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**30 October 2020**

# Quarterly Activity Report - Period ending 30 September 2020

Australian natural skin care company Skin Elements Limited (ASX: SKN) ("Skin Elements" or the "Company") is pleased to present its Quarterly Activity Report for the period ending 30 September 2020.

## Quarterly Highlights

- SKN appoints new Non-Executive Director and new Company Secretaries.
- SKN enters into $2.4 million Distribution Agreement for Invisi Shield® Organics.
- SKN has net positive operating cashflows of $136k for the quarter with cash on hand of $643k.
- Manufacturing underway across its SE Formula product ranges including Invisi Shield® Organics, Soleo Organics, and PapayaActivs.

## SKN appoints new Director and Company Secretaries

SKN has appointed Mr John Poulsen to the Board as a Non-Executive Director, and Mr Steven Wood and Ms Kate Sainty as joint Company Secretaries, as announced subsequent to the end of the Quarter. These new appointments will bring broad and diverse experience and skills to the Board, ensuring that the Company has the capability to develop its corporate strategy and governance systems and controls as it transitions from research & development to commercial operations for its SE Formula.

## SKN enters into $2.4 million Distribution Agreement for Invisi Shield®

SKN entered into a binding Distribution Agreement with Prudential Consultants Pty Ltd (Prudential Consultants) for the distribution of its Invisi Shield® Organics in Australia as announced to the market on 7 August 2020.

Prudential Consultants, trading as Shield Yourself, is an Australian health sector-focused consultancy group, established in 2016. It has a successful track record in distributing health and medical related products in NSW and throughout Australia, and is a preferred hand sanitiser and disinfectant supplier to the New South Wales Government and a registered hand sanitiser supplier to the Tasmanian Department of Education.

Prudential Consultants has agreed to minimum sales commitments of $2.4 million over three years for the exclusive distribution of Invisi Shield® Organics in New South Wales and Tasmania, and also the distribution of Invisi Shield® Organics outside of these territories on a non-exclusive basis.

Prudential Consultants has taken delivery of samples and training materials and has commenced marketing activities for the Invisi Shield® Organics, with orders under the Distribution Agreement expected to commence in the December 2020 quarter.



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**Summary of Operation Cashflows**

Whilst SKN has continued to operate during the quarter, the impact of COVID-19 including travel restrictions has seen the delay of orders from national and international distributors, reduced SKN's ability to meet with distributors and new customers, led to increased costs and shipment timeframes for national and international freight, and delayed production and the delivery of inventories.

The Company's business activities albeit impacted by the above, included customer receipts of $75k, government R&D Rebates, Jobkeeper subsidy and cashflow boost incentives of a total of $654k, and cash outflows of $593k being for research & development costs, product manufacturing, marketing, and overheads as detailed in the Appendix 4C, resulting in net cash from operating activities of $136k for the quarter. With a further $301k cash received from equity placement, options conversions and borrowings, cash on hand was $643k at the end of the quarter.

Included in the operational cash outflows for the quarter is $116,000 paid to entities associated with the Directors for executive services and directors' services in accordance with services agreements, details of which have been disclosed in the Company's 2020 Annual Report.

**Manufacturing**

During the quarter, SKN completed the manufacture of 10,000 units of Soleo Organics Sunscreen, 4,500 units of PapayaActivs Therapeutic, and 3,200 units of Invisi-Shield Organics, noting:

- orders placed with Baxter Laboratories for a further 110,000 units of Soleo Organics sunscreen ranges of which production of 40,000 units are underway.
- production availability with Baxters Laboratories has been greatly affected by COVID-19 with significant production capacity shifted to production of alcohol-based sanitisers and delays due to travel restrictions in Victoria.
- currently experiencing longer lead-times due to COVID-19 in sourcing ingredients used in production of its PapayaActivs therapeutic range and will undertake further production of over 5,000 units once production times have been secured.
- initial production of Invisi-Shield Organics commenced in the month of June with key ingredients and packaging for over 100,000 units having been secured. Production will now scale up.

These products are available through distributors and for sale through the Company's online store www.sknlife.com.au.

**Invisi Shield® Ongoing Development**

Since launching Invisi Shield® Organics in March 2020, SKN has a continual ongoing process of development and sourcing of ingredients for its SE Formula including a range of ingredients from numerous different national and international suppliers.

SKN is continuing to investigate the use of the SE Formula™ in a range of applications for Invisi Shield® Organics as a sanitiser and as a disinfectant to make more detailed and specific product label claims.

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**Global Opportunity**

Skin Elements also continues to maintain its focus on developing sales in Australia and global markets for its full range of natural organic skincare products including its new Invisi Shield® Organics, as well as the Company's Soleo Organics natural sunscreen and PapayaActivs natural therapeutic pawpaw skincare range.

**Capital Raising and Underwriting**

During the quarter, a placement of 2,000,000 shares at $0.06 per share, with 200,000 free attaching options was completed. 816,667 unlisted options were also exercised for $24,500 cash received.

Skin Elements previously announced on 16 April 2020 that it has entered into an underwriting agreement with State Securities Pty Ltd to underwrite $10.5 million from the exercise of the Company's options expiring on 31 December 2020.

**Medium Term Growth Strategy**

The Company has retained a core focus on balance sheet management and continues to review cost structures and working capital requirements to ensure an appropriate level of capital is available to support the increased production demand for its natural skincare product range required to fulfil sales growth.

The Board is currently assessing equity and debt proposals that can ensure Skin Elements has the necessary working capital to support this production growth. The Company will seek shareholder and any other regulatory approvals once details have been finalised.

**Commenting on the quarter, Skin Elements Executive Chairman Mr Peter Malone said;**

*"With Skin Elements recommencing trading on ASX, the Company will now focus on the execution of its corporate and operational plans to bring the full range of SE Formula products to the market."*

This announcement has been approved by the Board of Directors of Skin Elements Limited.

END

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**For further information please contact**

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**About Skin Elements**

Skin Elements is an Australian owned and operated ASX-listed skin care company focused on the development of natural and organic skin care products, as an alternative to current chemical-based products. It has developed a portfolio of products which includes the Invisi-Shield Organics range, the Soléo Organics 100% natural and organic sunscreen, PapayaActivs natural therapeutics skincare, and the Elizabeth Jane Natural Cosmetics brand. The Company has a track record of developing award winning natural products that have attained regulatory approval with the USA FDA, TGA and other significant regulators.

**Further information is available via the Company website:** http://skinelementslimited.com



*+Rule 4.7B*

# Appendix 4C

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

Name of entity

**SKIN ELEMENTS LIMITED (ASX: SKN)**

ABN

**90 608 047 794**

Quarter ended (**Current quarter**)

**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 | 75 | 75 |
| 1.2 | Payments for: | | |
| | (a) research and development | (121) | (121) |
| | (b) product manufacturing and operating costs | (199) | (199) |
| | (c) advertising and marketing | (62) | (62) |
| | (d) leased assets | - | - |
| | (e) staff costs | (85) | (85) |
| | (f) administration and corporate costs | (74) | (74) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | - | - |
| 1.5 | Interest and other costs of finance paid | (52) | (52) |
| 1.6 | Income taxes (paid) / refunded | - | - |
| 1.7 | Government grants and tax incentives | 654 | 654 |
| 1.8 | Other: (provide details if material) | - | - |
| 1.9 | **Net cash from / (used in) operating activities** | 136 | 136 |
| **2.** | **Cash flows from investing activities** | | |
| 2.1 | Payments to acquire: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |

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| | | | |
|---|---|---|---|
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | **Net cash from / (used in) investing activities** | - | - |

## Consolidated statement of cash flows

| | | Current quarter $A'000 | Year to date (3 Months) $A'000 |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 120 | 120 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | 24 | 24 |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | - | - |
| 3.5 | Proceeds from borrowings | 100 | 100 |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | 57 | 57 |
| 3.10 | **Net cash from / (used in) financing activities** | 301 | 301 |
| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
| 4.1 | Cash and cash equivalents at beginning of period | 206 | 206 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 136 | 136 |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | - | - |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 301 | 301 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | **Cash and cash equivalents at end of period** | 643 | 643 |

| | | Current quarter $A'000 | Previous quarter $A'000 |
|---|---|---|---|
| **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 | | |
| 5.1 | Bank balances | 643 | 206 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details): | - | - |
| 5.5 | **Cash and cash equivalents at end of quarter** (should equal item 4.6 above) | 643 | 206 |

| | | Current quarter $A'000 |
|---|---|---|
| **6.** | **Payments to related parties of the entity and their associates** | |
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 116 |
| 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 and 6.2 your quarterly activity report must include a description of, and an explanation for, such payments

Paid to entities associated with the Directors for executive services and directors' services in accordance with service agreements, details of which have been disclosed in the Company's 2020 Annual Report.



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| **7. Financing facilities**<br>Note: the term "facility' includes all forms of financing arrangements available to the entity.<br>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 | - | - |
| 7.2 Credit standby arrangements | - | - |
| 7.3 Other: Pre-factoring financing facility | 10,000 | 500 |
| 7.4 **Total financing facilities** | 10,000 | 500 |

| | |
|---|---|
| 7.5 **Unused financing facilities available at quarter end** | 9,500 |

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.

***Terms and conditions: Pre-factoring financing facility***

During the year pre-factoring financing facility with Custodian Australia Pty Ltd, with the following key terms:

- *Total facility* $10,000,000
- *Drawdown* $500,000
- *Interest rate* 15%
- *Maturity* 9 November 2020 (with ability to extended for a further six months)
- *Security* The drawdown can also be secured against the inventory produced

| **8. Estimated cash available for future operating activities** | **$A'000** |
|---|---|
| 8.1 Net cash from / (used in) operating activities (Item 1.9) | 136 |
| 8.2 Cash and cash equivalents at quarter end (Item 4.6) | 643 |
| 8.3 Unused finance facilities available at quarter end (Item 7.5) | 9,500 |
| 8.4 Total available funding (Item 8.2 + Item 8.3) | 10,143 |
| 8.5 **Estimated quarters of funding available** (Item 8.4 divided by Item 8.1) | N/A |

*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.*

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

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:

N/A

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:

N/A

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:

N/A

*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.*



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## 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: Friday, 30 October 2020

Authorised by: The Board of Directors

(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 – e.g. 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.