



28 September 2018

## **SKIN ELEMENTS LIMITED (SKN) - 2018 ANNUAL REPORT**

Skin Elements Limited (ASX:SKN) is pleased to present its Annual Report for the year ended 30 June 2018.

END

### **For further information, please contact:**

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### **About Skin Elements**

Skin Elements is an 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 its lead product, the Soléo Organics 100% natural and organic sunscreen, the Elizabeth Jane Natural Cosmetics brand, and the natural pawpaw based PapyaActivs therapeutics range and SkinEssience natural skincare. The Company has completed a highly successful test marketing phase in major international markets for Soléo Organics and has regulatory approval with the USA FDA, TGA and other significant regulators. Skin Elements aims to become the number one recognised national and international sunscreen brand.

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

Natural Science by Skin Elements

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**ABN 90 608 047 794**

## **ANNUAL REPORT**

**For the year ended 30 June 2018**

## ***CORPORATE DIRECTORY***

### ***DIRECTORS***

Peter Malone (Executive Chairman)  
Luke Martino (Non-executive Director)  
Mr Phil Giglia (Non-executive Director)

### ***COMPANY SECRETARY***

Craig Piercy

### ***REGISTERED OFFICE***

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West Perth WA 6005  
Telephone: +61 (0)8 6311 1900  
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Email: [info@senatural.com](mailto:info@senatural.com)  
Web: [www.skinelementslimited.com](http://www.skinelementslimited.com)

### ***PRINCIPAL PLACES OF BUSINESS***

32 Ord Street  
West Perth WA 6005

### ***BANKERS***

ANZ (Australia and New Zealand Banking Group Limited)  
1275 Hay Street  
West Perth WA 6005

### ***SECURITIES EXCHANGE LISTING***

ASX Limited  
20 Bridge Street Sydney NSW 2000, Australia  
ASX Code: SKN

### ***SHARE REGISTRY***

Link Market Services Limited  
Level 4 Central Park  
152 St Georges Terrace  
PERTH WA 6000  
Telephone (within Australia): 1300 554 474  
Telephone (outside Australia): +61 1300 554 474  
Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### ***AUDITORS***

BDO Audit (WA) Pty Ltd  
38 Station Street SUBIACO WA 6000, Australia

### ***SOLICITORS***

DLA Piper Australia  
Level 31, Central Park  
152-158 St Georges Tce  
PERTH WA 6000

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## DIRECTORS' REPORT

Your directors submit the annual report of the consolidated entity consisting of Skin Elements Limited (the **Company, Group** or **SEL**) and the entity it controlled during the financial year ended 30 June 2018. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

### DIRECTORS

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

**Mr Peter Francis Malone** B.Arch MBA

*Executive Chairman – Appointed: 4 September 2015*

Mr Malone has over 30 years experience as Chief Executive Officer (CEO) of technology programs and listed companies. He has been the CEO of the Skin Elements program since inception in 2005.

Mr Malone holds an interest in the following securities in the Company at the date of this report:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.20 on or before 31 Oct 2018	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020	Unlisted Options over ordinary shares Exercisable at \$0.30 on or before 30 Nov 2018
15,196,172	66,351	5,065,390	1,266,348	5,065,390

**Mr Luke John Martino** B.Com FCA FAICD

*Independent Non-Executive Director – Appointed: 4 September 2015*

*Member of the Audit Committee, Remuneration Committee and Nomination Committee*

Mr Martino has over 20 years senior leadership experience in major Australian accounting firms. He is a former non-executive director of Pan Asia Corporation Limited (ASX: PZC), and the current non-executive chairman of Jador Lithium Limited (JDR). Mr Martino also hold the position of Company Secretary for South East Asia Resources Limited (ASX: SXI).

He is former non-executive director of NuEnergy Capital Limited and South Pacific Resources Limited (Canadian listed public company), former non-executive Chairman of Central Asia Resources Limited (ASX: CVR), and former Company Secretary of Blackgold International Holdings Limited (ASX: BGG).

Mr Martino holds an interest in the following securities in the Company at the date of this report:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.20 on or before 31 Oct 2018	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020	Unlisted Options over ordinary shares Exercisable at \$0.30 on or before 30 Nov 2018
2,125,000	128,425	1,625,000	218,750	625,000

**Mr Phil Giglia**

*Independent Non-Executive Director – Appointed: 22 November 2017*

*Chairman of the Audit Committee, Remuneration Committee and Nomination Committee*

Mr Giglia is a Chartered Accountant with more than 30 years experience in the accounting profession, with a strong depth of accounting and taxation expertise in the small to medium enterprise sector. He is also a Registered Tax Agent and Company Auditor.

Mr Giglia holds an interest in the following securities in the Company at the date of this report:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.20 on or before 31 Oct 2018	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020	Unlisted Options over ordinary shares Exercisable at \$0.30 on or before 30 Nov 2018
60,000	7,150	-	5,000	-

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS (CONT'D)

**Mr David James Humann** FCA FCPA FAICD (directorship ceased on 22 November 2017)

*Independent Non-Executive Director – Appointed: 15 August 2016*

*Chairman of the Audit Committee, Remuneration Committee and Nomination Committee*

Mr Humann had over 40 years experience working extensively in Price Waterhouse (now PwC) including as a member of the PwC World Board and Global Executive Committee and managing partner Asia Pacific region.

Mr Humann was the Chairman of Mincor Resources NL, a director of Exxaro Australian Iron Pty Ltd and a director of Future Directions International Pty Ltd.

At the date Mr Humann passed away (on 22 November 2017) he held interests in the following securities in the Company:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.20 on or before 31 Oct 2018	Unlisted Options over ordinary shares Exercisable at \$0.30 on or before 30 Nov 2018
30,000	67,834	15,000	-

**Mr Craig Leslie Piercy** BBus CA

*Company Secretary – Appointed: 4 September 2015*

Mr Piercy has over 20 years experience in corporate accounting, finance and compliance. He has been the Company Secretary and CFO of the Skin Elements program since inception in 2005.

Mr Piercy holds interest in the following securities in the Company:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.20 on or before 31 Oct 2018	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020	Unlisted Options over ordinary shares Exercisable at \$0.30 on or before 30 Nov 2018
6,855,488	39,811	2,285,162	571,286	2,285,162

### PRINCIPAL ACTIVITIES

During the year ended 30 June 2018, the principal continuing activity of the Group consisted of the development and commercialisation of its proprietary all natural skincare technology.

### REVIEW OF OPERATIONS

Over the 2018 financial year, Skin Elements Limited has continued to execute its business plan and growth strategy to position itself as a leading global supplier of natural and organic skin care products.

The key highlights for the year include:

- (i) Sales income of \$838,292 (increase from \$310,753 in 2017) through increased online sales promotion and expanding full product ranges into wholesaler and distributor networks throughout Australia.
- (ii) Cash and non-cash expenses of \$3,623,683 (an increase from \$1,735,474) as a result of increased activities including \$1,003,955 in product development, \$1,183,159 in admin and corporate expenditure, \$826,108 of contracting and consulting fees and \$308,484 in other costs.
- (iii) Other non-cash expenses include amortisation of the Soleo Organics and McArthur intangible assets of \$301,977.
- (iv) Research and development expenditure of \$1,003,955 with a R&D Tax rebate of \$450,181 receivable at 30 June 2018.
- (v) The Company has restated the comparative period resulting from a review of its provisional accounting for the McArthur business combination acquisition undertaken in May 2017. The net impact to the profit or loss was \$21,478 (benefit) during that year and an adjustment to the fair value of stock and intangible assets.

## **DIRECTORS' REPORT (CONTINUED)**

### **REVIEW OF OPERATIONS (CONT'D)**

The key highlights (cont'd):

- (vi) The Company completed a private placement on 29 June 2018 raising \$150,000. On 8 August 2018 the Company completed a further capital raising of \$1,075,663 through its fully underwritten entitlement offer to existing shareholders.

Prior period highlights included:

(i) **Product developments**

The Groups all natural skincare technology includes the Soléo Organics sunscreen, Elizabeth Jane Natural Cosmetics (EJNC) skincare range, and the McArthur pawpaw based therapeutic skincare range. The Groups development philosophy continues to focus on the delivery of innovative natural and organic skincare products.

The 30 June 2017 year was the Company focus on the commercial expansion of the Soléo Organics sunscreen and McArthur pawpaw based skincare. This involved the development of the brand extension and increased scale manufacture and distribution of the Soléo Organics and McArthur product ranges. It also saw a focus on the development of the Elizabeth Jane Natural Cosmetics product range, which has 10 separate products within its range, with a view to achieving a market launch in the medium term.

(ii) **Market developments**

The Company continued its development of the distribution channels and global markets for its Soléo Organics sunscreen product in Australia and internationally. Test marketing sales occurred during the year ended 30 June 2017 included health and lifestyles sectors in Australia, New Zealand, Japan, United States of America, Hong Kong, Indonesia and European Union.

Having successfully completed its IPO and ASX listing, the Company focused on the rapid execution of the commercial launch of the Soléo Organics sunscreen into major markets. This involved an integrated marketing, manufacturing and distribution plan designed to see the Company achieve its stated objective of becoming the number one recognised national and international sun screen brand.

(iii) **Acquisition of SE Operations Pty Ltd**

During the year ended 30 June 2017, the Company completed the process of the share sale agreements whereby the existing shareholders of SE Operations Pty Ltd (formerly Skin Elements Pty Ltd) (**SEO**) exchanged their shares in SEO for the same proportion of shares in the Company. This allowed the Group to consolidate over 10 years of development and experience in the field of all natural skincare and facilitate the listing process on the ASX.

(iv) **Successful ASX Listing**

The core focus for the Company during the year ended 30 June 2017 was the undertaking and successful completion of its initial public offering (IPO) and admission to the Official List of the Australian Securities Exchange (ASX). The Company released its prospectus in early 2016 with the IPO raising \$3.71 million and the process culminated with its ASX listing and commencement of trading of shares on ASX on 6 January 2017. The IPO represented a pivotal juncture in Skin Elements' development timeline, and provided the capital and market presence required for the Company to execute its growth plans.

## **DIRECTORS' REPORT (CONTINUED)**

### **REVIEW OF OPERATIONS (CONT'D)**

Prior period highlights included (cont'd):

(v) **Acquisition of McArthur Skincare**

In 2017 the Company's completed the \$0.95 million acquisition (\$400,000 cash consideration and 3,000,000 ordinary fully paid shares to the value of \$550,000) of the McArthur Skincare business represented a highly complementary and value accretive acquisition in line with its natural and organic skin care-focused business model.

McArthur Skincare is an established 100% Australian owned and operated business which has generated total sales of approximately \$23 million since 2010. The acquisition will leverage Skin Elements into a natural Skincare business of increased range, scale and size.

With the acquisition complete, Skin Elements has assumed full control of the business assets, including the product range, and business operations of McArthur Skincare. This includes all revenue from sale of McArthur Skincare products and the responsibility for the manufacture of products and operational expenses.

### **RESULTS**

#### **Results for the Year**

The Company incurred a loss of \$2,728,114 after income tax for the year (2017: loss \$1,597,604).

Skin Elements delivered progress in the sales and distribution of its Soleo Organics product range during the year. Revenues from all product sales for the year ending 30 June 2018 were \$838,292, an increase of 170% on the corresponding figure for the previous year. Sales for the Soléo Organics sunscreen included Japan, Slovenia, Hong Kong and Australia, and in the US, via online retailer Amazon - and the Company will continue to work to expand its sales and distribution footprint for its entire product range in the year ahead.

The 2018 results include cash expenses of \$2,720,760 (an increase from \$1,595,066 in 2017) as a result of the increased activities including \$952,350 of admin and corporate expenditure, \$368,108 of consulting costs and \$396,347 additional operating costs before \$1million in research and development cost.

Non-cash expenses include an amount for amortisation of the Soléo Organics and McArthur intangibles of \$301,977.

#### **Financial position**

The Company financial statements show the following key movements in the group's assets and liabilities over the two periods:

- (i) Decrease in cash assets by \$1.211m to \$0.196m (2017: \$1.407m);
- (ii) Decrease in trade receivables by \$0.012m to \$0.037m (2017: \$0.048m);
- (iii) Increase in trade and other payables by \$0.028m to \$0.810m (2017: \$0.782m);
- (iv) Increase in other receivables by \$0.174m to \$0.496m (2017: \$0.322m);
- (v) Decrease in non-current assets by \$0.32M to \$9.380m (2017: \$9.682m);

At 30 June 2018 the Consolidated Group had a working capital position of \$0.109m (2017: \$1.34m).

#### **DIVIDENDS**

During the financial year the Company did not pay a dividend (2017: nil).



## DIRECTORS' REPORT (CONTINUED)

### RISK MANAGEMENT

The Board of Directors takes a pro-active approach to risk management. The Board is ultimately responsible for ensuring that risks and also opportunities are identified on a timely basis and the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Board has established an Audit & Risk Committee that operates under a charter approved by the Board. The purpose of the Audit & Risk Committee is to assist the Board in fulfilling its corporate governance, oversight, risk management and compliance practices responsibilities.

### ENVIRONMENT REGULATIONS

The Group's operations are not regulated by any environment regulations including the National Greenhouse and Energy Reporting Act 2007.

### ISSUE OF SHARES OPTIONS AND NOTES

During the year, Skin Elements Limited had the following changes in its capital structure:

- (i) On 31 August 2017 the Company issued 165,000 shares to consultants at a fair value of \$0.20 per share;
- (ii) On 30 October 2017 the Company issued 500,000 shares to an associate of a director and 500,000 to an external consultant for services rendered. The fair value of the shares was \$0.20 per share.
- (iii) On 13 December 2017 the Company issued 24,000 convertible notes with a face value of \$24,000;
- (iv) On 30 January 2018 the Company issued 75,000 convertible notes with a face value of \$75,000;
- (v) On 30 January, 28 February and 1 March 2018 the Company issued 203,409, 50,700 and 106,863 convertible notes respectively to extinguish liabilities with a total fair value of \$493,092;
- (vi) On 6 March 2018 the Company issued 338,000 shares on the conversion of a parcel of convertible notes, the fair value of the notes was \$69,257;
- (vii) On 6 March 2018 the Company issued 2,000,000 shares in satisfaction of a corporate consulting fee. The fair value of a share at the date of issue was \$0.10 per share;
- (viii) On 29 June 2018 the Company issued 6,000,000 shares (with 1,500,000 free attaching options exercisable at \$0.10 per share on or before 31/12/2020) at \$0.025 to raise \$150,000.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The significant changes in the state of affairs of the Company during the year are:

The Company introduced a new funding mechanism during the period which resulted in the company issuing convertible notes on the following terms:

Particulars	Terms
Principal	Face value of the consideration provided.
Interest rate	10%
Period	1 year
Repayment	Convertible at any time during the year and automatically after one year.
Security	The borrowing is unsecured and there are no covenants in place for the notes.
Option 1	Exercisable at \$0.22 on or before 30 January 2020
Option 2	Exercisable at \$0.34 on or before 30 January 2022

The total number of notes issued was 459,972.

The Company also issued 6,000,000 to raise \$150,000 in June 2018.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Group that occurred during the year not otherwise disclosed in this report and the financial statements.

## DIRECTORS' REPORT (CONTINUED)

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations, business strategies and prospects of the Group include:

Continued expansion of the Groups' natural skincare products offering including developing additional products in established brands Soleo Organics suncare and McArthur pawpaw based therapeutic skincare, launch of its Elizabeth Jane Natural Cosmetics (EJNC) organic skincare range, and acquiring or developing additional brands in the natural and organic skincare space.

Growth in sales revenue of these products through development and support of existing wholesale and distributor sales networks, development and management of online and social media programs, and expansion from Australia into international markets.

Raising further working capital by equity placement as required to fund the Group's business strategies.

### REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for the key management personnel of Skin Elements Limited (the "Company" or "Group" or individually "SEL") for the financial year ended 30 June 2018 and comparatives for the year ended 30 June 2017. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company.

No remuneration consultants were used during the year.

The following table shows the gross revenue, profits/losses and share price of the Group at the end of the respective financial years.

	<b>Consolidated 30 June 2018</b>	<b>RESTATED Consolidated 30 June 2017*</b>
Revenue from continuing operations	<b>\$838,292</b>	\$310,753
Net loss	<b>(\$2,728,114)</b>	(\$1,597,604)
Share price	<b>\$0.027</b>	\$0.16

\* This year has been impacted by the costs associated with the listing of SEL on ASX.

### Key Management Personnel

#### 2018

##### (i) Directors

Peter Malone	Executive Chairman	appointed 4 September 2015
Luke Martino	Non-Executive Director	appointed 4 September 2015
Phil Giglia	Non-Executive Director	appointed 22 November 2017
David Humann	Non-Executive Director	appointed 15 August 2016 (ceased 22 November 2017)

##### (ii) Executives

Craig Piercy	Chief Financial Officer	appointed 1 January 2017
	Company Secretary	appointed 4 September 2015
Leo Fung	Chief Technical Advisor	appointed 1 January 2017

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (CONT'D)

2017

#### (i) Directors

Peter Malone	Executive Chairman	appointed March 2005 (SEO only)
Luke Martino	Non-Executive Director	appointed 4 September 2015 (SEL only)
David Humann	Non-Executive Director	appointed 15 August 2016 (SEL only)
Robin Armstrong only)	Non-Executive Director	appointed 4 September 2015 – resigned 18 August 2016 (SEL only)

#### (ii) Executives

Craig Piercy	Company Secretary	appointed SEO March 2005
Leo Fung	Chief Technical Advisor	appointed SEO March 2005

#### Remuneration Philosophy

The Board of Directors has established a Nomination and Remuneration Committee. The Committee shall provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities, however, ultimate responsibility for the Company's nomination and remuneration practices remains with the Board. The main functions and responsibilities of the Committee include the following:

- assisting the Board in examining the selection and appointment practices of the Company;
- ensuring remuneration arrangements are equitable and transparent and enable the Company to attract and retain executives and directors (executive and non-executive) who will create sustainable value for members and other stakeholders;
- ensuring the Board is of an effective composition, size and commitment to adequately discharge its responsibilities and duties;
- reviewing Board succession plans and Board renewal;
- reviewing the processes for evaluating the performance of the Board, its committees and individual directors and ensuring that a fair and responsible reward is provided to executives and directors having regard to their performance evaluation;
- reviewing levels of diversity within the Company and Board and reporting on achievements pursuant to any diversity policy developed by the Board;
- reviewing the Company's remuneration, recruitment, retention and termination policies for the Board and senior executives; and
- complying with all relevant legislation and regulations including the ASX Listing Rules and *Corporations Act 2001* (Cth).

The Group's policy for determining the nature and amount of remuneration of board members and senior executives is as follows:

#### (i) Non-Executive Directors

The remuneration of non-executive Directors will be determined by the Board having regard to the Remuneration Committee's recommendations and evaluation of each individual director's contribution to the Board.

The maximum aggregate annual remuneration of non-executive directors is subject to approval by the shareholders in general meeting in accordance with the Company's Constitution, the ASX Listing Rules and the *Corporations Act 2001* (Cth). The current maximum aggregate remuneration amount to non-executive directors approved by shareholders under the Constitution is \$500,000 per year. The directors have resolved that fees payable to non-executive directors for Board activities are \$60,000 per year with an additional fee of \$20,000 per year payable to the Chairman of the Audit and Risk Committee and the Nomination and Remuneration Committee.

#### (ii) Key management personnel

The Company's remuneration policy reflects the Company's obligation to align executive remuneration with shareholders' interests and to engage appropriately qualified executive talent for the benefit of the Company. In particular, reward should reflect the competitive global market in which the Company operates, individual reward should be linked to performance criteria, and should reward both financial and non-financial performance of the Director.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (CONT'D)

The Board of Directors and the Nomination & Remuneration Committee are in the process of assessing and implementing the Company's executive reward framework to ensure reward for performance is competitive and appropriate for the results delivered.

The Company has in place an Equity Incentive Plan to provide Performance Rights, Options, or Restricted Shares to directors, Employees or contractor of the Company. For the year ended 30 June 2018 other than as set out in the share based payments – Employee Incentive Plan all executive remuneration is set at base level fixed amounts at commensurate market rates or lower. The Employee Incentive Plan aligns shareholder and stakeholder values with executives as the hurdles embedded in the incentive plans include target share price milestones which are typically set at prices above the current share price at the date of issue and expire within a defined timeframe.

The relative proportions of executive remuneration that is fixed or at risk is outlined below. The Company does not currently have any remuneration that is linked to performance.

#### (ii) Key management personnel (cont'd)

	Fixed Remuneration		At risk - STI	
	2018	2017	2018	2017
<b>Directors of SEL</b>				
Peter Malone (appointed 4 September 2015)	73%	100%	27%	-
Luke Martino (appointed 4 September 2015)	87%	100%	13%	-
Phil Giglia (appointed 22 November 2017)	100%	-	-	-
David Humann (ceased 22 November 2017)	100%	100%	-	-
Robin Armstrong (appointed 4 September 2015 – resigned 18 August 2016)	-	100%	-	-
<b>Executives of SEL</b>				
Craig Piercy	100%	100%	-	-
Leo Fung	100%	100%	-	-

### Service agreements

Remuneration and terms of employment for other key management personnel are formalised in consultancy and employment agreements. The major provisions relating to remuneration to existing directors are set out below.

#### Executive agreements

##### *Peter Malone, Executive Chairman*

The Company has entered into a consultancy agreement with Boston Technology Management Pty Ltd (*Boston Consultancy Agreement*) to provide services to the Group. Mr Peter Malone will be engaged by Boston Technology Management Pty Ltd to act as the Executive Chairman of the Group. Boston Technology Management Pty Ltd will be paid a consulting fee of A\$20,000 (plus GST) per month for at least 100 hours of service per month and will also be reimbursed for reasonable expenses incurred in the performance of its duties.

The Boston Consultancy Agreement continues for a period of 2 years from 1 January 2017, with the option to extend the term by mutual written agreement of the parties. The Boston Consultancy Agreement contains standard termination provisions under which the Company must give 3 months written notice of termination (or shorter period in the event of a material breach) or alternatively payment in lieu of service. At the end of the notice period the Company must pay to - Boston Technology Management Pty Ltd an amount equal to the consulting fee that would otherwise be payable to Boston Technology Management Pty Ltd over the 3 month period if the engagement had not been terminated.

As noted above the Boston Consultancy agreement commenced on 1 January 2017. During the six month period up to 31 December 2016, the Group engaged Boston Corporate Pty Ltd to provide the Services of Mr Malone to act as Executive Chairman of the Group. Boston Corporate Pty Ltd was paid a consulting fee of \$8,257 (plus GST) per month for these services. These amounts have been included in the remuneration report below.

## **DIRECTORS' REPORT (CONTINUED)**

### **REMUNERATION REPORT (CONT'D)**

#### **Service agreements (cont'd)**

##### *Executive agreements*

##### *Craig Piercy, CFO / Company Secretary (cont'd)*

The Company has entered into a consultancy agreement with Boston Technology Management Pty Ltd (*Boston Consultancy Agreement*) to provide services to the Group. Mr Craig Piercy will be engaged by Boston Technology Management Pty Ltd to act as the Company Secretary and Chief Financial Officer of the Group. Boston Technology Management Pty Ltd will be paid a consulting fee of A\$13,000 (plus GST) per month for at least 100 hours of service per month and will also be reimbursed for reasonable expenses incurred in the performance of its duties.

The Boston Consultancy Agreement continues for a period of 2 years from 1 January 2017, with the option to extend the term by mutual written agreement of the parties. The Boston Consultancy Agreement contains standard termination provisions under which the Company must give 3 months written notice of termination (or shorter period in the event of a material breach) or alternatively payment in lieu of service. At the end of the notice period the Company must pay to Boston Technology Management Pty Ltd an amount equal to the consulting fee that would otherwise be payable to Boston Technology Management Pty Ltd over the 3 month period if the engagement had not been terminated. These amounts have been included in the remuneration report below.

As noted above the Boston Consultancy agreement commenced on 1 January 2017. During the six month period up to 31 December 2016, the Group engaged Boston Corporate Pty Ltd to provide the Services of Mr Piercy to act as Company Secretary and Chief Financial Officer of the Group. Boston Corporate Pty Ltd was paid a consulting fee of \$4,954 (plus GST) per month for these services.

##### *Leo Fung, Chief Technical Advisor*

The Company has entered into a consultancy agreement with Blackridge Group Pty Ltd (*Blackridge Consultancy Agreement*) to provide services to the Group. Mr Leo Fung will be engaged by Blackridge Group Pty Ltd to act as the Chief Technical Advisor of the Group. Blackridge Group Pty Ltd will be paid a consulting fee of A\$13,000 (plus GST) per month for at least 100 hours of service per month and will also be reimbursed for reasonable expenses incurred in the performance of its duties.

The Blackridge Consultancy Agreement continues for a period of 2 years from 1 February 2017, with the option to extend the term by mutual written agreement of the parties. The Blackridge Consultancy Agreement contains standard termination provisions under which the Company must give 3 months written notice of termination (or shorter period in the event of a material breach) or alternatively payment in lieu of service. At the end of the notice period the Company must pay to Blackridge Group Pty Ltd an amount equal to the consulting fee that would otherwise be payable to Blackridge Group Pty Ltd over the 3 month period if the engagement had not been terminated.

As noted above the Blackridge Consultancy agreement commenced on 1 February 2017. During the 2016 year and for the six month period up to 31 January 2017, the Group engaged Essential Property Pty Ltd to provide the Services of Mr Fung to act as Chief Technical Advisor to the Group. Essential Property Pty Ltd was paid a consulting fee of \$4,954 (plus GST) per month for these services. These amounts have been included in the remuneration report below.

##### *Non-executives*

The non-executive directors' appointments are on the following basis:

##### *Luke Martino – Non-Executive Director*

The Company has entered into an agreement with LJM Capital Corporation Pty Ltd (*Martino Agreement*). Mr Martino is engaged by LJM Capital Corporation Pty Ltd to provide non-executive director services to the Company. LJM Capital Corporation Pty Ltd will be paid a fee of A\$60,000 (plus GST) per annum for at least 40 hours of service per month. Mr Martino will also be reimbursed for reasonable expenses incurred in the performance of his duties as a non-executive Director of the Company.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (CONT'D)

#### Service agreements (cont'd)

##### *Phil Giglia – Non-Executive Director*

The Company has entered into an agreement with Colosseum Securities Pty Ltd (*Giglia Agreement*). Mr Giglia is engaged by Colosseum Securities Pty Ltd to provide non-executive director services to the Company. Colosseum Securities Pty Ltd will be paid a fee of A\$60,000 (plus GST) per annum for at least 40 hours of service per month. Mr Giglia will also be reimbursed for reasonable expenses incurred in the performance of his duties as a non-executive Director of the Company.

##### *Non-executives*

The non-executive directors' appointments are on the following basis:

*David Humann – Non-Executive Director / Chairman of the Audit and Risk Committee and the Nomination and Remuneration Committee (ceased 22 November 2017.).*

The Company entered into an agreement with James Anne Holdings Pty Ltd (*Humann Agreement*). Mr Humann was engaged by James Anne Holdings Pty Ltd to provide non-executive director services to the Company. James Anne Holdings Pty Ltd was engaged for a fee of A\$60,000 (plus GST) per annum for at least 40 hours of service per month. James Anne Holdings Pty Ltd was also engaged for a fee of A\$20,000 (plus GST) per annum to provide Mr Humann as Chairman of the Audit and Risk Committee and the Nomination and Remuneration Committee.

#### Details of remuneration

Details of the remuneration of the key management personnel of the Group are set out in the following tables.

	Cash Salary & fees (excl. GST)	Non-cash benefits	Super- annuation	Share-based payments \$	Total \$
	\$	\$	\$		
<b>2017/18</b>					
<b>Directors</b>					
Peter Malone <sup>1</sup>	240,000	-	-	51,130	291,130
Luke Martino <sup>2</sup>	60,000	-	-	5,113	65,113
Phil Giglia <sup>3</sup>	36,500	-	-	-	36,500
David Humann <sup>4</sup>	33,333	-	-	-	33,333
<b>Executives of SEL</b>					
Craig Piercy <sup>5</sup>	156,000	-	-	-	156,000
Leo Fung <sup>6</sup>	156,000	-	-	-	156,000
	<b>681,833</b>	<b>-</b>	<b>-</b>	<b>56,243</b>	<b>738,076</b>

<sup>1</sup>. Peter Malone, fees paid to Boston Technology Management Pty Ltd, refer to the service agreement section for details of the changes for the periods pre and the Company post listing on ASX.

<sup>2</sup>. Luke Martino, fees paid to LJM Capital Corporation Pty Ltd, agreement commenced on 1 January 2017.

<sup>3</sup>. Phil Giglia, fees paid to Colosseum Securities Pty Ltd, agreement commenced on 22 November 2017.

<sup>4</sup>. David Humann, fees paid to James Anne Holdings Pty Ltd. Mr Humann ceased as a director on 22 November 2017.

<sup>5</sup>. Craig Piercy, fees paid to Boston Corporate Pty Ltd, refer to the service agreement section for details of the changes for the periods pre and post the Company listing on ASX.

<sup>6</sup>. Leo Fung, the above fees paid to Blackridge Group Pty Ltd who engage Leo Fung, refer to the service agreement section for details of the changes for the periods pre and post the Company listing on ASX.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (CONT'D)

#### Details of remuneration in the prior period

	Cash Salary & fees	Non-cash benefits	Super- annuation	Share-based payments	Total
	\$	\$	\$	\$	\$
<b>2016/17</b>					
<b>Directors</b>					
Peter Malone <sup>1</sup>	169,542	-	-	-	169,542
Luke Martino <sup>2</sup>	30,000	-	-	-	30,000
David Humann <sup>3</sup>	35,709	-	-	-	35,709
Robin Armstrong <sup>4</sup>	-	-	-	-	-
<b>Executives of SEL</b>					
Craig Piercy <sup>5</sup>	107,727	-	-	-	107,727
Leo Fung <sup>6</sup>	107,727	-	-	-	107,727
	450,705	-	-	-	450,705

<sup>1</sup> Peter Malone, fees paid to Empire Services Pty Ltd and Boston Corporate Pty Ltd, refer to the service agreement section for details of the changes for the periods pre and the Company post listing on ASX.

<sup>2</sup> Luke Martino, fees paid to LJM Capital Corporation Pty Ltd, agreement commenced on 1 January 2017.

<sup>3</sup> David Humann, fees paid to James Anne Holdings Pty Ltd, agreement commenced on 1 January 2017.

<sup>4</sup> Robin Armstrong, no fees were payable to Mr Armstrong during the period as a director.

<sup>5</sup> Craig Piercy, fees paid to Equities Services Pty Ltd and Boston Corporate Pty Ltd, refer to the service agreement section for details of the changes for the periods pre and post the Company listing on ASX.

<sup>6</sup> Leo Fung, the above fees paid to Blackridge Group Pty Ltd and Essential Property Pty Ltd who engage Leo Fung, refer to the service agreement section for details of the changes for the periods pre and post the Company listing on ASX.

#### Termination benefits

No termination benefits are payable to executive or non-executive directors.

#### Share-based compensation – Employee Incentive Plan

The Company has established an Equity Incentive Plan (EIP) to assist in the motivation, retention and reward of senior management and other employees. The EIP is designed to align the interest of senior management and other employees with the interest of Shareholders by providing an opportunity for the participants to receive an equity interest in the Company. The securities issued under the Employee Incentive Plan currently do not include individual performance conditions for the recipients, instead, the milestones hurdles for these securities include share price targets which align all shareholder and stakeholder interests with the executives.

During the year up to the date of this report the Company has issued the following securities:

The following share based compensation has been agreed with the directors:

	Type of rights	Number of rights agreed during the year	Value of rights at grant date* \$	Number of rights vested during the year	Value of rights at vesting date* \$	Number of rights lapsed during the year	Value at lapse date \$
Directors of Skin Elements Limited							
Peter Malone	Tranche A	2,000,000	100,000	-	-	-	-
Peter Malone	Tranche B	2,000,000	64,000	-	-	-	-
Luke Martino	Tranche A	200,000	10,000	-	-	-	-
Luke Martino	Tranche B	200,000	6,400	-	-	-	-

\* The value at grant date calculated in accordance with AASB2 Share-based payment of rights granted during the year as part of remuneration. These have been valued based on the share price on the grant date of the performance rights.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (CONT'D)

#### Share-based compensation – Employee Incentive Plan (cont'd)

The rights have the following performance hurdles, Tranche A, 5 Day VWAP of more than \$0.34, Tranche B. 5 Day VWAP of more than \$0.51 per share.

The assessed fair value at grant date of rights granted to the individual is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above.

The fair value of the rights has been determined as \$0.05 to \$0.032 per right. The Company used a Monte Carlo simulation model to value the rights with the following inputs:

Particulars	Terms
Consideration	Nil
Grant date	30 November 2017
Expiry date	30 June 2019 (Tranche A) and 30 June 2020 (Tranche B)
Share price	\$0.177
Expected volatility	40%
Dividend yield	0%
Risk free rate	1.75% (Tranche A) and 1.89%(Tranche B)

The table below shows the vesting period of the Rights.

#### Share-based compensation benefits (rights)

	Year granted	Vested %	Forfeited %	Financial years in which rights vest	Maximum total value of grant yet to vest \$
Peter Malone	2017/2018	-	-	2019/2020	164,000
Luke Martino	2017/2018	-	-	2019/2020	16,400

#### Transaction with KMP's

The Group had the following related party transactions with the key management personnel during the year:

Other Transactions with Key Management Personnel	2018 \$	2017 \$
Boston Technology Management Pty Ltd (a company of which Mr Piercy is a director) provided office facilities on monthly rental basis at commercial rates.	20,909	24,000
Equities Services Pty Ltd (a company of which Mr Piercy is a director), provided IPO services in relation to assisting with placements during the IPO process.	-	17,357
Empire Services Pty Ltd (company of which Mr Malone is a Director), provided IPO services in relation to assisting with placements during the IPO process.	-	28,926
James Anne Holdings Pty Ltd (a company of which Mr Humann is a director), provided Due Diligence services.	-	24,000
Indian Ocean Advisory Group (a company associated with Mr Martino), provided professional accounting and IPO (2017) corporate advisory services. The services are at commercial arms-length hourly rates.	217,075	237,778
LJM Corporate Capital Pty Ltd (a company associated with Mr Martino), received a placement fee.	-	1,650



## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (CONT'D)

#### Loans to / from KMP's

The following information relates to the loans provided by associates of key management personnel during the year.

	Balance at the start of the year	Interest paid or payable	Interest not charged	Highest indebtedness during the year
	\$	\$	\$	\$
2017/18				
Boston Corporate Pty Ltd	18,711	-	-	49,923
Boston Corporate Pty Ltd	10,988	-	-	27,795
Essential Property Pty Ltd	14,502	-	-	29,145
	<b>44,201</b>	<b>-</b>	<b>-</b>	<b>106,863</b>

Movement in the loan balance are presented below:

	Balance at the start of the year	Amount borrowed	Amounts extinguished	Closing balance
	\$	\$	\$	\$
2017/18				
Boston Corporate Pty Ltd	18,711	31,212	(49,923)	-
Boston Corporate Pty Ltd	10,988	16,807	(27,795)	-
Essential Property Pty Ltd	14,502	14,643	(29,145)	-
	<b>44,201</b>	<b>62,662</b>	<b>(106,863)</b>	<b>-</b>

The terms of the loans are as follows:

Particulars	Terms
Principal	No fixed amount, funding provided when needed.
Interest rate	0%
Period	No fixed term.
Repayment	On commencement of listing, at the Company's discretion and subject to available funds.
Security	The borrowing is unsecured and there are no covenants in place for the loan.

The total benefit to directors and executives is \$106,863. These balances due under these loans result from the provision of consulting services unpaid during the period.

#### Convertible notes

The Company entered into arrangements to extinguish the related party borrowings in exchange for convertible notes on the same terms and conditions as the third party convertible notes issued during the period December 2017 to March 2018.

	Balance at the start of the year	Amount of notes issued	Amounts extinguished	Closing balance	Fair Value
	\$	\$	\$	\$	
2017/18					
Boston Corporate Pty Ltd	-	77,718	-	77,718	106,162
LJM Capital Corporation PL	-	60,500	-	60,500	82,644
Colosseum Securities Pty Ltd	-	7,150	-	7,150	9,767
Essential Property Pty Ltd	-	29,145	-	29,145	39,812
	<b>-</b>	<b>174,513</b>	<b>-</b>	<b>174,513</b>	<b>238,385</b>

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (CONT'D)

The terms of the convertible notes are set out below:

Particulars	Terms
Principal	Face value of the consideration provided.
Interest rate	10%
Period	1 year
Repayment	Convertible at any time during the year and automatically after one year.
Security	The borrowing is unsecured and there are no covenants in place for the notes.

#### Fair value

The loans were extinguished by issuing convertible notes. The Company has fair valued the securities issued to extinguish the loans. These include a share at \$0.15 in addition to the note holder receiving an option exercisable at \$0.22 on or before 30 January 2020. The notes also include an additional option, where the first option has been exercised, the additional option is exercisable at \$0.34 on or before 30 January 2022. The three instruments have been valued as follows:

Particulars	Terms
Share	Share price at date of issue \$0.11
Option – Exercise price	\$0.22 (first option) and \$0.34 (second options)
Option – Grant date	31 January 2018
Option – Expiry date	30 January 2020 (first option) 30 January 2022 (second option)
Option – Share price	\$0.11
Option – Expected volatility	86.81%
Option – Dividend yield	0%
Option – Risk free rate	1.77% (first option) and 2.15% (second options)

#### Share sale agreement

The Company in the prior year (2017) entered into a share sale agreement with shareholders of SE Operations Pty Ltd (SEO) to swap their securities for securities in Skin Elements Limited (SEL). This included certain related parties or associated entities and the details in the table below. The shareholders received one share in SEL for every four shares held in SEO in addition to one listed and unlisted option in SEL for every four options held in SEO.

	Number of shares in SEO	Number of options in SEO	Number of shares in SEL	Number of listed options in SEL	Number of unlisted options in SEL
<b>2016/17</b>					
<b>Directors</b>					
Peter Malone	40,523,123	20,225,560	10,130,781	5,065,390	5,065,390
Luke Martino	5,000,000	2,500,000	1,250,000	625,000	625,000
<b>Executives</b>					
Craig Piercy	18,281,300	9,140,648	4,570,325	2,285,162	2,285,162
	<b>63,804,423</b>	<b>31,866,208</b>	<b>15,951,106</b>	<b>7,975,552</b>	<b>7,975,552</b>

Other than the above, there have been no other transactions or loans with key management personnel during the reporting period.

## DIRECTORS' REPORT (CONTINUED)

### Additional disclosures relating to key management personnel

#### Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group including their personally related parties, is set out below:

<b>All securities</b>	<b>Balance at beginning of year or appointment date</b>	<b>Issued on exercise of options</b>	<b>Other changes*</b>	<b>Balance at end of year or date of resignation</b>
<b>2018</b>				
<b>Directors</b>				
Peter Malone				
- Ordinary shares	10,130,781	-	-	10,130,781
- Options	5,065,390	-	-	5,065,390
- Unlisted options	5,065,390	-	-	5,065,390
- Performance rights	-	-	4,000,000 <sup>2.</sup>	4,000,000
- Convertible notes	-	-	66,351 <sup>3.</sup>	66,351
Luke Martino				
- Ordinary shares	1,250,000	-	-	1,250,000
- Options	625,000	-	-	625,000
- Unlisted options	625,000	-	-	625,000
- Performance rights	-	-	400,000 <sup>2.</sup>	400,000
- Convertible notes	-	-	128,425 <sup>3.</sup>	128,425
David Humann <sup>1.</sup>				
- Ordinary shares	30,000	-	-	30,000
- Options	15,000	-	-	15,000
- Unlisted options	-	-	-	-
Phil Giglia				
- Ordinary shares	40,000	-	-	40,000
- Options	-	-	-	-
- Unlisted options	-	-	-	-
- Convertible notes	-	-	7,150 <sup>3.</sup>	7,150
<b>Executives of SEL</b>				
Craig Piercy				
- Ordinary shares	4,570,325	-	-	4,570,325
- Options	2,285,162	-	-	2,285,162
- Unlisted options	2,285,162	-	-	2,285,162
- Convertible notes	-	-	39,811	39,811

<sup>1.</sup> David Humann, passed away on 22 November 2017 and held the securities above;

<sup>2.</sup> The Company granted performance rights to directors after receiving shareholder approval at its 2017 AGM;

<sup>3.</sup> The Company extinguished outstanding debts by way of the issue of convertible notes, the shares have not yet been issued.

**END OF THE REMUNERATION REPORT, WHICH HAS BEEN AUDITED**

## DIRECTORS' REPORT (CONTINUED)

### Voting of shareholders at last year's annual general meeting

The Company received 99.9% of "yes" votes on its remuneration report for the 2017 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

### Directors' Meetings

The number of meetings of the Company's Board of Directors and each Board Committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

	Directors' Meetings*		Audit and risk Committee		Remuneration committee	
	Held	attended	Held	attended	Held	attended
Peter Malone	6	6	1	1	-	-
Luke Martino	6	6	1	1	-	-
Phil Giglia	4	4	-	-	-	-
David Humann (ceased 22/11/17)	2	1	1	1	-	-

\* Matters considered by the Board during the year have also been effected by execution of circulated resolutions by directors.

### Indemnification and insurance of Directors and Officers

During the financial year the Company paid a premium in respect of a contract insuring the directors and officers of the Company against a liability incurred by such directors and officers to the extent permitted by the Corporations Act 2001. The nature of the liability and the amount of the premium has not been disclosed due to confidentiality of the insurance contracts. The Company has not otherwise during or since the end of the year, indemnified, or agreed to indemnify an officer or an auditor of the Company, or of any related body corporate, against a liability incurred by such an officer or auditor.

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of the proceedings.

The Company was not a party to any such proceedings in the year.

### Shares under Options

Unissued ordinary shares of Skin Elements Limited under option as at the date of this report are:

Date	Options
15,746,617	Options exercisable at \$0.20 each on or before 31 October 2018 (SKNO).
23,028,383	Options exercisable at \$0.20 each on or before 31 October 2018 subject to escrow (SKNOESC24).
12,256,630	Options exercisable at \$0.10 each on or before 31 December 2020.
27,500,000	Unlisted Options exercisable at \$0.30 each on or before 30 November 2018 (SKNUO).
338,000	Unlisted Options exercisable at \$0.22 each on or before 6 March 2020 (convertible notes).

### Events subsequent to the end of the financial year

In the opinion of the directors, no items, transactions or events of a material and unusual nature have arisen in the interval between the end of the financial year and the date of this report which have been significantly affected, or may significantly affect, the operations of the Group, the results of those operations, other than the following:

In August 2018 the company completed a fully underwritten entitlement offer for existing shareholders issuing 43,026,519 ordinary shares and 10,756,630 options exercisable at \$0.10 each on or before 31/12/2020, raising \$1,075,663 cash.

## DIRECTORS' REPORT (CONTINUED)

### Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, BDO Audit (WA) Pty Ltd to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 20 and forms part of this directors' report for the year ended 30 June 2018.

Non-audit services provided by the auditors, BDO Audit (WA) Pty Ltd, and their related entities, are set out below. BDO Audit (WA) Pty Ltd and their related entities received or are due to receive the following amounts for the provision of non-audit services:

	2018 \$	2017 \$
BDO Audit (WA) Pty Ltd associated entities:		
Tax Compliance and advice	-	-
	-	-

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the Corporations Act 2001.



Peter Malone  
Executive Chairman

Dated at Perth, Western Australia this 28th day of September 2018.

DECLARATION OF INDEPENDENCE BY WAYNE BASFORD TO THE DIRECTORS OF SKIN ELEMENTS LIMITED

As lead auditor of Skin Elements Limited for the period ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Skin Elements Limited and the entities it controlled during the period.



Wayne Basford

Director

Perth, 28 September 2018

**SKIN ELEMENTS LIMITED**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2018**

		Year Ended 30 Jun 2018 \$	RESTATED Year Ended 30 Jun 2017 \$
	Notes		
<b>Revenue</b>			
Revenue from continuing operations		838,292	310,753
Cost of sales		(392,978)	(173,664)
- Gross profit		445,314	137,089
Other Income		450,255	780
<b>Expenses</b>			
Administration and corporate expenses	2	(1,183,159)	(538,565)
Contract and consulting fees	2	(826,108)	(595,795)
Occupancy expenses		(122,519)	(114,486)
Listing expenses	2	-	(196,993)
Research and development expenditure		(1,003,955)	-
Amortisation expense	9	(301,977)	(140,407)
Advertising and marketing expenses		(185,965)	(149,227)
<b>Total Expenditure</b>		(3,623,683)	(1,735,474)
<b>Loss before income tax</b>		(2,728,114)	(1,597,604)
Income tax benefit	3	-	-
<b>Loss after income tax from continuing activities attributable to equity holders of Skin Elements Limited</b>		(2,728,114)	(1,597,604)
<b>Other comprehensive income</b>			
<i>Items that may be realised through to profit or loss</i>			
Movements in reserves		-	-
<b>Total comprehensive income for the year</b>		-	-
<b>Loss and total comprehensive income attributable to equity holders of Skin Elements Limited</b>		(2,728,114)	(1,597,604)
Basic loss per share (cents per share)	15	(0.0350)	(0.0250)
Diluted loss per share (cents per share)		(0.0350)	(0.0250)

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes to annual report.*

**SKIN ELEMENTS LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2018**

		As at 30 Jun 2018 \$	RESTATED As at 30 Jun 2017 \$
	Notes		
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	195,661	1,407,153
Trade receivables	5	36,509	48,657
Other receivables	6	46,058	125,047
Inventories	8	191,255	272,910
Grant receivable	7	450,181	196,584
<b>TOTAL CURRENT ASSETS</b>		<b>919,664</b>	<b>2,050,351</b>
<b>NON-CURRENT ASSETS</b>			
Intangible assets	9	9,379,763	9,681,740
<b>TOTAL NON-CURRENT ASSETS</b>		<b>9,379,763</b>	<b>9,681,740</b>
<b>TOTAL ASSETS</b>		<b>10,299,427</b>	<b>11,732,091</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	810,386	737,586
Borrowings – related parties	11	-	44,201
<b>TOTAL CURRENT LIABILITIES</b>		<b>810,386</b>	<b>781,787</b>
<b>TOTAL LIABILITIES</b>		<b>810,386</b>	<b>781,787</b>
<b>NET ASSETS</b>		<b>9,489,041</b>	<b>10,950,304</b>
<b>EQUITY</b>			
Issued capital	12	13,679,321	13,033,994
Reserves	14	738,340	116,816
Accumulated losses	13	(4,928,620)	(2,200,506)
<b>TOTAL EQUITY</b>		<b>9,489,041</b>	<b>10,950,304</b>

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes to this annual report.*



**SKIN ELEMENTS LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Notes	Year Ended 30 Jun 2018 \$	Year Ended 30 Jun 2017 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		851,395	264,339
Payments to suppliers and employees		(2,151,496)	(1,686,394)
Interest received		74	780
<b>Net cash (outflows) from operating activities</b>	4	<b>(1,300,027)</b>	<b>(1,421,275)</b>
<b>Cash flows from investing activities</b>			
Payments for businesses (net of cash acquired)	18	(205,847)	(416,869)
Payments for intangibles - development		(183,702)	(269,040)
Receipt of research and development tax incentive		196,584	156,008
<b>Net cash outflow from investing activities</b>		<b>(192,965)</b>	<b>(529,901)</b>
<b>Cash flow from financing activities</b>			
Proceeds from the issue of equity		150,000	3,710,000
Payment for share issue costs		-	(360,179)
Proceeds from share applications		32,500	-
Proceeds from borrowings		99,000	593,091
Repayment of borrowings		-	(593,501)
<b>Net cash inflow from financing activities</b>		<b>281,500</b>	<b>3,349,411</b>
Cash and cash equivalents at the beginning of the financial year		1,407,153	8,918
Net (decrease) / increase in cash and cash equivalents		(1,211,492)	1,398,235
<b>Cash and cash equivalents at the end of the financial year</b>	4	<b>195,661</b>	<b>1,407,153</b>

*The above consolidated statement of cash flow should be read in conjunction with the accompanying notes to this annual report.*

**SKIN ELEMENTS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Issued Capital	Share based Payments Reserves	Accumulated losses	Convertible Note Reserve	Total Equity
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2017</b>	13,033,994	116,816	(2,200,506)	-	10,950,304
Loss for the year	-	-	(2,728,114)	-	(2,728,114)
Other comprehensive income					
Total comprehensive income for the year	-	-	(2,728,114)	-	(2,728,114)
<b>Transactions with owners in their capacity as owners</b>					
Equity Issued - consultants	233,000	-	-	-	233,000
Issue of convertible notes	-	-	-	592,092	592,092
Conversion of convertible notes	69,257	-	-	(69,257)	-
Equity Issued - consultants	200,000	-	-	-	200,000
Share issued	150,000	-	-	-	150,000
Share issue costs	(6,930)	-	-	-	(6,930)
Share based payments	-	98,689	-	-	98,689
	645,327	98,689		522,835	1,266,851
<b>Balance as at 30 June 2018</b>	13,679,321	215,505	(4,928,620)	522,835	9,489,041

			<b>RESTATED</b>		
<b>Balance at 1 July 2016</b>	9,245,988	-	(602,901)	-	8,643,087
Prior period adjustment			21,478		21,478
Loss for the year	-	-	(1,619,083)	-	(1,619,082)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	(1,597,604)	-	(1,597,604)
<b>Transactions with owners in their capacity as owners</b>					
Equity Issued	4,265,001	-	-	-	4,265,001
Share issue costs	(360,179)	-	-	-	(360,179)
Share based payments	(116,816)	116,816	-	-	-
	3,788,006	116,816	-	-	3,904,822
<b>Balance as at 30 June 2017</b>	13,033,994	116,816	(2,200,506)	-	10,950,304

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to this annual report

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(a) Basis of Preparation**

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The Company is a public company limited by shares incorporated and domiciled in Australia whose shares are traded on the Australian Securities Exchange. The financial report has also been prepared on a historical cost basis except for assessing the fair value of the business combination and the fair value of the share based payments. As at 30 June 2018, the activities of the Company were the manufacture and distribution of skincare products.

*Reporting convention.*

This annual report has been prepared on an accruals basis and are based on historical cost. The annual report is presented in Australian dollars.

On 23 December 2016 Skin Elements Limited (SEL) completed a transaction with the shareholders of SE Operations Pty Ltd (SEO) to acquire 100% of the share capital of SEO in exchange for 55,000,000 shares, 27,500,000 listed options and 27,500,000 unlisted options. In accordance with Australian Accounting Standards, the acquisition does not meet the definition of a business combination as SEL was established for the sole purpose of facilitating the listing process and to acquire SEO by way of an equity swap.

The accounting policies adopted are consistent with the accounting policies adopted in the Company's last annual financial statements for year ended 30 June 2017.

**(b) Statement of Compliance**

The financial report was authorised for issue on in accordance with a resolution of directors on 28 September 2018.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards, as adopted in Australia. Compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS) as adopted by the AASB.

**(c) Going concern**

For the year ended 30 June 2018 the Group recorded a loss of \$2,728,114, net cash outflows from operating activities of \$1,300,027 and had a net working capital of \$109,278. Subsequent to year end, the Group improved this position through the issuance of shares, however, while the Company's sales are still in build-up phase, the ability of the Group to continue as a going concern is dependent on securing additional funding.

The Group aims to raise sufficient funds to meet its ongoing commitments, planned expanded marketing programs and expansion plans through a blend of debt and equity raising.

However, these conditions indicate a material uncertainty about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at amounts that differ from those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and liabilities that might be necessary should the group not continue as a going concern.

**(d) Business Combination**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises of the fair value of assets transferred, liabilities incurred to the former owner, equity interests issued and the fair value of any contingent consideration.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Acquisition related costs are expensed as incurred.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(e) Principles of Consolidation**

*General consolidation principles*

The consolidated financial statements comprise Skin Elements Limited and its controlled entity as at 30 June 2018. A subsidiary is fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date at which the group ceases to have control.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss.

**(f) Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the annual report requires the use of accounting estimates and judgements which, by definition, will seldom equal the actual results. This note provides an overview of the areas that involve a degree of judgement or complexity in preparing the annual report. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances known to management. Facts and circumstances may come to light after the event which may have significantly varied the assessment used which result in a materially different value being recorded at the time of preparing these annual report.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(i) Impairment of assets**

The Company assesses the impairment of assets at each reporting date by evaluating conditions specific to the asset that may lead to impairment of the assets recoverable amount. The assessment of impairment is based on the best estimate of future cash flows available at the time of preparing the report. However, facts and circumstances may come to light in later periods which may change this assessment if these facts had been known at the time.

**(ii) Deferred taxes**

Deferred tax assets relating to income tax losses have not been brought to account as it is not considered probable that the Company will make taxable profits over the next 12 months. The Company will make a further assessment at the next reporting period.

**(iii) Amortisation rates**

The Company has assessed the effective life of its Soléo and McArthur intangible assets taking into account sector practices, the expected product life cycle and its own internal knowledge of the sunscreen and skincare markets to determine an appropriate amortization rate. This rate is an estimate of what the Company anticipates the intangible will be able to generate future benefits from the production and sale of the product and this may differ from the future results. The directors will continue to assess the effective life at each reporting date.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(e) Critical accounting judgements and key sources of estimation uncertainty**

**(iv) Share based payments**

The Company has assessed the fair value of the options issued using on Black Scholes Option Pricing model and the fair value of performance rights using a Monte Carlo simulation model. These models includes a number of estimated inputs including the Company's volatility, the risk-free rate and an estimated shares price of the Company's shares into the future. These inputs were considered to be a reasonable basis available information at the time the valuations were undertaken but the outcome may be materially difference if the Company had used other inputs. .

**(v) Convertible notes**

During the period the Company extinguished debt by way of issuing convertible notes. The Company assessed the fair value of instruments issued using the fair value of the equity instruments issued to extinguish the debt. The fair value of the instruments included the fair value of ordinary shares issued and the fair value of options using a Black Scholes Option Pricing model. This model includes a number of estimated inputs including the Company's volatility, the risk-free rate and the shares price of the Company's shares. These inputs were considered to be a reasonable basis available information at the time the valuations were undertaken but the outcome may be materially difference if the Company had used other inputs.

**(g) Segment Reporting**

Operating Segments – AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. This is consistent to the approach used for the comparative period. Operating segments are reported in a uniform manner to which is internally provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

An operating segment is a component of the group that engages in business activity from which it may earn revenues or incur expenditure, including those that relate to transactions with other group components. Each operating segment's results are reviewed regularly by the Board to make decisions about resources to be allocated to the segments and assess its performance, and for which discrete financial information is available.

The Board monitors the operations of the Company based on two segments, operational and corporate. The financial results of each segments are reported to the board to assess the performance of the Group. The Board has determined that strategic decision making is facilitated by evaluation of the operations of the legal parent and subsidiary which represent the operational performance of the group's revenues and the research and development activities as well as the finance, treasury, compliance and funding elements of the Group.

**(h) Foreign Currency Translation**

Both the functional and presentation currency of the Company and its Australian subsidiary is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the annual report are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(i) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

*(ii) Interest income*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield of the financial asset.

**(j) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs.

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(k) Income Tax**

The income tax expense or benefit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(j) Income Tax (cont'd)**

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(l) Goods and services taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority

**(m) Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).



**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(l) Impairment of assets (cont'd)**

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(n) Cash and cash equivalents**

Cash comprises cash at bank and on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(o) Trade and other receivables**

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from prepaid or cash on delivery to 60 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms.

**(p) Inventories**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale inventories are valued at the lower of cost and net realisable value.

**(q) Intangible assets**

**(i) Formula and technology**

Separately acquired formula and technology are shown at historical cost. Formula and technology acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(p) Intangible assets**

**(ii) Software**

Costs associated with maintaining software programmes are recognised as an expense as incurred. Costs that are directly attributable to the improvement of identifiable and unique software products controlled by the Group are recognised as intangible assets when the Company meets to capitalisation criteria to recognise the asset list in development costs above.

**(iii) Criteria for capitalising development costs of Formula and technology and Software**

Development costs of Formula and technology and Software which meet the criteria below are capitalised to the asset to which they relate in the year the costs were incurred. Research expenditure and development expenditure that do not meet the criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The criteria for recognising development assets are as follows:

- it is technically feasible to complete and will be available for use;
- management intends to complete the asset and use it;
- there is an ability to use or sell the asset;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the asset are available, and
- the expenditure attributable to the asset during its development can be reliably measured.
- Directly attributable costs that are capitalised as part of the asset include employee costs and an appropriate portion of relevant overheads.
- Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for commercial production.

**(r) Intangible asset amortisation**

The Company commences amortisation where the development process is at a stage where the products can be produced in commercial quantities. The Company has assessed that the Soléo intangible assets and the McArthur intangibles assets are at a stage where they meet this test. The Company has assessed the effective life for these assets to be 25 years and amortised the asset carrying values on a straight-line basis for the period. The Company has a policy to regularly review the effective life of each asset.

**(s) Research and development tax incentives (government funding)**

Research and development tax incentives received or receivable from the government are recognised at their fair value where there is a reasonable assurance that the amount will be received and the Group will comply with all attached conditions. The value of the research and development tax incentives received or receivable is recognised as income where the expenses to which it relates are included in the profit or loss or alternatively as a reduction to the asset where the costs have been capitalised to the statement of financial position.

**(t) Financial assets**

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(s) Financial assets (cont'd)**

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**Impairment of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

*(i) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**(u) Trade and other payables**

Trade payables and other payables are carried at amortised cost and 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.

**(v) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(u) Borrowings (cont'd)**

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**(w) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**(x) Employee leave benefits**

*(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits however due to the infancy of the Group, no long service leave has been accrued.

**(y) Share-based payment transactions**

The grant by the Company of options over its equity instruments to contractors or to its employees is measured at the fair value of contractor's services (where the services can be valued) or at the fair value of the equity instruments provided (which includes employee services received) during the period. The measurement date is the grant date and the cost is recognised over the vesting period for the services received by the Company with an increase to the expense (or asset if it directly relates to the development of an asset) with a corresponding increase to equity or reserves.

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(z) Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

**(aa) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the Parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(bb) Convertible note**

The financial instruments issued by the Group comprise convertible notes and attaching options that can be converted to ordinary shares at the option of the holder. The number of the shares and options to be issued is fixed. These convertible notes are recognised as equity and are not re-measured subsequent to initial recognition.

**(cc) New standards and interpretations not yet adopted**

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They have not been applied in preparing the annual report.

Title and Reference	Nature of Change	Application date for entity
AASB 9 Financial Instruments AASB 9	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated.	For periods beginning on or after 1 July 2018
Adoption of AASB 9 is only mandatory for the year ending 30 June 2019. The Company has made a preliminary assessment of the expected credit losses within its debtors balance. For the periods presented, a majority of the Group's sales are made directly to retail customers whom paid in advance for the products. The Company's history of returns is extremely low and therefore the historical credit losses will not be material.		

**SKIN ELEMENTS LIMITED**  
**NOTES TO THE CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Significant accounting policies**

**(aa) New standards and interpretations not yet adopted (cont'd)**

<b>Title and Reference</b>	<b>Nature of Change</b>	<b>Application date for entity</b>
AASB 15 Revenue from contracts with customers	<p>An entity will recognise revenue to depict the transfer of promised good 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. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.</p> <p>The Company generates revenue from the delivery of goods as follows:</p> <p>(i) Revenue from selling goods</p> <p>The Company sells products to external customers using a number of mediums which include internet sales, employees direct selling and the use of wholesalers and businesses whom purchase the product and are then responsible for their own on selling processes. The internet sales are driven by the Company's website which sets out pricing for the product and delivery. Each wholesalers and businesses customer order is specific to the client's requirements, however, for each category of customer the performance obligations cease when the Company has delivered the goods to the customers.</p> <p>As at 30 June the Company did not have any material customer contracts at the reporting date and will assess the impact of AASB 15 going forward.</p>	For periods beginning on or after 1 July 2018
AASB 16 (issued February 2016) Leases	<p>AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its Statement of Financial Position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its Statement of Financial Position for most leases.</p> <p>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.</p> <p>Lessor accounting remains largely unchanged from AASB 117.</p> <p>As at 30 June 2018, the Company has identified one contract that would be classified as leases under the new standard. The lease of the office premises. The Company will record the asset and associated liability at the transition date for this standard.</p>	For periods beginning on or after 1 Jan 2019

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	Year ended 30 Jun 2018	Year ended 30 Jun 2017
	\$	\$
<b>Profit or loss items</b>		
<b>2 LOSS FOR THE YEAR</b>		
Loss for the year included the following items:		
(a) Listing costs <sup>(i)</sup>		
Costs of ASX listing	-	196,993
	-	196,993
(i) The Company incurred costs to list on the ASX over the last 18 months, these costs include professional fees in preparing the prospectus and additional expenditure in connection with this process. These represent one off costs and will not be incurred in the future.		
(b) Administration expenses		
Accounting expenses	98,362	65,521
Audit expenses	47,337	77,412
Legal expenses	40,631	128,888
Wages and salaries	474,828	110,144
Directors fees	179,590	98,876
Travel expenses	112,391	17,440
Other expenses	230,020	40,284
	1,183,159	538,565
(c) Operating leases (rental)	122,519	114,486
	122,519	114,486
(d) Contract and consulting fees		
Executive services contracts (i)	317,245	167,002
External consulting fees	508,863	428,793
	826,108	595,795
(i) The Company engages the executives under consulting agreements to provide their services. These services are disclosed in note 21.		
(e) Other income		
Interest	74	780
R&D Grant income	450,181	-
	450,255	780

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<b>3 INCOME TAX BENEFIT</b>		
Current tax	-	-
Deferred tax	-	-
	-	-
Numerical reconciliation between tax benefit and pre-tax net loss		
Loss before income tax benefit	(2,728,114)	(1,597,604)
Income tax (expense) / benefit calculated at 27.5%. (2017: 27.5%)	(750,231)	(439,341)
Effect of non-(assessable) / deductible item	(67,243)	38,612
Movements in unrecognised temporary differences	817,474	400,729
Income tax benefit	-	-
Deferred tax assets / (liabilities) have not been recognised in respect of the following items		
Tax losses	1,573,464	649,018
Provision and accruals	23,563	11,514
Section 40-880 costs	121,496	159,962
Cost base of CGT assets	(67,604)	14,274
	1,650,919	834,768
	As at 30 Jun 2018 \$	As at 30 Jun 2017 \$
<b>4 CASH AND CASH EQUIVALENTS</b>		
Cash at bank (i)	195,661	1,407,153
Balance per statement cash flows	195,661	1,407,153

(i) Refer to the note 22 for commentary on risk management.



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**4 CASH AND CASH EQUIVALENTS (CONT'D)**

	Year ended 30 Jun 2018	RESTATED Year ended 30 Jun 2017
	\$	\$
(a) Reconciliation of loss after income tax to net cash flows from operating activities		
Loss for the year	(2,728,114)	(1,597,604)
Non-cash items		
Amortisation	301,977	140,408
Acquisition stock margin	(26,149)	-
Shared based payments	600,946	-
Decrease / (increase) in trade receivables	12,147	(46,414)
(Increase) / decrease in other receivables	(453,326)	58,687
Decrease / (increase) in inventories	109,559	(223,749)
Increase in trade and other payables	882,932	247,397
Net cash (outflow) / inflows from operating activities	(1,300,027)	(1,421,275)

(b) Non-cash financing and investing activities

(i) Issue of shares to consultants

The Company issued 165,000 shares to consultants at a fair value of \$0.20 per share for services rendered. The Company also issued 2,000,000 shares to consultants at a fair value of \$0.10 per share for corporate advisory services. The total value attributed to the shares was \$233,000 (refer note 12).

(ii) Issue of shares on conversion of notes

The Company issued 338,000 shares on conversion of notes with a fair value of \$0.20 per share. The total value attributed to the shares was \$69,257 (refer note 12).

(iii) Issue of shares for services

The Company issued 500,000 shares to an entity associated with a directors and 500,000 to an external consultant with a fair value of \$0.20 per share for professional services rendered. The total value attributed to the shares was \$200,000 (refer note 12).

(iv) Issue of rights

The Company agreed to issue 4,400,000 performance rights to a director with a fair value of \$0.075 and \$0.077 per right. The total expense recorded for these rights (for this year as a proportion of the vesting period) was \$98,689.

(v) Issue of convertible notes

The Company has issued 360,972 convertible notes to extinguish trade debts and borrowings. The fair value of the notes was \$493,092 (refer note 14).

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	As at 30 Jun 2018	As at 30 Jun 2017
	\$	\$
<b>5 TRADE RECEIVABLES</b>		
Trade receivables (i)	36,509	48,657
	36,509	48,657

(i) Classification and impairment of trade and other receivables

Trade debtors are amounts due from customers for the sale of goods in the ordinary course of business. The trade receivables are generally due for settlement within 30 days and therefore are classified as current. The group does not currently have any provision for doubtful debts in respect to their receivables as at 30 June 2018 (30 June 2017: Nil). Due to the short-term nature of the current receivables, their carrying amounts approximate their fair value. The trade debtor's balance does not currently have any amounts that are past due but not impaired.

	As at 30 Jun 2018	As at 30 Jun 2017
	\$	\$
<b>6 OTHER RECEIVABLES</b>		
GST receivable (net)	45,681	124,670
ABN Withholding	377	377
	46,058	125,047

	As at 30 Jun 2018	As at 30 Jun 2017
	\$	\$
<b>7 GRANT RECEIVABLE</b>		
Research and development receivable (i)	450,181	196,584
	450,181	196,584

(i) The Group continued its development program during the year ended 30 June 2018 resulting in a claim for research and development tax incentive.

	As at 30 Jun 2018	RESTATED As at 30 Jun 2017
	\$	\$
<b>8 INVENTORIES</b>		
Finished goods	129,636	237,289
Raw materials	61,619	35,621
	191,255	272,910

During the period the Company reassess the business combination for the McArthur acquisition. This resulted in an adjustment to the fair value of the stock acquired which is detailed in note 19.

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	<b>As at 30 Jun 2018</b>	<b>RESTATED As at 30 Jun 2017</b>
	<b>\$</b>	<b>\$</b>
<b>9 INTANGIBLE ASSETS</b>		
Soléo Organics – formula and technology	6,315,261	6,578,397
McArthur skincare – formula and technology	835,642	870,683
Website development costs	14,607	18,407
Elizabeth Jane Natural Cosmetics – formula and technology	2,214,253	2,214,253
	<b>9,379,763</b>	<b>9,681,741</b>
 Movements in Soléo Organics – formula and technology		
Opening balance	6,578,397	6,457,529
Development cost additions	-	451,913
Less: R&D tax incentives	-	(196,584)
Less: Write-off or impairments	-	-
Less: Amortisation	(263,136)	(134,461)
Closing balance	<b>6,315,261</b>	<b>6,578,397</b>
 Movements in McArthur – formula and technology		
Opening balance	870,683	-
Cost on acquisition	-	876,037
Less: R&D tax incentives	-	-
Less: Write-off or impairments	-	-
Less: Amortisation	(35,041)	(5,354)
Closing balance	<b>835,642</b>	<b>870,683</b>
 Movements in website development costs		
Opening balance	18,407	-
Cost on acquisition	-	19,000
Less: R&D tax incentives	-	-
Less: Write-off or impairments	-	-
Less: Amortisation	(3,800)	(593)
Closing balance	<b>14,607</b>	<b>18,407</b>
 Movements in Elizabeth Jane Natural Cosmetics – formula and technology		
Opening balance	2,214,253	2,214,253
Development cost additions	-	-
Less: R&D tax incentives	-	-
Less: Write-off or impairments	-	-
Less: Amortisation	-	-
Closing balance	<b>2,214,253</b>	<b>2,214,253</b>
 <b>Profit or loss expense</b>		
Soléo amortisation	263,136	134,461
McArthur amortisation	35,041	5,354
Website costs	3,800	593
	<b>301,977</b>	<b>140,408</b>

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	Consolidated As at 30 Jun 2018 \$	As at 30 Jun 2017 \$
<b>10 TRADE PAYABLES</b>		
Trade creditors (i)	236,139	216,784
Other creditors (ii)	574,247	520,802
	<b>810,386</b>	<b>737,586</b>

(i) Fair value of trade and other payables

Trade payables are unsecured and are usually paid within 60 days of recognition.

(ii) The carrying amount of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

	As at 30 Jun 2018 \$	As at 30 Jun 2017 \$
<b>11 BORROWINGS</b>		
Loans - related parties	-	44,201
	-	44,201
Movements in related party loans		
Opening balance	44,201	44,611
Amounts borrowed	62,662	593,091
Amounts repaid	-	(593,501)
Conversion of debt to notes (ii)	(106,863)	
Closing balance	-	44,201

(i) *Terms of the borrowings*

The operating company and the Company obtained working capital funding from the executives of the Company to allow the Group to continue operating and pay its debts as and when they fell due. The loan is provided on the following terms:

Particulars	Terms
Principal	No fixed amount, funding provided when needed.
Interest rate	0%
Period	No fixed term.
Repayment	On commencement of listing, at the Company's discretion and subject to available funds.
Security	The borrowing is unsecured and there are no covenants in place for the loan.

(ii) On 1 March 2018, the Company agreed to issue 106,863 convertible notes to extinguish borrowings (refer note 14)

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**12 ISSUED CAPITAL**

	As at 30 Jun 2018	As at 30 Jun 2017	As at 30 Jun 2018	As at 30 Jun 2017
(i) Share Capital	Shares	Shares	\$	\$
Ordinary Shares	86,053,001	76,550,001	13,679,321	13,033,994

(ii) Movement in share capital

Date	Details	Number of shares	\$
1/07/2017	Opening balance	76,550,001	13,033,994
31/08/2017	Issue of shares – consultants (i)	165,000	33,000
30/10/2017	Issue of shares – services (ii)	1,000,000	200,000
06/03/2018	Issue of shares – Conversion of notes (iii)	338,000	69,257
06/03/2018	Issue of shares – consultants (iv)	2,000,000	200,000
29/06/2018	Issue of shares – Placement (v)	6,000,000	150,000
	Less: Transaction costs (v)		(6,930)
	Deferred tax recognised in equity		-
	Closing balance	86,053,001	13,679,321

- (i) The company issued 165,000 shares to consultants at a fair value of \$0.20 per share.
- (ii) The company issued 500,000 share to an associate of a director for services rendered and 500,000 to an external consultant for services rendered. The fair value of the shares was \$0.20 per share.
- (iii) During the period the company issued shares on the conversion of a parcel of convertible notes, the fair value of the notes was \$69,257.
- (iv) The company issued 2,000,000 shares in satisfaction of a corporate consulting fee. The fair value of a share at the date of issue was \$0.10 per share.
- (v) The company undertook a placement of 6,000,000 shares (with 1,500,000 free attaching options at \$0.10 per share on or before 31/12/2020) at \$0.025 before year end to raise \$150,000.

**13 ACCUMULATED LOSSES**

	As at 30 Jun 2018	As at 30 Jun 2017
	\$	\$
Opening balance	2,200,506	602,901
Prior period adjustment (i)	-	(21,478)
Loss for the year	2,728,114	1,619,083
Closing balance	4,928,620	2,200,506

- (i) During the period the Company reassess the business combination for the McArthur acquisition. This resulted in an adjustment to the fair value of intangible assets and stock acquired which is detailed in note 19.

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	As at 30 Jun 2018	As at 30 Jun 2017
	\$	\$
<b>14 RESERVES</b>		
Share based payment reserve	215,505	116,816
Convertible note reserve	522,835	-
	<b>738,340</b>	<b>116,816</b>

	As at 30 Jun 2018	As at 30 Jun 2017	As at 30 Jun 2018	As at 30 Jun 2017
	Options	Options	\$	\$
(i) Options				
Options	2,000,000	2,000,000	116,816	116,816

No movement in options issued as share based payments during the period.

	As at 30 Jun 2018	As at 30 Jun 2017	As at 30 Jun 2018	As at 30 Jun 2017
	Rights(a)	Rights	\$	\$
(ii) Performance rights				
Performance rights	4,400,000	-	98,689	-

(a) The Company has issued performance rights to directors. The rights have the following performance hurdles, Tranche A, 5 Day VWAP of more than \$0.34, Tranche B, 5 Day VWAP of more than \$0.51 per share. Under the accounting standard, the Company is required to fair value these instruments at the date of the agreement and remeasure the instruments when they have been approved by shareholders. The rights are subject to performance conditions and are amortised over the vesting period which is up to 20 months from the date of issue.

(b) Movement in Performance rights

Date	Details	No. of Rights	\$
1/07/2017	Opening balance	-	-
30/11/2017	Agreement to issue rights	4,400,000	98,689
	Closing balance	4,400,000	98,689

(c) Fair value of rights granted to directors

The fair value of the rights has been valued at \$0.075 to \$0.077 per right. The Company used a Monte Carlo simulation model to value the rights with the following inputs:

Particulars	Terms
Consideration	Nil
Grant date	30 November 2017
Expiry date	30 June 2019 (Tranche A) and 30 June 2020 (Tranche B)
Share price	\$0.16
Expected volatility	90%
Dividend yield	0%
Risk free rate	1.75% (Tranche A) and 1.89% (Tranche B)

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**14 RESERVES (CONTINUED)**

	As at 30 Jun 2018	As at 30 Jun 2017	As at 30 Jun 2018	As at 30 Jun 2017
	Notes	Notes	\$	\$
(iii) Convertible Note reserve				
Convertible Note	409,272	-	522,835	-

- (a) The Company has agreed to issue performance rights to directors, however, these are subject to shareholder approval and have not yet been issued. Under the accounting standard, the Company is required to fair value these instruments at the date of the agreement and remeasure the instruments when they have been approved by shareholders.

(ii) Movement in Convertible Note

Date	Details	No. of notes	\$
1/07/2017	Opening balance	-	-
13/12/2017	Issue of convertible notes	24,000	24,000
30/01/2018	Issue of convertible notes	75,000	75,000
30/01/2018	Issue of convertible notes to extinguish debt	203,409	203,409
28/02/2018	Issue of convertible notes to extinguish debt	50,700	50,700
01/03/2018	Issue of convertible notes to extinguish debt	106,863	106,863
	Fair value uplift (i)		132,120
06/03/2018	Conversion of notes to shares	(50,700)	(69,257)
	Closing balance	409,272	522,835

- (i) Fair value uplift on convertible notes

*Terms of the notes*

Particulars	Terms
Principal	Face value of the consideration provided.
Interest rate	10%
Period	1 year
Repayment	Convertible at any time during the year and automatically after one year.
Security	The borrowing is unsecured and there are no covenants in place for the notes.

*Fair value of the notes – extinguishment of liabilities*

The convertible note converts to shares at \$0.15 per share. In addition, the note holder receives an option exercisable at \$0.22 on or before 30 January 2020. The notes also include an additional option, where the first option has been exercised, the additional option is exercisable at \$0.34 on or before 30 January 2022. The three instruments have been valued as follows:

Particulars	Terms
Share	Share price at date of issue \$0.11
Option – Exercise price	\$0.22 (first option) and \$0.34 (second options)
Option – Grant date	31 January 2018
Option – Expiry date	30 January 2020 (first option) 30 January 2022 (second option)
Option – Share price	\$0.11
Option – Expected volatility	86.81%
Option – Dividend yield	0%
Option – Risk free rate	1.77% (first option) and 2.15% (second options)
Option – fair value	\$0.0318 (first option) and \$0.0455 (second options)

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	<b>Year Ended 30 Jun 2018</b>	<b>RESTATED Year Ended 30 Jun 2017</b>
	<b>\$</b>	<b>\$</b>
<b>15 EARNINGS PER SHARE</b>		
Loss attributable to ordinary shareholders	(2,728,114)	(1,597,604)
Weighted average number of ordinary shares (i)		
Opening balance	76,550,001	1
Effect of shares issued for the acquisition (55,000,000 shares (220mill / 4))	-	55,000,000
Effect of shares issued for the IPO (18,550,000 shares * (189 / 365 days))	-	9,605,342
Share issue for the business combination (3,000,000 shares * (56 / 365 days))	-	460,274
Effect of shares to consultants	772,589	-
Effect of shares to directors	665,753	-
Effect of shares from conversion of notes	107,419	-
Effect of shares issued for cash	16,438	-
	<b>78,112,200</b>	<b>65,065,617</b>
Basic loss per share calculation (12mths loss / weighted ave shares)	(0.035)	(0.025)

	<b>Operations</b>	<b>Corporate &amp; Administration</b>	<b>Company</b>
<b>16 SEGMENT REPORTING</b>			
<b>Year ended 30 June 2018</b>			
<b>Segment Revenue</b>	838,292	-	838,292
<b>Expenses</b>			
Interest income	-	74	74
Consultants fees	(156,391)	(669,717)	(826,108)
Amortisation	(301,977)	-	(301,977)
Share Based Payments	-	(98,689)	(98,689)
<b>Segment net operating loss after tax</b>	<b>(1,372,056)</b>	<b>(1,356,058)</b>	<b>(2,728,114)</b>
<b>Year ended 30 June 2017</b>			
<b>Segment Revenue</b>	310,753	-	310,753
<b>Significant items</b>			
Interest Income	-	780	780
Consultants fees	(21,800)	(573,995)	(595,795)
Listing fees	-	(196,993)	(196,993)
<b>Segment net operating loss after tax</b>	<b>(798,530)</b>	<b>(1,438,778)</b>	<b>(2,237,308)</b>
<b>Segment assets</b>			
At 30 June 2018	10,095,169	204,258	10,299,427
At 30 June 2017 – <b>RESTATED</b>	10,540,502	1,534,252	11,732,091
<b>Segment liabilities</b>			
At 30 June 2018	(338,438)	(471,948)	(810,386)
At 30 June 2017	(337,477)	(444,310)	(781,787)



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**17 PRIOR PERIOD ACQUISITION**

During the prior year, Skin Elements Limited (SEL) which was established in September 2015 entered into a Share Sale Agreement whereby the existing shareholders of SE Operations Pty Ltd (SEO) exchanged their shares in SEO for shares in SEL. The result of the transaction was that the original holders of the shares in SEO received the same proportion of shares in SEL. The acquisition does not fall within the provisions of AASB 3 and therefore the Company has applied continuation accounting in the preparation of the annual financial report.

The total number of shares issued to the shareholders of SEO was 55,000,000 ordinary shares, 22,500,000 listed options exercisable at \$0.20 each on or before 31 October 2018, and 22,500,000 unlisted options exercisable at \$0.30 each on or before 30 November 2018, with the fair value per share being the IPO price of \$0.20 each.

**18 BUSINESS COMBINATION**

On 5 May 2017, the Company acquired the business and business assets of McArthur Skincare. The acquisition provides the Group with an established product formula which will augment the Company's current activities and future progress.

	<b>Year Ended 30 Jun 2017</b>
	<b>\$</b>
Business combination	
Fair value of share issued (3,000,000 shares at \$0.185)	555,000
Cash paid and payable	622,716
- Total purchase consideration	<u>1,177,716</u>
The fair value of assets and liabilities recognised as a result of the acquisition are as follows:	
Website development asset	19,000
Product formulation and technology intangible	876,038
Inventory	282,679
Net identifiable assets acquired	<u>1,177,716</u>
Fair value of net assets acquired	<u>1,177,716</u>
Outflow of cash from the acquisition of subsidiaries, net of cash required	
Purchase consideration	416,869
Less: Balance required	<u>-</u>
	<u>416,869</u>
Amount payable as at 30 June 2017	<u>(205,847)</u>

Acquisition-related costs have all been included in the administration and consulting expenses in the profit or loss. The contribution of the acquisition for the period from 5 May to 30 June was a profit of \$16,869 with revenues of \$77,227 for the same period.

The fair value of the assets has been determined using the wholesale selling price for finished goods less costs to sell, the intangible software at the market price of development and the intangible assets at the residual value.

The fair value of shares issued as purchase consideration is based upon the price as at the acquisition date.

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**19 FINALISATION OF PROVISIONAL ACCOUNTING FOR BUSINESS COMBINATION**

	Year Ended 30 Jun 2017 \$	Increase / (decrease)	Year Ended 30 Jun 2017 \$
<b>Statement of Financial Position</b>			
Inventories	422,820	(149,910)	272,910
Intangible assets	9,510,353	171,388	9,681,740
<b>Net Assets</b>	<b>10,928,826</b>	<b>21,478</b>	<b>10,950,304</b>
<b>Accumulated losses</b>	<b>(2,221,984)</b>	<b>21,478</b>	<b>(2,200,506)</b>
<b>Statement of Profit or loss</b>			
Cost of sales	(196,219)	22,555	(173,664)
Amortisation	(139,330)	(1,077)	(140,407)
<b>Loss before income tax</b>	<b>(1,619,082)</b>	<b>21,478</b>	<b>(1,597,604)</b>

**(a) Explanation**

During the year the Company undertook a review of the stock that was acquired from the previous owners of McArthur as part of the business combination. The review highlighted that the stock cost values previously assessed were considerably higher than the actual costs of generating the items. The Company then reviewed the entire stock valuation model and this resulted in an adjustment to the business combination workings in note 19.

**20 KEY MANAGEMENT PERSONNEL**

	Year Ended 30 Jun 2018 \$	Year Ended 30 Jun 2017 \$
Short term	681,333	450,705
Post employment benefits	-	-
Share based payments	56,243	-
	<b>738,076</b>	<b>450,705</b>

Detailed remuneration disclosures are provided in the remuneration report within the directors' report.

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**21 RELATED PARTY TRANSACTIONS**

The Group may enter into agreements for services rendered with individuals (or an entity that is associated with the individuals) during the ordinary course of business.

A number of entities associated with the directors and select technical staff have consulting agreements in place which have resulted in transactions between the Group and those entities during the year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

		Transaction Value		Outstanding Balance	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
		\$	\$	\$	\$
<b>Director</b>	<b>Transaction</b>				
Peter Malone	IPO placement fee (i)	-	28,926	-	-
Luke Martino	Corporate advisory services (ii)	223,283	237,778	67,201	68,781
	IPO placement fee (ii)	-	1,650	-	1,650
<b>Technical personnel</b>					
Craig Piercy	Office facilities (iii)	23,000	24,000	-	2,300
	IPO placement fee (iv)	-	17,357	-	-

(i) A company of which Mr Malone is a Director, Empire Services Pty Ltd, provided IPO services in relation to assisting with placements during the IPO process.

(ii) A company associated with Mr Martino, Indian Ocean Advisory Group, to which Mr Martino is one of the directors, provided professional accounting (over the two years) and IPO corporate advisory services in the prior period. In addition, the Company settled part of the current year amounts by the issue of 500,000 shares with a fair value of \$100,000. In the prior period the Company paid LJM Corporate Capital Pty Ltd, a company associated with Mr Martino a placement fee of \$1,650.

(iii) A company of which Mr Piercy is a Director, Boston Corporate Pty Ltd, provides consulting services in connection with the operations of the Company in addition to provision of office facilities to the Company.

(iv) A company of which Mr Piercy is a Director, Equities Services Pty Ltd, provided IPO services in relation to assisting with placements during the IPO process.

**Convertible notes**

During the year the Company extinguished borrowings by way of issuing convertible notes. The following transactions occurred with related parties during the period:

	Balance at the start of the year	Amount of notes issued	Amounts extinguished	Closing balance	Fair Value
	\$	\$	\$	\$	
2017/18					
Boston Corporate Pty Ltd	-	77,718	-	77,718	106,162
LJM Capital Corporation Pty Ltd	-	60,500	-	60,500	82,644
Colosseum Securities Pty Ltd		7,150		7,150	9,767
Essential Property Pty Ltd	-	29,145	-	29,145	39,812
	-	174,513	-	174,513	238,385

The Company fair valued the notes at \$238,385 with the inputs and methodology disclosed in Note 14.

**SKIN ELEMENTS LIMITED**  
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The Group also obtained funding from entities and associates of three executives of the Company during the year:

	As at 30 June 2018	As at 30 June 2017
	\$	\$
Borrowings		
Loans – related parties	-	44,201
	-	44,201

The Group also obtained funding from entities and associates of three executives of the Company during the year:

	As at 30 June 2018	As at 30 June 2017
	\$	\$
Movements in related party loans		
Opening balance	44,201	44,611
Amounts borrowed	62,662	593,091
Amounts repaid	-	(593,501)
Conversion of debt to notes (refer above)	(106,863)	-
Closing balance	-	44,201

For the terms and conditions, refer to note 14 above.

In addition to the transactions above, in the prior year (2017) the Company entered into a share sale agreement with shareholders of SE Operations Pty Ltd (SEO) to swap their securities for securities in Skin Elements Limited (SEL). This included certain related parties or associated entities and the details are listed below.

	No. of shares in SEO	No. of options in SEO	No. of shares in SEL	No. of Listed Options in SEL (i)	No. of Unlisted Options in SEL (ii)
<b>Director / Technical personnel</b>					
Peter Malone	40,523,123	20,225,560	10,130,781	5,065,390	5,065,390
Luke Martino	5,000,000	2,500,000	1,250,000	625,000	625,000
Craig Piercy	18,181,310	9,140,648	4,570,325	2,285,162	2,285,162

(i) Listed options exercisable at \$0.20 each on or before 31 October 2018.

(ii) Unlisted options exercisable at \$0.30 each on or before 30 November 2018.

The shares and options in SEL are subject to a 2 year escrow period.

**SKIN ELEMENTS LIMITED**  
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**22 FINANCIAL RISK MANAGEMENT**

*General*

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit or loss information has been included where relevant to add further context

The Groups financial instruments consist mainly of bank deposit accounts, trade accounts receivable, other amounts receivable, trade accounts payable, and other payable including amounts payable to related parties. The totals for each category of financial instrument, measured in accordance with AASB139 Financial Instruments Recognition and Measurement as detailed in the accounting policies are as follows:

	As at 30 June 2018	As at 30 June 2017
	\$	\$
<b>Categories of financial instruments</b>		
<b>Financial assets</b>		
Cash and cash equivalents	195,661	1,407,153
Trade and other receivables	36,509	49,034
	232,170	1,456,187
<b>Financial liabilities</b>		
Trade payables and other	(810,386)	(698,238)
	(810,386)	(698,238)

*Financial Risk Management Policies*

The Boards overall risk management strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board on a regular basis. These include the credit risk policies and future cash flow requirements. Senior executives meet on a regular basis to analyse financial risk exposure in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance.

*Specific Financial Risk Exposures and Management*

The main risk of the Company is exposed to, through its financial instruments, are credit risk, liquidity risk, and market risk relating to interest rate risk and other price risk. There have been no substantive changes in the types of risks the Company is exposed to, how these risks arise, or the Boards objectives, policies and processes for managing or measuring the risks from the previous period.

**SKIN ELEMENTS LIMITED**  
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**22 FINANCIAL RISK MANAGEMENT (CONT'D)**

*Credit Risk*

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company. The Company's objective in managing credit risk is to minimise the credit losses incurred, mainly on trade and other receivables. Credit risk is managed through maintaining procedures that ensure, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness and their financial stability is monitored and assessed on a regular basis. Such monitoring is used in assessing receivables for impairment. Credit terms for normal sales income are generally 30 days from the day of invoice. For sales with longer settlements, terms are specified in the individual client contracts. The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets as presented in the statement of financial position. The Company has no significant concentrations of credit risk with any single counterparty or group of counterparties. Details with respect to credit risk of trade and other receivables are provided in note 5. Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. All cash and cash equivalents are held with large reputable financial institutions within Australia and therefore credit risk is considered minimal.

*Liquidity Risk*

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company is not currently exposed to any significant liquidity risk on the basis that the realisable value of financial assets is significantly greater than the financial liabilities due for settlement after the receipt of cash from the capital raising in August 2018. The Company manages its liquidity risk through the following mechanisms: preparing forward looking cash flow analysis in relation to its operating, investing and financing activities; maintaining a reputable credit profile; managing credit risk related to financial assets; only investing surplus cash with major financial institutions; and comparing the maturity profile of financial liabilities with the realisation profile of financial assets. Cash flows realised from financial liabilities reflect management's expectation as to the timing of realisation timing may therefore differ from that disclosed.

<b>Contractual maturities of financial liabilities</b>	<b>Less than 6 months</b>	<b>6 – 12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Total contractual cash flows</b>	<b>Carrying Amount (assets)/ liabilities</b>
<b>At 30 June 2018</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade payables	(810,386)				(810,386)	(810,386)
	(810,386)				(810,386)	(810,386)
<b>At 30 June 2017</b>						
Trade payables	(698,238)	-	-	-	(698,238)	(698,238)
	(698,238)	-	-	-	(698,238)	(698,238)

*Market Risk*

The Company has minimal exposure to foreign exchange risk or interest rate risk.

**SKIN ELEMENTS LIMITED**  
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**22 FINANCIAL RISK MANAGEMENT (CONT'D)**

*Capital Management*

The Groups objectives when managing capital are to:

- i. Safeguard their ability to continuing as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- ii. Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure the Group may issue new shares or obtain additional borrowing facilities. The group monitors capital based on the assessment of the working capital requirements and net cash available on a monthly basis. The 30 June net cash available calculation is set out below:

	<b>As at 30 June 2018</b>	<b>RESTATED As at 30 June 2017</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	195,661	1,407,153
Trade and other receivables	82,567	48,657
Inventories	191,255	272,910
Research and development receivable	450,181	196,584
	<u>919,664</u>	<u>1,925,304</u>
Trade and other payables	(810,386)	(737,586)
Working capital available	<u>109,278</u>	<u>1,182,865</u>

*Fair value estimation*

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes. The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values as the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

*Financial Instruments Measured at Fair Value*

The Company does not currently have a significant fair value issues with regard to level 1 (active market for the financial instruments, level 2 (not traded in an active market) or level 3 (significant inputs is not based on observable market data) as the fair value estimates relate trade payables and receivables.

The Company considers capital to include, share capital, loans and borrowings and convertible notes.

**SKIN ELEMENTS LIMITED**  
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	Year Ended 30 Jun 2018	Year Ended 30 Jun 2017
	\$	\$
<b>23 COMMITMENTS</b>		
The Group has entered into commercial leases on office premises at 32 Ord Street. The lease runs for three years on commercial terms and the Company pre-paid the initial one year's rent. The remaining commitments are below.		
Within one year	103,000	103,000
After one year but not more than five years	85,833	103,000
More than five years	-	-
	<u>188,833</u>	<u>206,000</u>
<b>24 PARENT ENTITY DISCLOSURE</b>		
	As at 30 June 2018	As at 30 June 2017
	\$	\$
<b>Financial position</b>		
Assets		
Current assets	2,807,137	2,955,354
Non-current assets	7,112,813	11,000,000
<b>Total assets</b>	<u>9,919,950</u>	<u>13,955,354</u>
Liabilities		
Current liabilities	(430,908)	(444,310)
Non-current liabilities	-	-
<b>Total liabilities</b>	<u>(430,908)</u>	<u>(444,310)</u>
Equity		
Issued capital	15,433,333	14,833,006
Reserves	738,341	116,816
Accumulated losses	(6,682,632)	(1,438,778)
<b>Total equity</b>	<u>9,489,042</u>	<u>13,511,044</u>
<b>Financial performance</b>		
	Year Ended 30 Jun 2018	Year Ended 30 Jun 2017
(Loss) for the year	(5,243,854)	(1,438,778)
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<u>(5,243,854)</u>	<u>(1,438,778)</u>

**25 SUBSIDIARIES**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c).

Name	Country of Incorporation	Class of share	2018 %	2017 %
SE Operations Pty Ltd	Australia	Ordinary shares	100	100



**SKIN ELEMENTS LIMITED**  
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	Year Ended 30 Jun 2018	Year Ended 30 Jun 2017
	\$	\$
<b>26 AUDITOR REMUNERATION</b>		
<i>Amounts received or due and receivable by BDO Audit (WA) Pty Ltd and its associated entities for:</i>		
<b>Assurance Services</b>		
An audit and review of the financial report for the Group	47,337	68,092
<b>Non- Assurance Services</b>		
Tax Compliance and advice	-	-
	47,337	68,092

**27 CONTINGENT LIABILITIES**

The directors are not aware of any contingent liabilities as at 30 June 2018.

**28 SUBSEQUENT EVENTS**

In the opinion of the directors, no items, transactions or events of a material and unusual nature have arisen in the interval between the end of the financial year and the date of this report which have been significantly affected the amount disclosed in the annual report other than:

- (i) In August 2018 the company completed a fully underwritten entitlement offer for existing shareholders issuing 43,026,519 ordinary shares and 10,756,630 options exercisable at \$0.10 each on or before 31/12/2020, raising \$1,075,663 cash.

## **DIRECTORS' DECLARATION**

In the opinion of the directors of Skin Elements Limited:

- (a) the financial statements and notes set out on pages 21 to 55 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 2018 and of its performance for the year then ended; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and other mandatory professional reporting requirements;
- (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) the consolidated financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
- (d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

This declaration is signed in accordance with a resolution of the board of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Peter Malone  
Executive Chairman

Dated at Perth, Western Australia this 28<sup>th</sup> day of September 2018.

## INDEPENDENT AUDITOR'S REPORT

To the members of Skin Elements Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Skin Elements Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainty related to going concern

We draw attention to Note 1(c) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

## Key audit matter

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.

## Carrying Value of Intangible Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in note 9 of the financial report, technology and formula intangible assets in relation to Soleo Organics, McArthur and Elizabeth Jane have been recognised at 30 June 2018.</p> <p>As disclosed in accounting policy 1(m) the Group assesses at each reporting date whether there is an indication that an asset may be impaired.</p> <p>The carrying value of these intangible assets is a key audit matter as the Group uses judgement to determine the recoverable amount of these assets.</p> <p>As disclosed in note 1(f) of the financial report there is significant management judgement involved in management's assessment of the recoverable amount of these intangible assets at 30 June 2018. These estimates center on the timing and quantum of future cash flows.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Obtaining evidence to support key inputs used in the discounted cash flow calculations including the following: <ul style="list-style-type: none"> <li>○ Forecasted sales growth rates attributed to product development plans and new sales channels and customers;</li> <li>○ In conjunction with our valuation specialist, comparing the discount rate utilised by management to an independently calculated discount rate;</li> </ul> </li> <li>• Performing sensitivity analysis on the revenue, growth rates, gross profit margins and discount rates; and</li> <li>• Evaluating the adequacy of the related disclosures in notes 1(f), 1(m) and 9 of the financial report.</li> </ul>



### **Other information**

The directors are responsible for the other information. The other information comprises the information contained in Directors' report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

### **Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 this 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 (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf)



This description forms part of our auditor's report.

## **Report on the Remuneration Report**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 8 to 17 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Skin Elements Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

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

**BDO Audit (WA) Pty Ltd**

A handwritten signature in black ink, appearing to read 'Wayne Basford', is written over a faint, stylized 'BDO' logo.

**Wayne Basford**

**Director**

Perth, 28 September 2018

## ADDITIONAL INFORMATION

### ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

#### Fully paid ordinary shares

##### Substantial Shareholder Information as at 24 September 2018

Shareholder Name	Securities	%
Sovereign Empire Pty Ltd	15,196,172	11.77
Lawley Group Pty Ltd	9,112,572	7.06
Sovereign Equities Pty Ltd	6,855,488	5.31

#### Listed Options exercisable at \$0.20 on or before 31 October 2018

##### Holder of 5% or more Options expiry 31 October 2018 as at 24 September 2018

Options Holder Name	Securities	%
Sovereign Empire Pty Ltd	5,065,390	13.06
Lawley Group Pty Ltd	4,037,524	10.41
Sunadvance Group Limited	2,500,125	6.45
Willpower Trading Limited	2,500,125	6.45
Sovereign Equities Pty Ltd	2,285,161	5.89
Top Oceania International Limited	2,237,500	5.77

#### Unlisted options exercisable at \$0.30 on or before 31 October 2018

##### Holder of 5% or more Unlisted options expiry 31 October 2019 as at 24 September 2018

Options Holder Name	Securities	%
Sovereign Empire Pty Ltd	5,065,390	13.06
Lawley Group Pty Ltd	4,037,424	10.41
Sunadvance Group Limited	2,500,125	6.45
Willpower Trading Limited	2,500,125	6.45
Sovereign Equities Pty Ltd	2,285,161	5.89

#### Listed options exercisable at \$0.10 on or before 31 December 2020

##### Holder of 5% or more listed options expiry 31 December 2020 as at 24 September 2018

Options Holder Name	Securities	%
Sovereign Empire Pty Ltd	1,266,348	10.33
Braunii Pty Ltd	1,122,500	9.16
Blackridge Group Pty Ltd	750,000	6.12

## ADDITIONAL INFORMATION

### ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

#### Fully paid ordinary shares

##### Distribution of Shareholders as at 24 September 2018

Spread of Holdings	Holders	Securities
NIL holding	-	-
1 - 1,000	6	1,240
1,001 - 5,000	30	117,048
5,001 - 10,000	112	1,087,688
10,001 - 100,000	168	7,154,860
100,001 - 9,999,999	145	120,718,684
	461	129,079,520

#### Listed Options exercisable at \$0.20 on or before 31 October 2018

##### Distribution of Options holders as at 24 September 2018

Spread of Holdings	Holders	Securities
NIL holding	-	-
1 - 1,000	1	50
1,001 - 5,000	177	863,700
5,001 - 10,000	55	501,611
10,001 - 100,000	110	4,654,104
100,001 - 9,999,999	61	32,755,535
	404	38,775,000

#### Unlisted options exercisable at \$0.30 on or before 31 October 2018

##### Distribution of Unlisted options holders as at 24 September 2018

Spread of Holdings	Holders	Securities
NIL holding	-	-
1 - 1,000	-	-
1,001 - 5,000	7	16,250
5,001 - 10,000	6	44,111
10,001 - 100,000	53	1,984,104
100,001 - 9,999,999	45	25,455,535
	111	27,500,000

#### Listed Options exercisable at \$0.10 on or before 31 December 2020

##### Distribution of Options holders as at 24 September 2018

Spread of Holdings	Holders	Securities
NIL holding	-	-
1 - 1,000	9	4,577
1,001 - 5,000	34	90,102
5,001 - 10,000	22	166,658
10,001 - 100,000	51	2,240,114
100,001 - 9,999,999	30	9,755,179
	146	12,256,630



## ADDITIONAL INFORMATION

### ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

#### Fully paid ordinary shares

##### Top Twenty Shareholders as at 24 September 2018

1	SOVEREIGN EMPIRE PTY LTD	15,196,172	11.77
2	LAWLEY GROUP PTY LTD	9,112,572	7.06
3	SOVEREIGN EQUITIES PTY LTD	6,855,488	5.31
4	SUNADVANCE GROUP LIMITED	5,000,250	3.87
4	WILLPOWER TRADING LIMITED	5,000,250	3.87
5	BRAUNII PTY LTD	4,490,000	3.48
6	TOP OCEANIA INTERNATIONAL LIMITED	4,475,000	3.47
7	TOM MCARTHUR PTY LTD	3,000,000	2.32
7	BLACKRIDGE GROUP PTY LTD	3,000,000	2.32
8	CLARE MALONE	2,250,000	1.74
9	THORNBURY NOMINEES PTY LTD	2,100,000	1.63
10	UNION PACIFIC INVESTMENTS PTY LIMITED	2,086,000	1.62
11	MR STEVEN PANOMARENKO	2,075,000	1.61
12	LJM CAPITAL CORPORATION PTY LTD	1,875,000	1.45
13	ROBIN ARMSTRONG	1,800,000	1.39
14	MR MORRIS ALAN LEVITZKE	1,500,000	1.16
15	MR GEORGE ADAM MITCHELL TENNENT	1,416,250	1.10
16	HEKIMA PTY LTD	1,333,333	1.03
17	MR ANDREW ROSS TAYLOR	1,301,200	1.01
18	MR HARSHVARDHAN SUKHATME	1,184,421	0.92
19	MR JAMES OWEN MOSES	1,153,000	0.89
20	CHENG GU	1,140,000	0.88
<b>Total</b>		<b>77,343,936</b>	<b>59.92</b>
<b>Balance of register</b>		<b>51,735,584</b>	<b>40.08</b>
<b>Grand total</b>		<b>129,079,520</b>	<b>100.00</b>

The shares carry the right to one vote for each ordinary share held

#### Unmarketable parcels

The number of shareholders with Holdings less than a marketable parcel of ordinary shares as at 24 September 2018 was 173, holding 1,565,922 shares.

#### Restricted Securities

There are no restricted voting rights attaching to ordinary shares.

#### On-Market Buy Back

There is no current on-market buy-back.

## ADDITIONAL INFORMATION

### ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

Listed Options exercisable at \$0.20 on or before 31 October 2018

#### Top Twenty Options Holders as at 24 September 2018

1	SOVEREIGN EMPIRE PTY LTD	5,065,390	13.06
2	LAWLEY GROUP PTY LTD	4,037,524	10.41
3	SUNADVANCE GROUP LIMITED	2,500,125	6.45
3	WILLPOWER TRADING LIMITED	2,500,125	6.45
4	SOVEREIGN EQUITIES PTY LTD	2,285,161	5.89
5	TOP OCEANIA INTERNATIONAL LIMITED	2,237,500	5.77
6	INDIAN OCEAN CORPORATE PTY LTD	1,000,000	2.58
7	CLARE MALONE	750,000	1.93
7	AUSTRALIAN EXECUTOR TRUSTEES LTD	750,000	1.93
8	HEKIMA PTY LTD	666,667	1.72
9	LJM CAPITAL CORPORATION PTY LTD	625,000	1.61
10	AUST EXECUTOR TRUSTEES LTD	575,000	1.48
11	CHENG GU	570,000	1.47
12	ALVARO SERVICES PTY LTD	500,000	1.29
13	CALIBRE CAPITAL INC.	437,500	1.13
14	CHRIS SMAILES & SHARON SMAILES	312,500	0.81
15	ROBIN ARMSTRONG	300,000	0.77
16	GUANGWEI FAN	250,000	0.64
16	MS JESSICA YUJIA MAO	250,000	0.64
16	MODOMIO PTY LTD	250,000	0.64
16	SALLY-ANNE MALONE	250,000	0.64
16	WHITE LINE CAPITAL PTY LTD	250,000	0.64
16	NEIL BOWIE & TERESE BOWIE	250,000	0.64
16	XAVIER MALONE	250,000	0.64
16	LAKEHOUSE INVESTMENTS PTY LTD	250,000	0.64
16	JO-ANNA MALONE	250,000	0.64
16	IMPACT NOMINEES PTY LTD	250,000	0.64
16	FRANK MALONE	250,000	0.64
16	DUNCAN MACLEAN	250,000	0.64
17	GEORGE TENNENT	243,750	0.63
18	KEITH FLYNN	230,626	0.59
19	BNP PARIBAS NOMINEES PTY LTD	225,000	0.58
20	GREGORACH PTY LTD	208,333	0.54
<b>Total</b>		<b>29,020,201</b>	<b>74.83</b>
<b>Balance of register</b>		<b>9,754,799</b>	<b>25.17</b>
<b>Grand total</b>		<b>38,775,000</b>	<b>100.00</b>

## ADDITIONAL INFORMATION

### ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

#### Unlisted options exercisable at \$0.30 on or before 31 October 2018

##### Top Twenty Unlisted options Holders as at 24 September 2018

1	SOVEREIGN EMPIRE PTY LTD	5,065,390	18.42
2	LAWLEY GROUP PTY LTD	4,037,524	14.68
3	SUNADVANCE GROUP LIMITED	2,500,125	9.09
3	WILLPOWER TRADING LIMITED	2,500,125	9.09
4	SOVEREIGN EQUITIES PTY LTD	2,285,161	8.31
5	CLARE MALONE	750,000	2.73
6	HEKIMA PTY LTD	666,667	2.42
7	LJM CAPITAL CORPORATION PTY LTD	625,000	2.27
8	CALIBRE CAPITAL INC.	437,500	1.59
9	CHRIS SMAILES & SHARON SMAILES	312,500	1.14
10	ROBIN ARMSTRONG	300,000	1.09
11	SALLY-ANNE MALONE	250,000	0.91
11	NEIL BOWIE & TERESE BOWIE	250,000	0.91
11	WHITE LINE CAPITAL PTY LTD	250,000	0.91
11	FRANK MALONE	250,000	0.91
11	LAKEHOUSE INVESTMENTS PTY LTD	250,000	0.91
11	JO-ANNA MALONE	250,000	0.91
11	IMPACT NOMINEES PTY LTD	250,000	0.91
11	DUNCAN MACLEAN	250,000	0.91
11	MODOMIO PTY LTD	250,000	0.91
11	XAVIER MALONE	250,000	0.91
12	GEORGE TENNENT	243,750	0.89
13	KEITH FLYNN	230,626	0.84
14	GREGORACH PTY LTD	208,333	0.76
15	VISSING HOLDINGS PTY LTD	175,000	0.64
16	JOHN DRISCOLL	156,250	0.57
16	PAUL NELSON	156,250	0.57
17	KOK INVESTMENTS PTY LTD	150,000	0.55
17	EMMANUEL STAMATIOU & GEORGETTE STAMATIOU	150,000	0.55
18	ALVARO SERVICES PTY LTD	145,000	0.53
19	FASTLINK HOLDINGS PTY LTD	143,750	0.52
20	DAVID ROBERT THORN	133,334	0.48
<b>Total</b>		<b>23,872,285</b>	<b>86.81</b>
<b>Balance of register</b>		<b>3,627,715</b>	<b>13.19</b>
<b>Grand total</b>		<b>27,500,000</b>	<b>100.00</b>

## ADDITIONAL INFORMATION

### ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

Listed Options exercisable at \$0.10 on or before 31 December 2020

#### Top Twenty Listed options Holders as at 24 September 2018

1	SOVEREIGN EMPIRE PTY LTD	1,266,348	10.33
2	BRAUNII PTY LTD	1,122,500	9.16
3	BLACKRIDGE GROUP PTY LTD	750,000	6.12
4	SOVEREIGN EQUITIES PTY LTD	571,286	4.66
5	MR STEVEN PANOMARENKO	506,250	4.13
6	THORNBURY NOMINEES PTY LTD	500,000	4.08
7	MR MORRIS ALAN LEVITZKE	400,000	3.26
8	ROBIN ARMSTRONG	300,000	2.45
9	LAWLEY GROUP PTY LTD	259,381	2.12
10	GLOUCESTER & PORTMAN CAPITAL PTY LTD	250,875	2.05
11	FIVE T CAPITAL PTY LTD	250,000	2.04
11	UNION PACIFIC INVESTMENTS PTY LTD	250,000	2.04
11	SEVENSPEED PTY LTD	250,000	2.04
11	NINETY THREE PTY LTD	250,000	2.04
11	LABANC PTY LTD	250,000	2.04
11	OMONDALI PTY LTD	250,000	2.04
11	MR ANDREW ROSS TAYLOR	250,000	2.04
12	CUMANI INVESTMENTS PTY LTD	246,938	2.01
13	JAMES OWEN MOSES	200,000	1.63
13	MR HARSHVARDHAN SUKHATME	200,000	1.63
14	CLARE MALONE	187,500	1.53
15	MR GEORGE ADAM MITCHELL TENNENT	184,688	1.51
16	LJM CAPITAL CORPORATION PTY LTD	156,250	1.27
17	MR ROBERT DAVID OSMOND HAINES & MRS AMANDA HAINES	150,000	1.22
17	MILA PTY LTD	150,000	1.22
17	CHANCERY HOLDINGS PTY LTD	150,000	1.22
18	KAVA HOLDING PTY LTD	128,125	1.05
19	MR KEVIN D'SOUZA	125,000	1.02
20	MR STACEY HUBERT CARTER	100,025	0.82
<b>Total</b>		<b>9,655,166</b>	<b>78.78</b>
<b>Balance of register</b>		<b>2,601,464</b>	<b>21.22</b>
<b>Grand total</b>		<b>12,256,630</b>	<b>100.00</b>