipment lease facility

During the financial year, the Group entered into an equipment leasing facility to assist with the financing of key items of capital expenditure.

In accordance with the security arrangements of the equipment lease facility, specific non-current property plant and equipment items are secured against the facility.

3rd Party Loans

The Group has received unsecured financing from two parties which are included in 3rd party loans. The loans are to assist with the turnaround plan with $700,000 repayable in December 2019 and $200,000 repayable in June 2020. The $700,000 portion of the loan carries an interest rate of 9.95% and the $200,000 loan does not incur interest.

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Note	Bank Loans	Borrowing Costs (Deferred)	Lease liability	Other loans	Total
		$'000	$'000	$'000	$'000	$'000
Opening balance 1 July 2018		**11,175**	**(235)**	**-**	**-**	**10,940**
Net proceeds from borrowings		7,533	-	-	900	**8,433**
Proceeds from sale & leaseback of property, plant & equipment		-	-	1,939	-	**1,939**
Lease payments		-	-	(783)	-	**(783)**
Payment for debt issue costs		-	(6)	-	-	**(6)**
Total changes from financing cash flows		**18,708**	**(241)**	**1,156**	**900**	**20,523**
Other changes						
New finance leases		-	-	2,841	-	**2,841**
Amortisation of borrowing costs	**2**	-	49	-	-	**49**
Balance at 30 June 2019		**18,708**	**(192)**	**3,997**	**900**	**23,413**

7. Joint venture partner contribution

(a) Accounting for Joint Venture Partner Contribution

Joint venture partner contributions are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the income statement. Fair value is the principal amount plus the joint venture's share of any increases or decrease in market value to reporting date.

Joint venture partner contributions are non-interest bearing and are payable when either the joint venture partner or the company terminates the agreement. A Joint venture partner may at any time, but not within the first 12 months, request the Group to procure a purchaser to buy out the joint venture partner. The Group has 12 months from the date the buy out is requested to procure a purchaser before it is required to pay the joint venture partner the buy out price under the agreement, subject to the company being able to arrange debt or equity finance on acceptable terms.

The agreements provide the joint venture partner with a right to a profit share payment, being a defined percentage of the relevant practices' earnings before interest and tax. Any joint venture partner losses are accumulated as a reduction against the joint venture partner contribution and are recovered when the relevant practices have positive earnings before interest and tax.

The estimates of amounts expected to be settled less than and more than twelve months after reporting date are:

	30 Jun 19	30 Jun 18
	$'000	$'000
Expected to be paid		
No more than twelve months	-	-
More than twelve months	13,730	21,435
Total joint venture partner contributions	**13,730**	**21,435**

The following table presents the changes in joint venture partner contributions for the financial period:

	30 Jun 19	30 Jun 18
	$'000	$'000
Opening balance	21,435	-
Items recognised in profit or loss		
Change in fair value of joint venture partner contributions	(7,102)	-
JVP Liability Forgiveness	(432)	-
Acquisition of practices	1,354	21,435
Accumulated joint venture partner losses	(1,525)	-
Net receipts on joint venture partner departures and arrivals	-	-
Total joint venture partner contributions	**13,730**	**21,435**

During the period two joint venture partners relinquished their profit share entitlements under the profit share agreement. Consequently $0.4 million was adjusted through the profit and loss statement.

7. Joint venture partner contribution (continued)

(b) Revaluation of Joint Venture Partner Contribution

The fair value of the Joint Venture Partner Contribution liability reflects the expected payments to be made to the Joint Venture Partners, discounted to present value. These expected payments have been calculated based upon the contractual profit share percentage of the forecast cash flow performance of each Joint Venture Partner (utilising the same underlying forecast cash flow performance assumptions adopted in impairment testing performed over goodwill).

- Year one cashflows are based on recent trading performance or forecast performance for the next 12 months;
- Cash flows in years two to five are based on the expected average percentage growth rate of 3% for revenue and 2.0% for expenses;
- A pre-tax nominal discount rate of 22.0%;
- An indefinite terminal cash flow calculation has been applied for cash flows beyond year five, using the year 5 cash flow as a base and a growth rate of 2%.

The applicable joint venture partner profit share percentage (usually 40%) is applied to the cashflows calculated to then determine the fair value of the joint venture partner contribution.

Based on the above inputs a fair value movement of $7.1 million was recognised for FY19.

(c) Significant estimate: Impact of possible changes in key assumptions

The valuation of each joint venture partners contribution liability continues to be highly sensitive to a range of assumptions, in particular the growth rates, discount rate and the successful implementation of the turnaround strategy. The following table outlines the sensitivities associated with the liability:

	Input	Fair Value $'000	Change in fair value $'000
Increase pre-tax nominal discount rate 1%	23.0%	13,010	(720)
Decrease pre-tax nominal discount rate 1%	21.0%	14,527	797
Increase in growth rate perpetuity 1%	3.0%	14,137	407
Increase in growth rate perpetuity 1%	1.0%	13,362	(368)
Increase in years 2 to 5 growth rate 1%	4.0%	15,524	1,794
Decrease in years 2 to 5 growth rate 1%	2.0%	12,009	(1,721)

Section A3. Non-financial assets and liabilities

8. Inventory

	30 Jun 2019 $'000	30 Jun 2018 $'000
Inventories at cost	558	-
Total inventories	**558**	**-**
Expected to be settled		
No more than twelve months	558	-
More than twelve months	-	-
Total inventories	**558**	**-**

Inventories held for sale and stores of consumable supplies are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of actual costs. Net realisable value is the estimated selling price less estimated costs associated with the sale.

9. Property, plant and equipment

	30 Jun 19 $'000	30 Jun 18 $'000
Leasehold improvements at cost	2,078	1,306
Less accumulated depreciation and impairment	(611)	(34)
	1,462	1,272
Plant and equipment at cost	5,465	6,121
Less accumulated depreciation and impairment	(1,886)	(74)
	3,579	6,047
Leased asset at cost	4,741	-
Less accumulated depreciation and impairment	(1512)	-
	3,958	-
Total property, plant and equipment	**3,229**	**7,319**

The following table presents the changes in property, plant and equipment for the financial period:

	Leasehold improvements $'000	Plant and equipment $'000	Leased Assets $'000	Total $'000
Carrying amount at 15 August 2017	-	-	-	-
Additions[1]	1,306	6,121	-	7,427
Disposals	-	-	-	-
Depreciation	(34)	(74)	-	(108)
Carrying amount at 30 June 2018	**1,272**	**6,047**	**-**	**7,319**
Additions	772	1,300	2,861	4,933
Transfers	-	(1,880)	1,880	-
Disposals	-	(61)	-	(61)
Depreciation	(252)	(361)	(783)	(1,396)
Impairment	(330)	(1,466)	(729)	(2,525)
Carrying amount at 30 June 2019	**1,462**	**3,579**	**3,229**	**8,270**

[1] The prior year number has been adjusted as part of the finalisation of the acquisition accounting – see note 18.

9. Property, plant and equipment (continued)

(a) Accounting for property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation, amortisation and accumulated impairment losses.

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

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 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 straight-line method to allocate the cost of assets, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements 5 to 20 years
- Plant and equipment 3 to 15 years

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.

(c) Restatement of FY18 Comparative

During the year ended 30 June 2019, the Group reassessed its purchase price allocation relating to the FY18 acquisitions made. As a result of this re-assessment additional assets of $4.5 million were recognised which represented $3.6m of leased assets and $0.9 of assets originally not included in the acquisition purchase price. Assets of $1.8 million were derecognised in the prior year comparative statements resulting in a total net $2.9 million restatement of property, plant and equipment.

(d) Impairment of property, plant and equipment

In the process of assessing the recoverable amount of each cash generating unit, a $31.1 million impairment charge was recognised. Where goodwill was impaired to nil, the remaining impairment charge was allocated to property plant and equipment. Please see note 10 for further details.

10. Intangibles

	30 Jun 19	30 Jun 18
	$'000	$'000
Goodwill	62,904	58,568
less: accumulated amortisation and impairment	(28,534)	-
	34,370	**58,568**
Rights, licenses and software	82	-
less: accumulated amortisation and impairment	(14)	-
	68	**-**
Total intangible assets	**34,438**	**58,568**

	Goodwill	Rights, licenses and software	Total
	$'000	$'000	$'000
Carrying amount at 1 July 2017	-	-	-
Additions	58,568	-	58,568
Amortisation	-	-	-
Impairment	-	-	-
Carrying amount at 30 June 2018	**58,568**	**-**	**58,568**
Additions	4,336	82	4,418
Amortisation	-	(14)	(14)
Impairment	(28,534)	-	(28,534)
Carrying amount at 30 June 2019	**34,370**	**68**	**34,438**

10. Intangibles (continued)

Amortisation of Intangibles

Intangibles, other than Goodwill, are amortised (net of their residual) using the straight-line method over their estimated useful lives. Amortisation expense is generally recognised in profit or loss within the depreciation and amortisation expense.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment Testing of Goodwill and Fixed Assets

Goodwill represents the excess of the cost of an acquisition over its fair value, as at its acquisition date, and is also an intangible asset. It is carried at its cost, less accumulated impairment losses. 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 of disposal and value in use.

The Group acquired most of its practices in April 2018, however it also acquired one CGU in November 2018, and one in December 2018. In the case of these, their net asset fair value (inclusive of goodwill) remains provisional due to the proximity of the acquisition dates to the end of the financial year. The measurement period may extend to 12 months from the date of acquisition as allowed by AASB 3 Business Combinations (refer to note 18).

Goodwill acquired in business combinations is not amortised. Instead, it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Other assets, including those that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels (cash generating units) for which there are separately identifiable, independent cash flows. Non-financial assets other than goodwill which are impaired are subsequently 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.

10. Intangibles (continued)

The Group experienced lower than expected revenues for FY19 due to reasons outlined in the review of operations in the Directors Report. Additionally, the share price and market capitalisation of the Group declined significantly in the period, presenting indicators of impairment. Accordingly, the business assessed all intangible assets for impairment at 30 June 2019, making the adjustments as listed on the following impairment adjustments:

	Impairment of Goodwill	Impairment of Fixed Assets	Recoverable Amount
CGU 1	-	-	4,488,946
CGU 2	738,339	-	265,204
CGU 3	539,603	313,832	-
CGU 4	-	-	2,061,088
CGU 5	-	-	1,541,690
CGU 6	375,838	-	444,680
CGU 7	791,378	77,325	-
CGU 8	1,051,466	46,440	188,244
CGU 9	-	-	2,150,891
CGU 10	779,268	234,460	-
CGU 11	1,634,594	123,350	-
CGU 12	-	-	2,308,664
CGU 13	-	-	954,749
CGU 14	423,020	100,025	-
CGU 15	65,100	-	449,668
CGU 16	-	-	3,140,609
CGU 17	624,417	-	1,358,846
CGU 18	-	-	2,339,026
CGU 19	705,437	-	3,776,891
CGU 20	609,809	97,488	-
CGU 21	1,077,537	-	818,813
CGU 22	1,191,787	-	2,165,213
CGU 23	-	-	1,369,123
CGU 24	489,533	123,566	20,890
CGU 25	995,858	-	609,900
CGU 26	605,086	-	925,440
CGU 27	-	-	505,307
CGU 28	505,659	19,640	64,796
CGU 29	644,999	39,976	-
CGU 30	1,286,411	-	1,455,998
CGU 31	-	-	2,196,617
CGU 32	-	-	2,628,765
CGU 33	1,631,813	-	1,228,970
CGU 34	114,575	-	373,889
CGU 35	712,431	-	1,033,493
CGU 36	383,446	-	436,791
CGU 37	2,792,154	-	2,182,300
CGU 38	1,114,534	99,311	-
CGU 39	484,567	132,317	-
CGU 40	396,767	-	1,280,103
CGU 41	3,227,704	1,020,815	2,500,000
CGU 42	499,580	40,357	-
CGU 43	246,088	-	1,014,034
CGU 44	-	-	1,492,895
CGU 45	1,673,098	55,687	22,520
CGU 46	122,128	-	
Total	**28,534,028**	**2,524,589**	**49,795,053**

10. Intangibles (continued)

In assessing the cash generating units (CGU's) the group generally identifies individual practices as a CGU, except in some instances where practices have a common Joint Venture Partner. Practices with a common Joint Venture Partner and shared cashflows (i.e. labour) are generally classified as a CGU at the Joint Venture Partner level.

The recoverable amount of each group of cash generating units to which goodwill is allocated has been determined with reference to the higher of a value in use or fair value (less costs of disposal) calculation based on the following key assumptions and estimates:

- Year one cashflows are based on recent trading performance or forecast performance for the next 12 months;
- Cash flows in years two to five are based on the expected growth rate of 3% for revenue and 2.0% for expenses;
- A post-tax nominal discount rate of 12.5%;
- An indefinite terminal cash flow calculation has been applied for cash flows beyond year five, using the year 5 cash flow as a base, and a growth rate of 2.0%.
- Market value of the CGU less reasonable disposal costs such as legal fees.

The estimated recoverable amount of the CGU's as at 30 June 2018 is $50.194 million. An impairment loss of $28.534 million was recognised in relation to Goodwill and a further $2.5 million was recognised in relation to property, plant and equipment.

Significant estimate: Impact of possible changes in key assumptions

The key assumptions used in the estimation of the recoverable amount of the CGUs are as follows:

	2019
Terminal Growth Rate	2.0%
Revenue Growth Rate	3.0%
Expense Growth Rate	2.0%
Post-Tax Discount Rate	12.5%

The recoverable amounts in respect of CGUs are sensitive to a range of assumptions, in particular the revenue and expense growth rates and discount rate.

The impairment model assumes that revenues will grow at a range of 3% per annum for the FY21 – FY24 years. Management have used this growth rate as our model assumes that the full benefits of the turnaround plan will be realised from the FY 21 year onwards.

In determining the adopted values for these amounts, management have considered a variety of sources and considered both the current performance of the business and the expected effects of the turnaround.

Given the impairment adjustments recorded against the CGUs as at 30 June 2019, any movement in these assumptions could adversely impact the reported impairment amounts, resulting in further impairment to the CGU assets. Specifically, we note the following sensitivities:

- A 1% increase in the discount rate sees the amount of Goodwill impairment increase to $30,518,646.
- A 1% decrease in the discount rates sees the amount of Goodwill impairment decrease to $26,294,638.
- An increase of 1% in the revenue growth in years 2-5 rate sees impairment of Goodwill decrease to $23,502,156.
- A decrease of 1% in the revenue growth in year 2-5 rate sees Goodwill impairment increase to $33,894,839.
- An increase of 1% in the revenue in perpetuity rate sees Goodwill impairment decrease to $26,985,219
- A decrease of 1% in the revenue in perpetuity rates see Goodwill Impairment increase to $29,881,352.

11. Deferred tax assets and liabilities

(a) Deferred tax assets

	30 Jun 19 $'000	30 Jun 18 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in the income statement		
Difference between tax base and carrying amount of fixed assets	694	-
Accruals	502	367
Employee entitlements	410	347
Tax losses	203	1,039
Share issue costs	548	729
Provision for doubtful debts	156	36
Other provisions	252	227
Deferred tax assets	2,765	2,745
Less: amounts set off against deferred tax liabilities	(78)	(114)
Net deferred tax assets	**2,687**	**2,631**
Movements		
Balance at the beginning of the period	2,745	-
Difference between tax base and carrying amount of fixed assets	694	
Accruals	135	367
Employee entitlements	63	347
Tax losses	(836)	1,039
Share issue costs – recognised in profit or loss	(181)	(182)
Share issue costs – recognised directly in equity	-	911
Provision for doubtful debts	120	36
Other provisions	25	227
Balance at the end of the period	2,765	2,745
Less: amounts set off against deferred tax liabilities	(78)	(114)
Net deferred tax assets	**2,687**	**2,631**

11. Deferred tax assets and liabilities (continued)

b) Deferred tax liabilities

	30 Jun 19 $'000	30 Jun 18 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in the income statement		
Other	(78)	(114)
Deferred tax liabilities	**(78)**	**(114)**
Movements		
Balance at the beginning of the period	(114)	-
Other	36	(114)
Deferred tax liabilities	**(78)**	**(114)**

c) Tax losses

Management have prepared forecasts that support the amounts of deferred tax assets that have been recorded and not recognised an additional deferred tax asset for the year ended 30 June 2019. This balance however will be revisited in December 2019, and brought back onto to account when business operations and financial performance improve.

d) Accounting for deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted, or substantially enacted, by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Section A4. Equity

12. Contributed equity

	30 Jun 19	30 Jun 18	30 Jun 19	30 Jun 18
	No. '000	No. '000	$'000	$'000
Issued capital				
Ordinary securities fully paid	66,623	57,933	39,297	38,085
Total issued capital	**66,623**	**57,933**	**39,297**	**38,085**
Movement in issued securities during the period				
Balance at the beginning of the period	57,933	-	38,085	-
Securities issued	8,690	11,506	1,217	200
Contribution to owners	-	11,427	-	5,287
Securities issued – Initial Public Offer	-	35,000	-	35,000
Transaction costs on issue of securities, net of tax	-	-	(5)	(2,402)
Ordinary securities fully paid	**66,623**	**57,933**	**39,297**	**38,085**

(a) Accounting for contributed equity

Incremental costs directly attributable to the issue of ordinary securities are shown in equity as a deduction, net of tax, from the proceeds.

(b) Terms and conditions

Holders of ordinary securities are entitled to receive dividends and distributions as declared from time to time and are entitled to one vote per security at securityholders' meetings. In the event of winding-up of the Parent, ordinary securityholders rank equally with all other securityholders and unsecured creditors and are fully entitled to any proceeds of liquidation.

On 21 June 2019 the Company issued 8,689,935 new shares at 14c raising $1,216,591 to assist with the implementation of the Company's turnaround plan and to meet working capital requirements. The shares rank equally with existing fully paid ordinary shares.

On 27 April 2019 the Company issued 35,000,000 new shares at $1.00 per share raising $35,000,000. These shares were part of the Company's initial public offering and ranked equally with existing fully paid ordinary shares.

During the year ended 30 June 2018, the Company issued and redeemed convertible notes with the following terms and conditions:

- $1,337,500 of tranche 1 notes and $3,949,500 of tranche 2 notes were issued by the Company at a face value of $1;
- The notes comprise tranche 1 and tranche 2 which each had differing conversion ratios. Tranche 1 notes converted at 5 times face value while tranche 2 notes converted at 1.2 times face value;
- The notes were unsecured and interest free;
- The notes matured and converted to ordinary shares on the business day immediately prior to the listing of the Company's shares on the Australian Stock Exchange;

13. Dividends and distributions

No dividends were declared or paid by the Group for the year ended 30 June 2019.

Section A5. Segment information

14. Segment Information

An operating segment is a component of the Group that:

- engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Management considers that the business operates as a segment. This conclusion has been made in accordance with requirements of IFRS 8 which requires consideration of:

- Identify the CODM
- Can the component generate revenue and incur expenses from its business activities?
- Are the component's operating results regularly reviewed by the CODM as a basis for resource allocation and performance assessment?
- Is discrete financial information available for the component?

In the case of Smiles, the chief operating decision maker in respect of the business, and all practices is the CEO. Whilst each practice generates discrete revenues and expenses, can produce discrete financial information and has operating results that are regularly reviewed, the CODM monitors the business as one segment being dental practices in Australia.

Section B. Risk Management

This section discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks. It includes the following notes:

Note 15 Critical estimates and judgements [49]

Note 16 Financial risk management [49]

Note 17 Capital management [52]

15. Critical judgements and estimates

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

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- Recoverability of goodwill and property, plant and equipment
- Recognition of deferred tax asset and carried forward tax losses
- Estimation of the fair value of the joint venture partner contribution
- Allocation of the purchase price on businesses acquired during the period
- Fair value of the Bartercard trade account
- Recoverability of trade and other debtors

(b) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, the Group makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the consolidated financial statements. Going concern is a key judgement as set out in note 32.

16. Financial risk management

(a) Financial risk management objectives

The Group's principal financial instruments comprise receivables, payables, bank loans, other loans, joint venture partner contributions, cash and short-term deposits.

The Board has ultimate responsibility for the financial risk management process for the Group. The Board reviews and approves the approach to the management of financial risks.

Day-to-day responsibility for the monitoring of financial risk exposure, market movements and the development of an appropriate response, rests with the Chief Financial Officer.

16. Financial risk management (continued)

The Group's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance. The Group uses different methods to measure and mitigate the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates. Ageing analysis and monitoring of specific credit exposures are undertaken to manage credit risk.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates, resulting in an adverse impact on financial performance.

The Group's exposure to market interest rates relates to the Group's acquisition and working capital facility of $18.7 million. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The impact of an increase or decrease in average interest rates of 0.75% (75 basis points) throughout the period, with all other variables held constant, is shown in the table below. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The analysis is based on the interest rate risk exposures in existence at reporting date. As the Group has no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on equity apart from the effect on profit.

	30 Jun 19	30 Jun 18
	$'000	$'000
Effect on profit / (loss) before tax and equity		
+0.75% (75 basis points)	(140)	(84)
-0.75% (75 basis points)	140	84

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet contractual obligations, with the maximum exposure being equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group, which includes cash and cash equivalents and receivables.

The credit risk on receivables is limited due to the majority of patients paying for their services up front and no concentration of credit risk exists.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, assigned by international credit rating agencies.

16. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's objective is to achieve continuity of funding and flexibility, due to the dynamic nature of the underlying business, using bank overdrafts, bank loans, finance leases and committed available credit lines, equity, in addition to other sources of funds.

Management monitors the maturity and amortisation profile of all debt facilities on a regular basis and reports these to the Board. Debt facilities with the Group's senior lender, National Australia Bank, are shown as current as the company was not in compliance with its covenants. The covenants were waived in March 2019 and are to be reviewed in November 2019. The Group is currently working with its Financier on developing operating and financial metrics with which the Group will be measured during the turnaround phase. The combination of FY19 performance as detailed in the review of operations and ongoing monitoring of the debt increases the liquidity risk of the Group.

The table below reflects the contractual maturity of the Group's fixed and floating rate financial liabilities. It shows the undiscounted cash flows, including interest and fees, required to discharge the liabilities. Cash flows for financial liabilities without fixed amount or timing are based on conditions existing at 30 June 2019.

$'000	Less than 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total Contractual Amounts
30 Jun 2019					
Bank loans	19,409	-	-	-	19,409
Equipment Leases	645	645	3,052	-	4,342
3rd party loans	740	200	-	-	940
Payables and accruals	6,497	-	-	-	6,497
Joint venture loans	-	-	13,730	-	13,730
	27,291	**845**	**16,782**	**-**	**44,918**
30 Jun 2018					
Bank loans	655	956	10,675	-	12,286
Equipment Leases	-	-	-	-	-
3rd party loans	-	-	-	-	-
Payables and accruals	5,184	-	-	-	5,184
Joint venture loans	-	-	21,435	-	21,435
	5,839	**956**	**32,110**	**-**	**38,905**

16. Financial risk management (continued)

(e) Fair value

All financial instruments carried at fair value may be grouped into three categories, defined as follows:

Level 1	The fair value is calculated quoted prices in active markets.
Level 2	The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3	The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at reporting date, the Group held the following financial instruments measured at fair value:

$'000	Level 1	Level 2	Level 3	Total
30 Jun 2019				
Financial Assets	-	-	-	-
Financial Liabilities				
Joint venture partner contributions	-	-	13,730	13,730
	-	**-**	**13,730**	**13,730**
30 Jun 2018				
Financial Assets	-	-	-	-
Financial Liabilities				
Joint venture partner contributions	-	-	21,435	21,435
	-	**-**	**21,435**	**21,435**

Joint venture partner contributions are considered a level 3 financial instrument measured at fair value. Please refer to note 7 for further information on the valuation methodology and sensitivities around the measurement of the joint venture partner contribution liability.

17. Capital management

When managing capital, management's objective is to ensure that the Group uses a mix of funding options, while remaining focused on the objective of optimising returns to security holders. Management aims to maintain a capital structure that ensures the lowest weighted average cost of capital available. The Group aims to maintain reported gearing, measured as net debt divided by cash adjusted assets, in the range of 20% to 40%.

As detailed in Note 6, the Group was not in compliance with the covenants associated with its bank facilities. The covenants were waived in March 2019 and the financier conditionally extended the facility to November 2019. The Group is currently working with its Financier on developing operating and financial metrics with which the Group will be measured during the turnaround phase. At the date of this report the scope and timing of the metrics have yet to be agreed.

SECTION C. GROUP STRUCTURE

This section explains significant aspects of the Group's structure and the effect of changes on the Group. It includes the following notes:

Note 18 Business combination [53]
Note 19 Interests in other entities [55]

18. Business combination

(a) Summary of Acquisitions

FY18 Acquisitions
Between 20 April 2018 and 29 May 2018, the Group acquired 100% of either the business assets or shares in the operating entity of the acquired practices, consisting of 52 dental practices for the total consideration transferred of $64.2 million. This transaction was accounted for on a provisional basis using the acquisition method of accounting as at 30 June 2018, pending further assessment of the value of assets and liabilities acquired. These valuations have since been completed and resulted in the following adjustments to the provisional amounts recognised at 30 June 2018:

	Final acquisition accounting 30 Jun 19 $'000	Provisional acquisition accounting 30 Jun 18 $'000	Change[1] $'000
Cash and cash equivalents	35	35	-
Trade Receivable	401	502	(101)
Property, plant and equipment	6,716	3,838	2,878
Deferred tax asset	580	522	58
Other payables	(275)	(136)	(139)
Lease make good provision	(827)	(827)	-
Employee entitlements	(1,105)	(1,072)	(33)
Net identifiable Assets acquired	5,525	2,862	2,663
Goodwill on acquisition of practices	58,665	60,439	(1,774)
Net assets acquired	**64,190**	**63,301**	**889**

[1]Above amounts relate to accounting adjustments for assets and liabilities taken on at acquisition date but not finalised until 12 months after acquisition.

As part of the commercial negotiations with vendors, separate agreements were entered into for certain assets. These agreements in conjunction with the Business Sale Agreements reflected the overall consideration for the acquired practices. At 30 June 2018, these contracts were recognised as separate equipment purchase contracts and not initially included in the provisional acquisition price of the practices. At 30 June 2019 management determined that these balances should form part of the purchase price and therefore impacted the net assets acquired by $889,000.

A lease for mobile trailers was entered into as part of the acquisitions relating to the mobile units in FY18. These leased items have been included in the assets acquired as part the acquisition accounting.

The restatements of FY18 resulted in a $44,000 decrease in depreciation expense and a corresponding increase in tax expense of $12,000.

18. Business Combinations (Continued)

1H19 Acquisitions
In November and December 2018, the Group acquired 100% of the business assets of 4 dental practices for the total consideration transferred of $4.4m. The acquired businesses contributed gross practice revenues of $0.2 million and profit before tax of $0.01m to the Group for the period from date of acquisition to 30 June 2019. If the acquisitions occurred on 1 July 2018, management estimate the full year contributions would have been gross practice revenues of $5.7 million and profit before tax of $0.4 million.

The fair value of assets and liabilities recognised as a result of the acquisitions are as follows:

	Provisional acquisition accounting 30 Jun 19 $'000
Trade Receivable	27
Property, plant and equipment	255
Other assets	9
Deferred tax asset	32
Other payables	(11)
Lease make good provision	(50)
Employee entitlements	(68)
Net identifiable Assets acquired	194
Goodwill on acquisition of practices	4,239
Net assets acquired	**4,433**

The above amounts for FY19 acquisitions have been measured on a provisional basis. If new information is obtained within one year of the date of acquisitions about facts and circumstances that existed at the date of acquisitions which identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisitions, then the accounting for the acquisitions will be revised accordingly.

(b) Purchase consideration – cash outflow

FY19 Acquisitions	30 Jun 19 $'000	30 Jun 18 $'000
Cash consideration[1]	4,103	63,301
Less: Joint venture partner contribution[1]	(1,354)	(21,435)
Less: Cash and cash equivalents acquired	-	(35)
Total outflow of cash – investing activities	**2,749**	**41,831**
Transaction costs (operating activities)	391	2,648
Total outflow of cash	**3,140**	**44,479**

[1] The acquisition of practices is settled net of cash consideration and Joint Venture Partner Contribution

19. Interests in other entities

The consolidated financial statements of the Group include the following material entities:

Entity	Date Acquired/ Incorporation	Place of Incorporation	2019
Smiles Southport Pty Ltd	26 February 2019	Australia	100%
Totally Smiles Pty Ltd	24 August 2017	Australia	100%
Distinctive Dental Care Pty Ltd	20 April 2019	Australia	100%

SECTION D. HOW THE NUMBERS ARE CALCULATED

This section provides information about the basis of calculation of line items in the financial statements that the Directors do not consider significant in the context of the Group's operations. It includes the following notes:

Note 20 Earnings per security [56]
Note 21 Cash and cash equivalents [57]
Note 22 Provisions [57]
Note 23 Retained profits/(accumulated losses) [58]
Note 24 Notes to the cash flow statements [59]

20. Earnings per security

(a) Calculating earnings per share

	30 Jun 19	30 Jun 18
	$'000	$'000
Loss after income tax attributable to the owners of the Group	(31,002)	(4,955)
	#'000	#'000
Weighted average number of ordinary shares used in calculating basic earnings per share	58,171	15,303
	Cents	Cents
Basic earnings per share	(53.3)	(32.4)
Diluted earnings per share	(53.3)	(32.4)

(b) Accounting for earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing:

- the loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the period.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financial costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The diluted earnings per share is consistent with basic earnings per share as any loss is anti-dilutive,

21. Cash and cash equivalents

	30 Jun 19 $'000	30 Jun 18 $'000
Cash at bank	1,595	2,009
Deposits on Call	-	-
Total cash and cash equivalents	**1,595**	**2,009**

(a) Accounting for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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.

22. Provisions

	30 Jun 19 $'000	30 Jun 18 $'000
Employee provisions	1,490	1,260
Provision for make-good	915	827
Total provisions	**2,405**	**2,087**
Expected to be settled		
No more than twelve months	792	1,008
More than twelve months	1,613	1,079
Total provisions	**2,405**	**2,087**

(a) Accounting for provisions

A provision is recognised where there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying the economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

22. Provisions (continued)

(b) Accounting for employee entitlements

Short-term Employee Benefits

Liabilities for wages and salaries, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities, and are measured as the amounts expected to be paid when the liabilities are settled inclusive of on-costs. Sick leave is non-vesting and is expensed as paid.

Long-term Employee Benefits

The liabilities for annual leave and long service leave expected to not be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given for expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields as at the reporting date on corporate bond rates with the terms to maturity that match, as closely as possible, the estimated future cash outflows.

23. Retained profits/(accumulated losses)

	30 Jun 19	30 Jun 18
	$'000	$'000
Retained earnings/(accumulated losses) at the beginning of the period	(4,955)	-
Net profit/(loss) from ordinary activities after income tax	(31,002)	(4,955)
Retained earnings/(accumulated losses) at the end of the period	**(35,957)**	**(4,955)**

24. Notes to the cash flow statements

(a) Reconciliation of net cash flow from operating activities to profit after income tax

	30 Jun 19	30 Jun 18
	$'000	$'000
Loss for the period	(31,002)	(4,955)
Adjustment for:		
Depreciation and amortisation	1,410	110
Impairment of assets	31,059	-
Joint venture contribution revaluation	(7,102)	-
Joint venture contribution liability forgiveness	(433)	-
Provision for doubtful debts	436	-
Non-cash management fee charge from related party	-	1,261
Net finance costs	1,300	545
Interest received	(3)	(1)
Tax benefit	-	(1,162)
Change in operating assets and liabilities		
(Increase) / decrease in receivables	(33)	(1,097)
(Increase) / decrease in other operating assets	(430)	(540)
(Increase) / decrease in inventory	(558)	-
Increase / (decrease) in trade payables	934	1,185
Increase / (decrease) in other operating liabilities	(16)	3,239
Increase / (decrease) in provisions	76	188
Cash (used in)/from operating activities before interest and tax	**(4,362)**	**(1,227)**
Interest paid	(2,752)	(3)
Interest received	3	1
Tax paid	-	-
Net cash flows (used in)/from operating activities	**(7,111)**	**(1,229)**

(b) Non-cash Investing and Financial Activities

The Group is party to an arrangement where it acquires goods and services by way of non-cash exchanges. During the period, property, plant and equipment of $102,573 was acquired in this manner.

SECTION E. OTHER INFORMATION

This section covers other information that is not directly related to specific line items in the financial statements, as well as information about related party transactions and other statutory information. It includes the following notes:

Note 25 Related party transactions [60]
Note 26 Auditor's remuneration [61]
Note 27 Parent entity [62]
Note 28 Deed of cross guarantee [64]
Note 29 Contingent Assets and liabilities [66]
Note 30 Commitments [67]
Note 31 Events occurring after the reporting period [68]
Note 32 Going Concern [70]
Note 33 Other accounting policies [71]

25. Related party transactions

(a) Aggregate remuneration of key management personnel

	30 Jun 19	30 Jun 18
	$	$
Short-term employment benefits	1,043,770	768,561
Long-term benefits	-	-
Termination benefits	-	-
Key management personnel compensation	**1,043,770**	**768,561**

(b) Other transactions with key management personnel

Other than remuneration for their positions as directors and executives of the Company, key management personnel or entities related to them entered into a number of transactions with the Company. Information on these transactions is set out below.

Amounts recognised in respect of other transactions with key management personnel were:

	30 Jun 19	30 Jun 18
	$	$
Dividends paid	-	-
Revenue from rendering of services	3,031	-
Revenue from the sale of goods	9,000	-
Property leasing expenses	-	12,273
Consulting expenses	-	158,158

The company is disputing the validity of a number of transactions entered into with parties associated with the former Chief Executive Officer and approved by the former Chairman and Chief Executive Officer. Further details are provided in note 30.

25. Related party transactions (continued)

Key management personnel or their related parties held shares in the Company during 2019, and as such, are entitled to participate in dividends.

(c) Other transactions with other related parties

Amounts recognised in respect of other transactions with other related parties were:

	30 Jun 19	30 Jun 18
	$	$
Management fee recharge	-	1,600,583

The management fee recharge represents costs incurred by a related party in relation to the acquisition of dental practices.

26. Auditor's remuneration

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the period are set out below:

	30 Jun 19	30 Jun 18
	$	$
KPMG		
Audit and assurance services		
Audit and review of the financial reports of the Group		
Group	210,000	120,000
Non-assurance services	-	653,303
Total auditor's remuneration	**210,000**	**773,303**

Non-assurance services provided during 30 June 2018 relate to KPMG's Investigating Accountants Report contained within the prospectus.

27. Parent entity

(a) Parent financial information

The financial information for the parent entity Smiles Inclusive Limited has been prepared on the same basis as the Group's financial statements except as set out below.

Controlled entities

Investments in these entities are carried in the Parent's balance sheet at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the income statement when they are declared.

Tax consolidation

Smiles Inclusive Limited and its wholly-owned Australian controlled entities intend to form a tax-consolidated group. The entities in the tax group will entered into a tax sharing agreement to limit the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Smiles Inclusive Limited. A tax funding agreement where the wholly-owned entities fully compensate the head entity for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation will also been entered into. The transfer of such amounts to the head entity is recognised as inter-company receivables or payables.

Each entity in the tax-consolidated group continues to account for its own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Parent also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

27. Parent entity (continued)

(b) Summary financial information

	30 Jun 19 $'000	30 Jun 18 $'000
Assets		
Total Assets	3,395	46,578
Liabilities		
Total Liabilities	19,130	11,236
Net Assets	**(15,735)**	**35,342**
Contributed equity	39,297	38,085
Retained earnings	(55,032)	(2,743)
Total Equity	**(15,735)**	**35,342**
Loss for the year	(52,289)	(2,743)
Total Comprehensive Loss	**(52,289)**	**(2,743)**

During the period Smiles Inclusive Limited recognised impairment charges totalling $50.0 million relating to receivables from subsidiaries.

(c) Guarantees

Smiles Inclusive Limited has provided the following financial guarantees:

- Bank guarantees of $0.3m; and
- Cross guarantees under the Deed of Cross Guarantee to the subsidiaries listed in note 19. No deficiencies of assets exist in any of these companies.

No liability was recognised by the Parent in relation to these guarantees, as the fair value is not considered material.

28. Deed of cross guarantee

Smile Inclusive Limited, Totally Smiles Pty Limited and Smiles Southport Pty Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

(a) Consolidated statement of profit or loss, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'closed group' for the purposes of the instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Smiles Inclusive Limited, they also represent the 'extended closed group'.

The consolidated income statement and balance sheet of the entities that are parties to the Deed of Cross Guarantee are as follows:

	Closed Group 30 Jun 19	Closed Group 30 Jun 18
	$'000	$'000
Practice revenue	**34,629**	**8,508**
Other income	146	-
Direct costs	(4,185)	(2,453)
Consumables supplies expenses	(2,560)	(443)
Employee expenses	(18,634)	(4,156)
Marketing expenses	(767)	(231)
Occupancy expenses	(3,843)	(605)
Administration and other expenses	(8,849)	(6,082)
Impairment of goodwill and property, plant & equipment	(31,331)	-
Change in fair value of joint venture partner contribution	7,102	-
Depreciation and amortisation expense	(1,410)	(110)
Loss before finance costs and income tax	**(29,702)**	**(5,572)**
Net Finance Cost	(1,299)	(544)
Loss before income tax	**(31,001)**	**(6,116)**
Income tax benefit	-	1,162
Loss for the year	**(31,001)**	**(4,954)**
Other comprehensive income	-	-
Total comprehensive loss for the year	**(31,001)**	**(4,954)**

28. Deed of cross guarantee (continued)

	$'000	$'000
Assets		
Cash and cash equivalents	1,595	2,009
Receivables and other assets	2,839	2,701
Inventories	558	-
Deferred tax assets	2,687	2,617
Property, plant & equipment	8,269	7,208
Investments in subsidiaries	1,869	1,869
Intangible assets	32,850	56,795
Total Assets	**50,667**	**73,199**
Liabilities		
Payables	7,207	5,100
Deferred revenue	570	518
Provisions	2,405	2,035
Interest bearing liabilities	23,413	10,940
Joint venture partner contribution	13,730	21,475
Deferred tax liabilities	-	-
Total Liabilities	**47,325**	**40,068**
Net Assets	**3,342**	**33,131**
Contributed equity	39,297	38,085
Retained earnings	(35,955)	(4,954)
Total Equity	**3,342**	**33,131**

29. Contingent assets and liabilities

The Group had contingent liabilities at 30 June 2019 in respect of:

	30 Jun 19	30 Jun 18
	$'000	$'000
Rental Guarantee contracts	258	181
	258	**181**

The bank guarantees at the end of the financial year relate to security provided under operating leases for premises.

Litigation

The Group is the subject of several legal proceedings as at the date of this report. The legal proceedings include:

- Employment and contract disputes with the Joint Venture Partners of Totally Smiles Mobile Dentistry (also referred to as Smiles on Site). The Group continues to have settlement discussions with the partners and has provided $255,000 for costs and claims.
- Legal proceedings by the Group against the former Chief Executive Officer, Mike Timoney, for unlawful payments and transactions. It is too early to determine the likelihood of the claim being successful.

The Group is also the subject of a number of possible actions or claims. It is currently not possible to determine whether the threatened actions will result in legal proceedings and what the financial impact of them, if any, may be for the Group in the future. In the event the legal proceedings are initiated, the Group intends to defend its position.

30. Commitments

(a) Operating lease commitments

	30 Jun 19	30 Jun 18
	$'000	$'000
Non-cancellable operating leases contracted at the reporting date but not recognised as liabilities are as follows:		
Payable within one year	3,136	2,505
Payable later than one year but not more than five years	13,358	10,795
Payable later than five years	-	-
	16,494	**13,300**

(b) Finance Lease commitments

	Future Minimum lease payments		Interest charges		Present value of minimum lease payments	
	30 Jun 19	30 Jun 18	30 Jun 19	30 Jun 18	30 Jun 19	30 Jun 18
	$'000	$'000	$'000	$'000	$'000	$'000
Non-cancellable finance leases contracted at the reporting date:						
Payable within one year	1,195	-	94	-	1,101	-
Payable later than one year but not more than five years	2,802	-	249	-	2,553	-
Payable later than five years	-	-	-	-	-	-
	3,997	**-**	**343**	**-**	**3,654**	**-**

(c) Accounting for leases

Leases of property, plant and equipment where the 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 lease 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 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.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

31. Events occurring after balance date

On 25 September 2019 the company announced an accelerated non-renouncable entitlement offer to raise $3.33 million and $0.05 per fully paid ordinary share. The entitlement offer was fully underwritten. At 27 September 2019 the company had received applications for approximately 12.8 million fully paid ordinary shares raising approximately $640,000.

The Group is still engaged in several legal proceedings which are further detailed in note 29.

No other matters or circumstance have arisen since 30 June 2019 that has significantly affected the group's operations, results or state of affairs, or may do so in future years.

32. Going Concern

These financial statements have been prepared on the basis that the Group is a going concern and is able to realise its assets and settle its liabilities in the ordinary course of business.

During the year ended 30 June 2019 the Group incurred a net loss before tax of $31.0 Million and had net cash outflows from operating activities of $7.1 Million. As at 30 June 2019, the Group had net assets of $3.3 Million, including cash of $1.6 Million.

As a result of significant ongoing operational issues and poor trading performance over the past 12 months the Group has recorded an impairment expense of $31.1 Million in relation to goodwill and property, plant and equipment, and a reduction in the Joint Venture Partner Contribution liability of $7.1 Million at 30 June 2019.

The Group has financing facilities with National Australia Bank (refer to Note 6) which are drawn to $18.708 Million at 30 June 2019. The facilities consist of an acquisition facility, a working capital facility and other ancillary facilities. The facilities have covenant requirements which must be complied with at all times. In March 2019 National Australia Bank (NAB) advised the Group that they were in breach of financial covenants, and have agreed to a conditional waiver and extension of the existing facilities until the end of November 2019 which includes:

- the ongoing review of the Group and regular reporting by an investigating accountant;
- a reduction of $675,000 in the existing facilities by 21 October 2019;
- provision of ongoing financial information including a 3-way financial forecast; and
- development of modified covenants.

Following the appointment of a new management team, the Group has developed a turnaround plan which is being reviewed by advisors on behalf of the Group's primary banker, National Australia Bank (NAB). The implementation of the turnaround plan commenced in June 2019 and is dependent upon the continued support of stakeholders including financiers and creditors.

On 21 June 2019 the group raised $1.2 Million through a share purchase plan which was utilised to make a capital repayment in June to NAB and for working capital. On 25 September 2019 the Company announced a further proposed capital raising through a conditional fully underwritten non-renounceable entitlement offer to raise $3.3m less capital raising costs for the partial repayment of temporary banking facilities and working capital. The entitlement offer is expected to be completed by 21 October 2019.

The Directors have prepared cash flow projections for the coming 12 months that support the ability of the Group to continue as a going concern. The cash flow projections and the ongoing operation of the Group are critically dependent upon:

- the Group improving trading performance and generating positive cash flows from operations; and
- the successful completion of the planned conditional underwritten non-renounceable entitlement offer raising $3.3m (before costs) to repay $675,000 to NAB and generate working capital; and
- the Group successfully renegotiating the financial covenants with NAB and NAB providing ongoing support to facilitate the implementation of the turnaround plan.

These conditions give rise to material uncertainties that may cast doubt upon the Group's ability to continue as a going concern. There is a significant risk that the group will not meet the criteria attached to the conditional extension of existing facilities and consequently may not successfully renegotiate its financing facilities on a longer term basis. In addition the Group may not achieve the financial improvements as envisaged by the turnaround plan and the entitlement offer may not be completed as expected, including any additional capital raising initiatives that may be required in the future.

In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations.

33. Other accounting policies

Significant accounting policies relating to particular items are set out in the financial report next to the item to which they relate. Other significant accounting policies adopted in the preparation of the financial report are set out below. All these policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report has been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss which have been measured at fair value. Smiles Inclusive Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations adopted

The Group has adopted as of 30 June 2019 all of the new and revised Standards and Interpretations issued by the AASB with mandatory effective dates impacting the current period. The impact of the adoption of the new and revised Standards and Interpretations are as follows:

(i) AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. There was no impact of transition to AASB 9 on the opening balance of retained earnings. The details of this new significant accounting policy is set out below.

Financial assets
Under AASB 9, on initial recognition, a financial asset is classified at amortised cost, fair valued through other comprehensive income ('FVTOCI') or fair value through profit or loss ('FVTPL'). The classification under AASB 9 is based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost only if: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest, and is not designated as at FVTPL.

The following accounting policy applies to the subsequent measurement of financial assets. All of the Group's financial assets meet the AASB 9 requirements to be measured at amortised cost.

Financial assets at amortised cost
A financial asset at amortised cost is initially recognised at fair value plus unallocated transaction cost. Subsequent to initial recognition measurements these assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see impairment of financial assets).

33. Other accounting policies (continued)

The following table and accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 on the opening balance of each class of the Group's financial assets and liabilities.

Financial assets	Original classification	New classification	Change in carrying amount
Receivables and other assets	Loans and receivables	Amortised Cost	There was no impact on the carrying amout from the transition to AASB 9
Cash and cash equivalents	Loans and receivables	Amortised Cost	There was no impact on the carrying amout from the transition to AASB 9

Impairment of financial assets
AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model.

Impairment of receivables
The Group has elected to measure loss allowances on trade receivables using a lifetime loss model. These provisions are considered representative across all business and geographic segments of the Group based on historical credit loss experience.

The Group has determined that the application of AASB 9's impairment requirement at 1 July 2018 did not result in a material change to the impairment allowance.

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group applied AASB 15 retrospectively using the practical expedient approach of IFRS 15, under which the Group does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue for all reporting periods presented before the date of initial application being 30 June 2018.

The Group's adoption of AASB 15 did not have a significant impact on the Group's accounting policies with respect to its revenue streams. There was no financial impact of transition to AASB 15 on the opening balance of retained earnings.

33. Other accounting policies (continued)

(c) New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations have been identified as those that may affect the Group on initial application. They have not been applied in preparing these financial statements.

AASB 16 Leases

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group is not required to adopt this new standard until the annual reporting period ending 30 June 2020. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing the right to use the underlying asset and a lease liability representing the lease payment obligations. Leases that are short term and low value are exempt under the standard and continue to be accounted for as an operating lease. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group will recognise new assets and liabilities for its operating leases of practices. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right of use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight line basis over the term of the lease

The Group is still assessing the impact of AASB 16 on its current finance leases and any other agreements it may have in place and is yet to quantify the impact on the financial statements.

(d) Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non- controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

33. Other accounting policies (continued)

Functional and presentation currency

The Group's financial statements are presented in Australian dollars, which is Smiles Inclusive Limited's functional and presentation currency.

(e) 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.

(f) Rounding of amounts

The Company is of a kind referred to ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument). Pursuant to this instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 22 to 73 and the remuneration in the directors report set out in pages 13 to 19 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial period 1 July 2018 to 30 June 2019;
  (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 28.

Note 33 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

David Usasz

David Usasz

Chairman

Gold Coast

30 September 2019

Independent Auditor's Report

To the shareholders of Smiles Inclusive Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Smiles Inclusive Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated balance sheet as at 30 June 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 32, "Going Concern" in the financial report. The conditions disclosed in Note 32 indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. This included:

- Analysing the cash flow projections by:
  - Evaluating the underlying data used to generate the projections for consistency with other information tested by us, our understanding of the Group's intentions, and past results and practices;
  - Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of loss making operations, results since year end, and our understanding of the business, industry and economic conditions of the Group;
- Assessing significant non-routine forecast cash inflows and outflows for feasibility, quantum and timing. We used our knowledge of the client, its industry and current status of those initiatives to assess the level of associated uncertainty;
- Reading correspondence with existing financiers to understand the financing options available to the Group, and assess the level of associated uncertainty resulting from renegotiation of existing debt facilities, waivers in meeting financial loan covenants and negotiation of additional/revised funding arrangements;
- Reading Directors minutes and relevant correspondence with the Group's advisors to understand the Group's ability to raise additional shareholder funds, and assess the level of associated uncertainty;
- Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements. We specifically focused on the principle matters giving rise to the material uncertainty.

Key Audit Matters

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the ***Key Audit Matters***:

- *Valuation of Intangible assets*
- *Revenue recognition*
- *Valuation of the Joint Venture Partner Contribution liability*

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Intangible assets ($34.438m)	
Refer to Note 10 to the financial report	
The key audit matter	**How the matter was addressed in our audit**
The Group's annual testing of goodwill for impairment was a key audit matter, given the size of the balance (being 68% of total assets) and the impairment charge of $31.059m recognised in the financial year in relation to goodwill and property, plant and equipment. Certain conditions impacting the Group increased the judgement applied by us when evaluating the evidence available. We focussed on the significant forward-looking assumptions the Group applied in their value in use models, including: • forecast operating cash flows – the Group has a history of operating losses and poor economic performance. This increased the possibility of goodwill being impaired, the risk of inaccurate forecasts and a wider range of possible outcomes for us to consider. • forecast growth rates and terminal growth rates – the Group's models are highly sensitive to changes in these assumptions. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy. • discount rate - these are complicated in nature and vary according to the conditions and environment the Cash Generating Units ('CGUs') are subject to from time to time. The Group's modelling is highly sensitive to changes in the discount rate. The Group uses complex models to perform their annual testing of goodwill for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. The Group have not met prior forecasts, raising our scepticism for reliability of current year forecasts. Complex modelling, particularly those containing highly judgemental allocations of corporate assets and costs to CGUs, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions	Working with our valuation specialists, our procedures included: • Considering the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards. • Assessing the integrity of the value in use models used, including the accuracy of the underlying calculation formulas. • Comparing the forecast cash flows contained in the value in use models to past cash flow performance of the CGUs. • Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. • Assessing the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows contained in the value in use model, for consistency with our understanding of the business and the criteria in the accounting standards. • Assessing the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting standards. • Assessing the Group's determination of CGU assets for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards. • Challenging the Group's significant forecast cash flow and growth assumptions in light of its recent poor economic performance. We

necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	compared key events to the Board approved plan and strategy. We applied increased scepticism to forecasts in the areas where previous forecasts were not achieved. We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience. • Checking the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group, and our experience regarding the feasibility of these in the industry in which they operate. • Independently developing a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • Considering the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures. • Recalculating the impairment charge against the recorded amount disclosed. • Assessing the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Revenue recognition ($34.629m)	
Refer to Note 1 to the financial report	
The key audit matter	**How the matter was addressed in our audit**
We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the Group's revenue. Specific drivers for this significant audit effort included the: • high volume of revenue transactions recorded by the Group. • significant value of revenue recognised by the Group. • complexities surrounding the classification of dental practitioners as principal or agent in accordance with the terms of the 'Facilities and Services Agreements' ('FASAs') and application of AASB 15 *Revenue from Contracts with Customers* ('AASB 15'). Certain dental practitioners have entered into a FASA where service fees are charged by the Group to dentists who practice from the Group's fully serviced dental surgeries. Other dental practitioners are employed directly by the Group and the Group receives revenue from customers through the rendering of their services. We involved senior audit team members in addressing this key audit matter.	Our procedures included: • Evaluating the Group's revenue recognition policies against the requirements of AASB 15. We focused on the arrangements with dental practitioners as principal or agent based on terms of the FASAs and the criteria in the accounting standard. • Comparing total customer fees received as cash receipts to revenue recognised during the period. • Comparing a sample of gross receipts of revenue from the Group's bank statements to third party remittance documentation. • Testing a sample of uncollected debtor balances at the end of the financial year to proof of dental services performed and/or receipt of payment subsequent to year end. • Assessing the accuracy of revenue cut-off and completeness of deferred revenue at year end. • Assessing the disclosures in the financial report against the requirements of the accounting standards.

Valuation of Joint Venture Partner Contribution liability ($13.730m)	
Refer to Note 7 to the financial report	
The key audit matter	**How the matter was addressed in our audit**
The valuation of the Joint Venture Partner Contribution liability is a key audit matter due to the significant audit effort and judgement we have applied in assessing the fair value of the liability. This was driven from: • the Group's use of complex models to value the Joint Venture Partner Contribution liability. The models are largely manually developed and use a range of internal and external sources as inputs to the assumptions. • the significant level of judgement involved in forecasting and discounting future cash flows, which form the basis for determining the fair value of the liability. • the significant level of judgement in determining an appropriate discount rate. We focused on the significant forward-looking assumptions the Group applied in their valuation model, including forecast operating cash flows, forecast growth rates, terminal growth rates and discount rate. In assessing this key audit matter, we involved senior audit team members and specialists.	Working with our valuation specialists, our procedures included: • Considering the valuation methodology adopted by the Group against the requirements of the relevant accounting standards. • Assessing the integrity of the valuation models used, including the accuracy of the underlying calculation formulas. • Comparing forecast cash flows contained in the models to those adopted in the goodwill impairment models. • Checking the calculation of expected payments to each Joint Venture Partner and whether this was consistent with contractual terms of the underlying agreements. • Assessing the forecast growth rates, terminal growth rates and discount rate adopted in the valuation models. • Considering the sensitivity of the model by varying key assumptions within a reasonably possible range, to identify the impact on the recorded fair values. • Assessing the disclosures in the financial report against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Smiles Inclusive Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Smiles Inclusive Limited for the year ended 30 June 2019, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 13 to 19 of the Directors' report for the year ended 30 June 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Adam Twemlow

Partner

Gold Coast

30 September 2019

Shareholder and Other Information
As at 27 September 2019

Distribution of Equity Security Holders

Range	Number of equity security holders
1 – 1,000	49
1,001 – 5,000	330
5,001 – 10,000	236
10,001 – 100,000	384
100,001 and over	59
Total	1,058

There were no holders of less than a marketable parcel of ordinary shares.

Twenty Largest Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
2020 ASSET MANAGEMENT PTY LTD	5,800,000	8.71
MIKETIM SUPER PTY LTD	5,055,000	7.59
MRT49 PTY LTD	4,604,000	6.91
ASHBOURNE PARK PTY LTD	3,303,965	4.96
MR JACOB GILMORE	2,290,842	3.44
D J RYAN NOMINEES PTY LTD	2,100,000	3.15
MORBRIDE PTY LTD	1,550,000	2.33
FULLERCORP PROPERTIES PTY LTD	1,360,000	2.04
SYDMARLYN PTY LTD	1,103,381	1.66
ASIA PACIFIC COMMUNICATIONS	1,100,000	1.65
HINCKFUSS HOLDINGS PTY LTD	1,093,116	1.64
MR JONATHAN PETER HAMILTON	795,983	1.19
HB NOMINEES 108106 SMSF PTY	668,000	1.00
ZORD PTY LTD	650,000	0.98
MR CZESLAW CZAPLA &	638,000	0.96
MR JONATHAN HAMILTON &	632,666	0.95
MR DAVID FREDERICK OAKLEY	603,500	0.91
PROLL INVESTMENTS PTY LTD	600,000	0.90
MOBUTO MOMBASSA PTY LTD	600,000	0.90
MR DAVID FREDERICK OAKLEY	540,000	0.81
Total	35,088,453	52.67
Other holders	31,534,382	47.33
Total quoted equity securities	66,622,835	100

Shareholder and Other Information
As at 27 September 2019

Substantial Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
Mr Michael R Timoney	9,668,000	14.51
2020 ASSET MANAGEMENT PTY LTD	5,800,000	8.71

Voting Rights

Each ordinary share carries the right to one vote.

Shares Subject to Escrow/Restrictions

At the date of this report, 22,637,900 fully paid ordinary shares are subject to voluntary escrow and/or ASX restrictions for the periods set out in the following table:

Number of shares	Escrow period	Voluntary escrow / ASX restrictions
4,716,400	Until three business days following the release of the Company's FY18 financial results (ends August 2018)	Voluntary escrow
4,755,500	Until three business days following the release of the Company's FY19 financial results (ends August 2019)	Combination of voluntary escrow and ASX restrictions Note: 3,518,000 shares are subject to ASX restrictions for 12 months commencing on 19 April 2019, however voluntary restrictions apply such that all 4,755,500 shares are subject to escrow agreements until three business days following the release of the Company's FY19 financial results.
13,166,000	24 months from 27 April 2018, being the date of official quotation	ASX restrictions

Other Information

In accordance with Listing Rule 4.10.19, the Company states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

In accordance with Listing Rule 4.10.18, the Company states that there is no current on-market buyback.