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ABN 27 621 105 824
ACN 621 105 824

ASX announcement

30 October 2020

Appendix 4C monthly and quarterly cash flow report and business update – September 2020

Smiles Inclusive Limited (ASX: SIL) today releases its Appendix 4C cash flow report for the month and quarter ended 30 September 2020.

Receipts from customers for the month were $2.3 million and $7.2 million for the quarter. Whilst the impact of COVID-19 remains (including the forced closures of Victorian practices) cash receipts were $3.2 million higher than the previous quarter, showing a pleasing return to more positive trading conditions.

In addition to cash receipts from customers, the Company received $869k for the month from the Australian Federal Government's JobKeeper incentive program, bringing total JobKeeper receipts to $2.2 million for the quarter.

Cash payments for the month relating to operating activities were $2.7 million and included approximately $220k of one-off expenses for capital raising costs, statutory compliance and EGM related expenditure. Total operating cash payments were $9.4 million for the quarter, including $71k paid to Directors of the Company.

The Directors note that the positive operating cash flow result for the month of $460k (and $58k net cash operating outflow for the quarter) included a high proportion of catch up payments which resulted in trade creditors reducing by approximately $800k. Interest payments have been deferred with the approval of the Company's financiers.

In addition, the Company raised $229k of funds through a placement of shares at $0.025 per share. A further $28k was raised at the start of October 2020, resulting in the issue of 10,271,000 ordinary shares.

The Company continues to progress the capital raising and refinancing arrangements with NAB and will provide a further update shortly.

This announcement has been approved for release by the Board.

For further information please contact:

Michelle Aquilina, Chief Executive Officer
E: michelle.aquiliina@totallysmiles.com.au

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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Name of entity	
Smiles Inclusive Limited	
ABN	**Quarter ended ("current quarter")**
27 621 105 824	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	7,197	7,197
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(723)	(723)
	(c) advertising and marketing	(93)	(93)
	(d) leased assets	(300)	(300)
	(e) staff costs	(4,732)	(4,732)
	(f) administration and corporate costs	(3,210)	(3,210)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(32)	(32)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	2,176	2,176
1.8	Other (provide details if material)		
	(a) Non-underlying costs	-	-
	(b) JVP profit share expense	(341)	(341)
1.9	**Net cash from / (used in) operating activities**	**(58)**	**(58)**

* In Q1 FY21, the Company received Australian Federal Government Jobkeeper payments of $2,176k.

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(153)	(153)
	(d) investments	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	329	329
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**176**	**176**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	229	229
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(331)	(331)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**(102)**	**(102)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	323	323
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(58)	(58)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	176	176

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(102)	(102)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**339**	**339**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	820	145
5.2	Call deposits	-	-
5.3	Bank overdrafts	(481)	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**339**	**145**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	71
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	19,992	19,992
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	2,952	2,952
7.4	**Total financing facilities**	**22,944**	**22,944**

7.5	**Unused financing facilities available at quarter end**	-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	

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[1] Loan facilities comprise of ($A'000):

-	Senior debt facility	$14,346 (a)
-	Working capital facility	$ 4,063 (a)
-	Third party loans	$ 1,583 (c)
		$19,992

[2] Other financing facilities comprise of ($A'000):

-	Credit card facility	$ 138 (a)($138k drawn at end of Sep-20)
-	Equipment lease facility	$ 2,814 (b)
		$ 2,952

(a) Balances are inclusive of interest (3.09% at the end of the period) and other charges incurred that have been capitalised on the Senior debt facility and Working capital facility. As advised to the market and shareholders, the Group has entered into negotiations with potential financiers and is in final stages to provide funding to repay existing facilities and raise additional working capital. In accordance with the security arrangements of the facilities, all current and non-current assets of the Group are secured by floating charge except as identified below. The Senior debt facility has a maturity date of 31 March 2023 and the Working capital facility has a maturity date of 31 August 2020. The credit card facility is rolling facility.

(b) The Group has secured 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. The master agreement has a five year term ending 1 October 2023.

(c) The Group has received four unsecured loans from four separate parties, which comprise:

- *$700,000 representing funds to assist with the Group's turnaround plan, at an interest rate of 9.95% per annum and is repayable upon agreement between the Group and the lender at any time after 31 January 2020;*
- *$585,000 representing retained funds due to the joint venture partner following the sale of the Gatton and Laidley practices in December 2019, at an interest rate of 0% per annum and at call;*
- *$200,000 provided for working capital purposes to assist the Group to implement its turnaround plan, $100,000 of which is at an interest rate of 10% per annum with the remaining $100,000 interest free and at call. The loan was reduced by $2,500 during the month.*
- *$100,000 provided for working capital purposes to assist the Group at an interest rate of 10% per annum and a repayment date upon agreement between Smiles and the lender any time after 27 July 2020.*

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(58)
8.2	Cash and cash equivalents at quarter end (item 4.6)	339
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	339
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	5.84

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

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8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: Not applicable (5.84 is greater than two quarters)

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Not applicable (5.84 is greater than two quarters)

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Not applicable (5.84 is greater than two quarters)

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 30 October 2020

Authorised by: By order of the Board



(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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