

# Novatti

## Half Year Update & Appendix 4D

26 February 2021



Novatti is a leading digital banking and payments company.

We provide the services that enable financial transactions to take place digitally, on any device, anywhere.

We do this by leveraging our world-class banking and payments platforms, extensive regulatory licences, and global commercial partnerships.



## PERFORMANCE HIGHLIGHTS

**\$7.35m**

Highest ever  
half-yearly sales  
revenue

**+49%**

Increase in  
half-yearly sales  
revenue  
year-on-year

**+59%**

Increase in half-yearly  
payment processing  
revenue year-on-year

**\$9m+**

Cash available at end  
of December half



ASX Announcement

26 February 2021

## Record half-year revenue as shift from development to monetisation accelerates

### Highlights

- New record half year sales revenue of \$7.35m, up 49% year-on-year, highlighting consistent, long term growth
- Core payment processing business delivers 59% growth year-on-year
- Novatti's digital banking and payments ecosystem established and leading to new business
- Results highlight accelerating shift from development to monetisation phase, unlocking further opportunities for revenue growth

**Novatti Group Limited (ASX:NOV) (Novatti or Company)**, a leading digital banking and payments company, is pleased to provide its half-year update to December FY21.

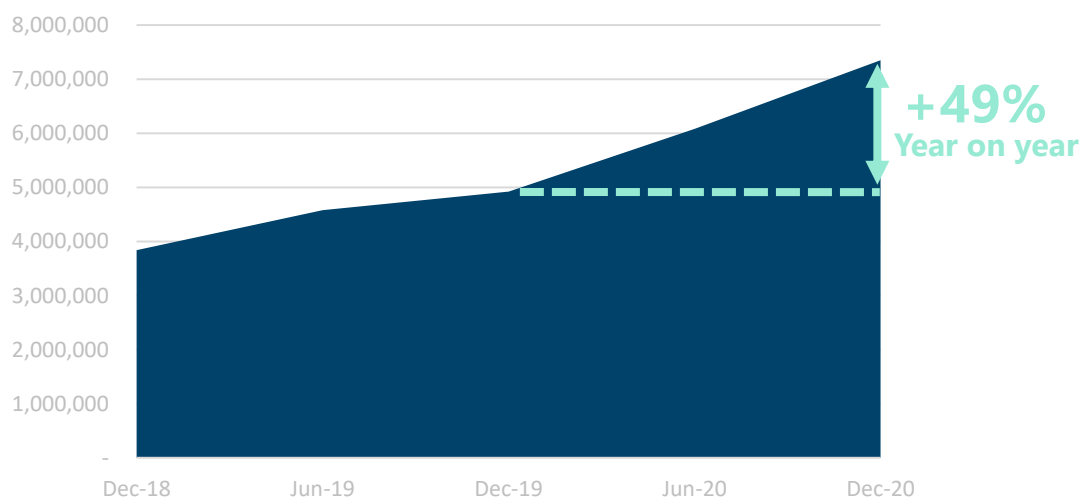
### Financial

#### Revenue

The December FY21 half saw Novatti achieve back-to-back quarters of record sales revenue, with \$3.56m in the September quarter and \$3.79m for the December quarter.

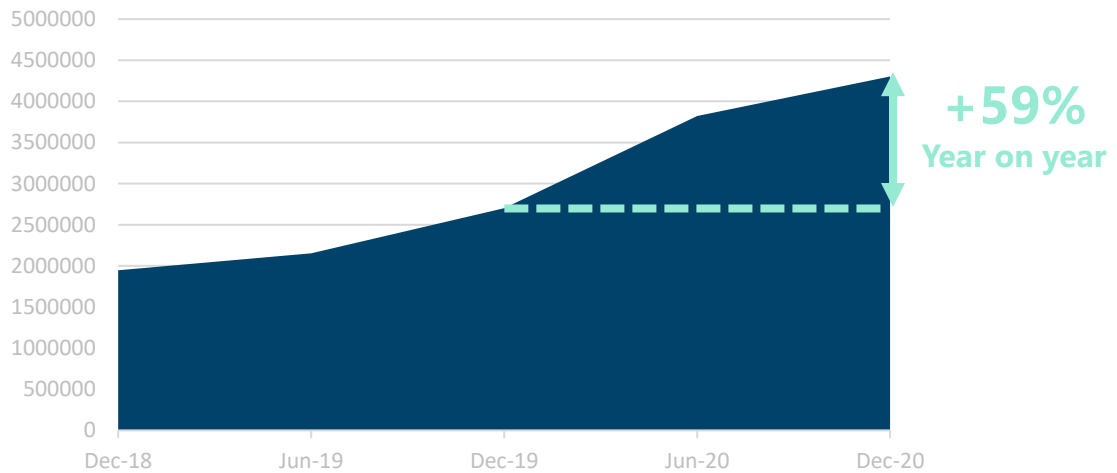
This resulted in Novatti's largest-ever half-year sales revenue at \$7.35m, 21% higher than the previous half and more than 49% higher year-on-year.

### Half Year Sales Revenue



Novatti's core payments processing business delivered \$4.3 million of half year sales revenue, an increase of 12.5% on the previous half and more than 59% year-on-year.

## Half Year Processing Revenue

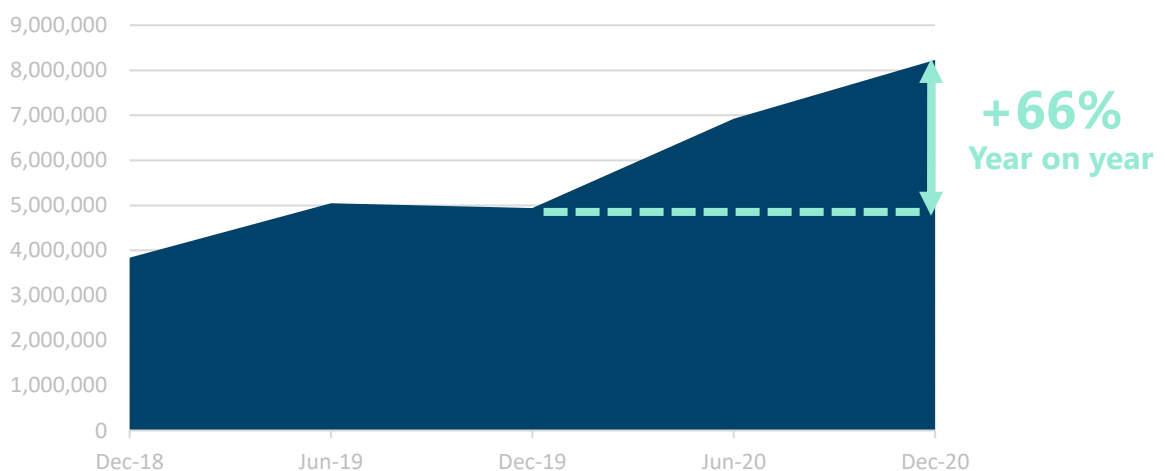


These strong results again highlight Novatti's ability to deliver consistent, long-term growth, leveraging an increasing underlying business.

Importantly, following Novatti's strategy of developing a digital banking and payments ecosystem and scalable platforms in the past years, Novatti is also seeing strong growth from its newer businesses that have been developed within this ecosystem. For example, Novatti's Visa Prepaid card issuing business delivered half year revenue of more than \$260,000, having only launched in April 2020. This also highlights Novatti's accelerating shift from a development to a monetisation phase across its digital banking and payments platforms.

Total half-year revenue (including all sources) also exceeded \$8.2m, a 66% increase year-on-year.

## Half Year Total Revenue



## Cash flow

The December FY21 half saw Novatti complete a \$10.2 million capital raising, with a view to deploying this capital to accelerate Novatti's growth strategy.<sup>1</sup>

During the half, Novatti utilised some of these funds to undertake growth activities, including:

- Expanding the team, including:
  - New employees for Emersion
  - Expansion of the executive team to include additional senior payments specialists in Issuing, Acquiring and Cross Border Payments
  - Ancillary support services to manage accelerated growth
- Building blocks of international expansion, including:
  - Application fees for new licences
  - Legal fees for international agreements
  - Increased software development

Novatti's current growth strategy remains fully-funded as the Company continued to hold more than \$9.1m in cash at the end of the December half.

Importantly, despite accelerating its growth strategy, Novatti's half-year underlying EBITDA strengthened significantly to -\$748,525, a 56% improvement on the previous half. This result again highlights Novatti's accelerating shift from a development to a monetisation phase across its digital banking and payments platforms.

Going forward, Novatti will continue to direct its cashflow towards accelerating its growth strategy.

## Operations

The December half saw a number of operational highlights for Novatti as it continues to accelerate its growth strategy and develop its digital banking and payments ecosystem. The flexibility of this ecosystem will be a key feature in enabling Novatti's platforms to rapidly scale going forward.

### Developing Novatti's digital banking and payments ecosystem

The core pillars of Novatti's digital banking and payments ecosystem are its technology, licences and partnerships, which together provide the platform for future growth. During the December half, Novatti continued to further strengthen this platform, particularly with new licences and partnerships:

<sup>1</sup> Novatti ASX Announcement – *Next growth phase funded with \$10.2m capital raising* – 29 June 2020

## Licences

Novatti was awarded regulatory approval for 'issuing and managing means of payment' in New Zealand, the necessary regulatory step prior to Novatti launching any card issuing services in New Zealand.<sup>2</sup> After the completion of the half, Novatti also announced that it has now been licenced by Visa to issue prepaid cards in that market.

This marked an expansion of Novatti's existing partnership with Visa, after being awarded a Principal Issuer Licence in Australia in September 2019.<sup>3</sup>

As a first step, this new licence in New Zealand will enable Novatti to provide complementary services to its existing global customers with a presence there, while also capitalising on the deep relationships that already exist through Novatti's subsidiary company, Emersion.

## Partnerships

Partnering with tier-one global players provides flexibility to Novatti's clients and enables Novatti's platforms to scale quickly to capture customer share.

Across the half, and as previously announced to the ASX, Novatti secured a number of new, tier-one partnerships to further this strategy, including:

- Google Pay and Samsung Pay: These partnerships see Novatti's Visa Prepaid cards now supported by both platforms, enabling Novatti's users to make online payments as well as contactless in-store payments by tapping their devices through the Google Pay and Samsung Pay platforms.<sup>4</sup>
- UnionPay International: The partnership with UnionPay will drive growth in Novatti's core payment processing business, with Novatti appointed as a UnionPay acquirer, providing UnionPay customers with access to Novatti's merchant and transaction services across Australia.<sup>5</sup> UnionPay has more than 8.4b cards issued globally and a network spanning 179 countries and regions, highlighting its immense scale.<sup>6</sup>
- Ripple: Novatti formed a major new partnership with global payments disrupter, Ripple, to target the rapidly growing South-East Asia region.<sup>7</sup> This will see Novatti's customers gaining access to the hundreds of financial institutions that Ripple already works with, including high-profile names such as American Express and MoneyGram.<sup>8</sup> Plans are also underway to further expand the partnership to see Novatti process Ripple's broader cross-border payments into Australia, creating a new potential revenue source for Novatti's core payments processing business.
- Apple Pay: After the completion of the December half, Novatti announced that its Visa Prepaid cards are now supported by Apple Pay.<sup>9</sup> This will enable Novatti's clients to use Apple's global payments platform,

<sup>2</sup> Novatti ASX Announcement – *New licence paves the way for New Zealand expansion* – 2 October 2020

<sup>3</sup> Novatti ASX Announcement – *Novatti achieves Visa Principal Status* – 9 September 2019

<sup>4</sup> Novatti ASX Announcement – *Partnering with Google Pay and Samsung Pay for Visa Prepaid Cards* – 2 November 2020

<sup>5</sup> Novatti ASX Announcement – *UnionPay merchant acquiring partnership* – 23 November 2020

<sup>6</sup> UnionPay International - <https://www.unionpayintl.com/en/aboutUs/companyProfile/introductiontoUPI/> & <https://m.unionpayintl.com/wap/en/mediaCenter/newsCenter/marketUpdate/7157.shtml>

<sup>7</sup> Novatti ASX Announcement – *Ripple partnership to fast-track growth in South-East Asia* – 7 December 2020

<sup>8</sup> Ripple - <https://ripple.com/customers/#>

<sup>9</sup> Novatti ASX Announcement – *Novatti's Visa Prepaid cards now supported by Apple Pay* – 22 January 2021



Apple Pay, to make purchases in store, in apps, and online using their Apple device, with their payment card stored conveniently and securely in Apple's Wallet.

## Leveraging Novatti's ecosystem to develop new business

Novatti is now experiencing an accelerating shift from a development to a monetisation phase, with its digital banking and payments ecosystem fostering the development of new business and revenue opportunities.

### Launch of new Digital Payments Accelerator

During the December half, Novatti launched its Digital Payments Accelerator as an extension of its Visa Issuing program, leveraging its existing Visa licence.<sup>10</sup>

This accelerator will meet the needs of:

- Startups and innovators looking to bring their innovative fintech and financial products to market through an affordable, API driven, Visa card payments program
- Established businesses needing access to an affordable, off-the-shelf, Visa payments solution to meet growing market demand for these facilities

Novatti will receive program development fees and ongoing processing fees based on transaction volumes for access to this program. Importantly, card accounts will be pre-funded by customers, alleviating Novatti from this funding obligation and credit risk.

After this launch, Novatti worked quickly to attract clients to the new program, with three new clients secured by the end of the half.<sup>11</sup>

### New banking business

During the half, Novatti continued to proactively work on the development of its new banking business, which remains a key part of Novatti's long-term growth strategy.

Novatti's strategy for this business is to leverage its digital banking and payments ecosystem, including its technology, licences, partnerships, and established customer base, to provide value-add to its existing businesses, with a long term aim to provide greater margins for Novatti's payment services.

Novatti remains in regular communication with the Australian Prudential Regulation Authority (APRA), whose latest guidance noted that it will be recommencing the issuing of banking licences for new operations, such as Novatti's, from March 2021.<sup>12</sup> As part of this updated guidance, APRA again advised that Novatti's application will continue to be assessed during this time, minimising any potential delays.

<sup>10</sup> Novatti ASX Announcement - *Digital-Payments Accelerator launched to meet increasing market demand* – 29 September 2020

<sup>11</sup> Novatti ASX Announcement – *End of 2020 business update* – 18 December 2020

<sup>12</sup> Novatti ASX Announcement – *Update on APRA bank licence issuing* – 11 August 2020



## Launch of Lifepay – innovative B2C fintech platform

After the completion of the half, Novatti announced the launch of Lifepay, a new, innovative fintech platform that again leverages Novatti's digital banking and payments ecosystem, while further extending Novatti's B2C reach.<sup>13</sup>

Lifepay's integrated financial platform enables users to manage their daily life transactions, personal and social finances simply and effectively from their mobile device. In doing so, it provides consumers with access to the latest technology in banking and payments.

Lifepay is currently conducting a soft launch for up to 200 consumers, with a full commercial launch planned for early March 2021.

Novatti is a major shareholder in Lifepay Pty Ltd, holding 25% of its shares prior to the Series A funding. Lifepay has now secured a Series A investment of up to \$2.5m at a pre-money valuation of \$20.5m, implying a valuation of \$5.125m for Novatti's shareholding.

In addition to benefiting as a shareholder from future growth in the platform, Novatti will also earn fees from activity on the Lifepay platform, including compliance services, cross border payments, payment acquiring, and the issuing of Visa Prepaid cards, depending on take up of the service. Lifepay will also act as a channel partner for other Novatti products and services and as a potential customer acquisition channel for Novatti's banking business, with its application for a restricted banking licence currently being assessed by the Australian Prudential Regulation Authority (APRA).<sup>14</sup>

## Quotes attributable to Managing Director, Peter Cook:

"Novatti delivered another record half to December, with sales revenue of \$7.35m representing an increase of 49% year-on-year. Importantly, these record results continue to highlight Novatti's ability to deliver consistent, long-term growth.

"We are particularly excited to see Novatti's accelerating shift from a development to a monetisation phase, following its strategy of developing a digital banking and payments ecosystem that enables its existing platforms to scale quickly while also attracting new business. This has seen two innovative new businesses, in Novatti's Digital Payments Accelerator and more recently Lifepay, tapping into Novatti's ecosystem and leveraging our existing technology, licences, and partnerships to get to market quickly.

"Importantly, Novatti's growth continues to be supported by the strength of its underlying payments processing business, which again delivered record results across the half. This business provides a strong platform for Novatti to continue to accelerate its growth strategy across 2021."

<sup>13</sup> Novatti ASX Announcement – *Lifepay taps into Novatti's ecosystem to launch new B2C fintech platform* – 24 February 2021

<sup>14</sup> Novatti ASX Announcement – *Update on APRA banking licence issuing* – 11 August 2020

Novatti invites investors to keep up to date with company news, events and industry research by joining the Novatti mailing list at: <https://www.novattigroup.com/subscribe>

For further information, contact:

Peter Cook  
Managing Director  
Novatti Group Limited  
[peter.cook@novatti.com](mailto:peter.cook@novatti.com)  
+61 411 111 153

This announcement has been approved for release to the ASX by Peter Cook, Managing Director.

## About Novatti Group Limited (ASX:NOV)

Novatti is a leading digital banking and payments company. Its fintech, billing, and business automation platforms make payments fast, simple, and secure. Payments services include card issuing, merchant acquiring, payment processing and settlements, and enable our customers to thrive as we shift to a cashless economy. Novatti holds all necessary regulatory licences and registrations, including an Australian Financial Services Licence (No 448066) through its subsidiary Flexewallet Pty Ltd, registration in New Zealand as a Financial Services Provider (FSP613789) through subsidiary Flexewallet (NZ) Limited, is registered with AUSTRAC as a Remittance Network Provider, and has applied to APRA for a restricted banking licence through its subsidiary Novatti IBA Pty Ltd.

**Novatti Group Limited**  
**Appendix 4D**  
**Half-year report**

**1. Company details**

Name of entity:	Novatti Group Limited
ACN:	606 556 183
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

**2. Results for announcement to the market**

			\$
Revenues from ordinary activities	up	49.3% to	7,350,147
Underlying EBITDA*	up	56.4% to	(748,525)
Loss from ordinary activities after tax attributable to the owners of Novatti Group Limited	down	53.8% to	(3,119,314)
Loss for the half-year attributable to the owners of Novatti Group Limited	down	53.8% to	(3,119,314)

*Dividends*

There were no dividends paid, recommended or declared during the current financial period.

*Comments*

The loss for the consolidated entity after providing for income tax amounted to \$3,119,314 (31 December 2019: \$6,752,841).

Despite the challenges of COVID-19, the Group's revenue increased by 49% to \$7,350,147 (31 December 2019: \$4,923,036). The underlying EBITDA\* improved by 56% to (\$748,525) compared to the corresponding half year of \$1,716,825 loss.

During the financial half year, the Group successfully raised \$10 million (before costs) through a placement to institutional and sophisticated investors. The net asset position improved by \$8,260,663 to \$7,775,100 as at 31 December 2020 (30 June 2020: deficit of \$485,563), with \$9,152,012 held in cash and cash equivalents.

\*Underlying EBITDA is a non-IFRS measure calculated as profit before income tax, and before depreciation and amortisation, share based payments, net finance costs, due diligence costs, gain on embedded derivative and impairment of capitalised bank licensing costs.

**3. Net tangible assets**

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	1.12	(3.34)

**4. Control gained over entities**

Not applicable.

## 5. Loss of control over entities

Not applicable.

## 6. Dividends

### *Current period*

There were no dividends paid, recommended or declared during the current financial period.

### *Previous period*

There were no dividends paid, recommended or declared during the previous financial period.

## 7. Dividend reinvestment plans

Not applicable.

## 8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
High Impact	50.00%	50.00%	-	-
ATX Malaysia	50.00%	50.00%	5,247	3,737
Lifepay	25.00%	-	-	-
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			5,247	3,737

## 9. Foreign entities

*Details of origin of accounting standards used in compiling the report:*

Not applicable.

## 10. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.



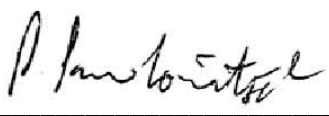
**11. Attachments**

*Details of attachments (if any):*

The Interim Report of Novatti Group Limited for the half-year ended 31 December 2020 is attached.

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**12. Signed**

Signed 

Date: 26 February 2021

Peter Pawlowitsch  
Chairman  
Melbourne

# **Novatti Group Limited**

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**Novatti Group Limited**  
**Corporate directory**  
**31 December 2020**

**Directors**

Peter Pawlowitsch (Non-Executive Chairman)  
Peter Cook (Managing Director and Chief Executive Officer)  
Kenneth Lai (Non-Executive Director)  
Paul Burton (Non-Executive Director)  
Steven Zhou (Non-Executive Director)

**Company secretary**

Ian Hobson

**Registered office and principal  
place of business**

Level 3  
461 Bourke Street  
Melbourne VIC 3000  
+61 3 9011 8490

**Share register**

Automic Registry Services  
267 St Georges Terrace  
Perth WA 6000  
+61 8 9324 2099

**Auditor**

William Buck  
Level 20  
181 William Street  
Melbourne VIC 3000

**Solicitors**

Milcor Legal  
Level 1  
6 Thelma Street  
West Perth WA 6005

**Bankers**

National Australia Bank  
Level 1  
330 Collins Street  
Melbourne VIC 3000

**Stock exchange listing**

Novatti Group Limited securities are listed on the Australian Securities Exchange  
(ASX code: NOV)

**Website**

[www.novattigroup.com](http://www.novattigroup.com)

**Australian Financial Services  
licence**

AFSL No.448066

**Financial Conduct Authority**

FCA No. 900631 as an appointed representative of CFS-ZIPP Ltd (FCA No. 900027)  
for issuance of e-money products

**Novatti Group Limited**  
**Directors' report**  
**31 December 2020**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'Group') consisting of Novatti Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

**Directors**

The following persons were directors of Novatti Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Peter Pawlowitsch (Non-Executive Chairman)  
 Peter Cook (Management Director and Chief Executive Officer)  
 Kenneth Lai (Non-Executive Director)  
 Paul Burton (Non-Executive Director)  
 Steven Zhou (Non-Executive Director)  
 Brandon Munro (Non-Executive Director) (resigned on 5 August 2020)

**Principal activities**

During the financial half year the principal continuing activities of the consolidated entity are the provision of payment services by way of financial transaction processing, subscriber billing, card issuing, merchant acquiring services and payment network integration.

**Dividends**

There were no dividends paid, recommended or declared during the current or previous financial half-year.

**Review of operations**

The loss for the consolidated entity after providing for income tax amounted to \$3,119,314 (31 December 2019: \$6,752,841).

Despite the challenges of COVID-19, the Group's revenue increased by 49% to \$7,350,147 (31 December 2019: \$4,923,036). The underlying EBITDA\* improved by 56% (\$748,525) compared to the corresponding half year of \$1,716,825 loss.

During the financial half year, the Group successfully raised \$10 million (before costs) through a placement to institutional and sophisticated investors. The net asset position improved by \$8,260,663 to \$7,775,100 as at 31 December 2020 (30 June 2020: deficit of \$485,563), with \$9,152,012 held in cash and cash equivalents.

	<b>31 December 2020 \$</b>	<b>31 December 2019 \$</b>	<b>Change \$</b>	<b>Change %</b>
<b>Net loss from operations</b>	<u>(3,119,314)</u>	<u>(6,752,841)</u>	<u>3,633,527</u>	<u>(54%)</u>
Less:				
Interest income	(23,067)	(13,113)	(9,954)	76%
Add back:				
Depreciation and amortisation	740,268	362,569	377,699	104%
Finance charges	709,680	596,265	113,415	19%
Indirect tax expenses	18,194	77,986	(59,792)	(77%)
<b>EBITDA</b>	<u>(1,674,239)</u>	<u>(5,729,134)</u>	<u>4,054,895</u>	<u>(71%)</u>
Vesting of share-based payments	1,716,682	1,275,198	441,484	35%
Due diligence costs	-	(125,000)	125,000	(100%)
Gain on embedded derivative	(790,968)	(148,145)	(642,823)	(434%)
Impairment of capitalised bank licensing costs	-	3,010,256	(3,010,256)	(100%)
<b>Underlying EBITDA*</b>	<u>(748,525)</u>	<u>(1,716,825)</u>	<u>968,300</u>	<u>(56%)</u>



- \* Underlying EBITDA is a non-IFRS measure calculated as profit before income tax, and before depreciation and amortisation, share based payments, net finance costs, due diligence costs, gain on embedded derivative and impairment of capitalised bank licensing costs.

### **Significant changes in the state of affairs**

On 3 July 2020, the Group issued 875,000 fully paid ordinary shares on conversion of 175,000 Novatti Group Limited Convertible Notes (4 for 1) and the exercise of 175,000 unlisted options exercisable at \$0.25 per share, expiring 30 November 2022.

On 7 July 2020, the Group issued 40,000,000 ordinary shares at \$0.25 per share to institutional and sophisticated investors in a placement as announced on 29 June 2020, raising \$10 million. An additional 800,000 shares totalling \$200,000 were issued to Directors Peter Pawlowitsch and Peter Cook on 15 September 2020 following shareholder approval at the General Meeting held on 19 August 2020.

On 8 July 2020, the Group announced that it had exited its investment in cross-border payments provider, SendFX, and ended its provision of ongoing technology and compliance services. Under its exit, the Group will receive \$900,000 in cash representing payment for the buy-back of Novatti's shareholding, plus repayment of loan funds from an aggregate cash investment by Novatti of \$400,000. As of 31 December 2020, the Group received \$700,000 from SendFX including repayment of \$200,000 of loans that the Group previously provided. The remaining \$200,000 has been disclosed as current other investments in the statement of financial position.

On 10 July 2020, the Group issued 5,000,000 unquoted options to employees under the Employee Share Options Plan (ESOP), exercisable at \$0.20 (20 cents) with various vesting and expiry dates.

On 15 September 2020, the Group issued the following securities:

- 200,000 fully paid ordinary shares at \$0.25 per share to service providers in lieu of investor relations and structuring advice; and
- 7,000,000 unquoted options in lieu of investor relation service fees, vesting immediately on issue. The options are exercisable at \$0.25, expiring 31 December 2021.

On 5 November 2020, the Group issued 51,038 fully paid ordinary shares on cashless exercise of 166,667 unquoted options.

On 3 December 2020, the Group issued 2,500,000 unquoted options to Mr Peter Cook, Managing Director and Chief Executive Officer. This issuance was approved by shareholder at the Annual General Meeting held on 25 November 2020. These options will be vest in three tranches subject to achieving market vesting conditions. The options are exercisable at \$0.27, expiring 30 November 2024.

On 9 December 2020, the Group issued 20,000 fully paid ordinary shares at \$0.20 per share on exercise of unquoted options, raising \$4,000.

On 22 December 2020, the Group issued the following securities under the Group's Employee Share Option Plan (ESOP):

- 3,600,000 unquoted options exercisable at \$0.275 (27.5 cents), expiring 22 December 2023; and
- 2,000,000 unquoted options exercisable at \$0.30 (30 cents), expiring 14 October 2023.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

**Matters subsequent to the end of the financial half-year**

The impact of Coronavirus (COVID-19) pandemic is ongoing and while there have been mixed financial and operational impacts for the Consolidated Entity up to 31 December 2020, it is not practical to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

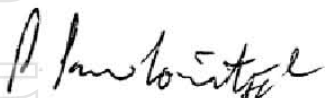
No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

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

On behalf of the directors



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Peter Pawlowitsch  
Chairman

26 February 2021



**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF NOVATTI GROUP LIMITED**

I declare that, to the best of my knowledge and belief during the half-year ended 31  
December 2020 there have been:

- no contraventions of the auditor independence requirements as set out in the  
Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the  
review.

William Buck

William Buck Audit (Vic) Pty Ltd  
ABN 59 116 151 136

A handwritten signature in black ink, appearing to read "N. S. Benbow".

**N. S. Benbow**  
Director

Melbourne, 26 February 2021

**ACCOUNTANTS & ADVISORS**

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Melbourne VIC 3000  
Telephone: +61 3 9824 8555  
[williambuck.com](http://williambuck.com)

**Novatti Group Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2020**

		<b>Consolidated</b>	
		<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>	4	7,350,147	4,923,036
Other income	5	990,698	13,778
<b>Expenses</b>			
Client hosting fees and other direct services		(1,938,255)	(1,142,304)
Employee benefits		(6,830,290)	(5,853,975)
Depreciation and amortisation expense		(740,268)	(362,569)
Occupancy costs		(90,672)	(64,662)
Finance charges		(709,680)	(596,265)
Foreign currency translation loss		(217,983)	(98,539)
Data management expenses		(172,966)	(128,024)
Administrative and corporate costs		(404,881)	(278,016)
Due diligence costs		-	125,000
Share based payment for investor relations services		(574,034)	-
Share of net profit of joint ventures accounted for using the equity method		5,247	3,737
Gain on embedded derivative - convertible note facility into Novatti Group Ltd the parent entity		790,968	148,145
Impairment of capitalised bank licensing costs		-	(3,010,256)
Other expenses		(570,519)	(408,436)
<b>Loss before income tax expense</b>		(3,112,488)	(6,729,350)
Income tax expense		(6,826)	(23,491)
<b>Loss after income tax expense for the half-year attributable to the owners of Novatti Group Limited</b>		(3,119,314)	(6,752,841)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(114,082)	12,858
Other comprehensive income for the half-year, net of tax		(114,082)	12,858
<b>Total comprehensive income for the half-year attributable to the owners of Novatti Group Limited</b>		<b>(3,233,396)</b>	<b>(6,739,983)</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	13	(1.38)	(4.04)
Diluted earnings per share	13	(1.38)	(4.04)

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



**Novatti Group Limited**  
**Statement of financial position**  
**As at 31 December 2020**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2020</b>	<b>30 June 2020</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		9,152,012	2,599,878
Trade and other receivables		3,352,842	2,784,991
Financial assets - funds in trust	6	15,998,485	17,452,001
Other investments		200,000	560,000
Loan to unlisted entity		-	200,000
Prepayments		380,808	160,133
Total current assets		<u>29,084,147</u>	<u>23,757,003</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method	7	776,306	22,456
Other investments		626,000	300,000
Plant and equipment		489,915	572,509
Right-of-use assets		2,079,035	2,244,594
Intangible assets	8	5,500,455	5,703,440
Deposits		232,841	239,567
Total non-current assets		<u>9,704,552</u>	<u>9,082,566</u>
<b>Total assets</b>		<u>38,788,699</u>	<u>32,839,569</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		5,661,257	5,854,239
Settlement and remittance funds payable		15,864,662	17,452,001
Lease liabilities		260,787	245,027
Unearned revenue		813,274	860,863
Convertible note facilities	9	5,055,720	1,100,000
Employee benefits		1,024,909	920,714
Total current liabilities		<u>28,680,609</u>	<u>26,432,844</u>
<b>Non-current liabilities</b>			
Lease liabilities		2,086,619	2,233,365
Convertible note facilities		-	4,544,578
Employee benefits		113,871	114,345
Other non-current liabilities		132,500	-
Total non-current liabilities		<u>2,332,990</u>	<u>6,892,288</u>
<b>Total liabilities</b>		<u>31,013,599</u>	<u>33,325,132</u>
<b>Net assets/(liabilities)</b>		<u>7,775,100</u>	<u>(485,563)</u>
<b>Equity</b>			
Issued capital	10	36,482,066	26,684,947
Reserves	11	3,617,374	2,376,730
Accumulated losses		(32,324,340)	(29,547,240)
<b>Total equity/(deficiency)</b>		<u>7,775,100</u>	<u>(485,563)</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Novatti Group Limited**  
**Statement of changes in equity**  
**For the half-year ended 31 December 2020**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Shared based payments reserve \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Convertible notes reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
Balance at 1 July 2019	24,074,324	1,651,193	529,772	-	(20,132,232)	6,123,057
Adjustment on initial application of AASB 16 - Leases	-	-	-	-	54,076	54,076
Balance at 1 July 2019 - restated	24,074,324	1,651,193	529,772	-	(20,078,156)	6,177,133
Loss after income tax expense for the half-year	-	-	-	-	(6,752,841)	(6,752,841)
Other comprehensive income for the half-year, net of tax	-	-	12,858	-	-	12,858
Total comprehensive income for the half-year	-	-	12,858	-	(6,752,841)	(6,739,983)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of convertible notes	-	-	-	37,987	-	37,987
Lapse of expired share options	-	(1,491,378)	-	-	1,491,378	-
Issue of options from convertible notes	-	188,735	-	-	-	188,735
Vesting of share based payments arrangements	90,000	1,275,198	-	-	-	1,365,198
Balance at 31 December 2019	<u>24,164,324</u>	<u>1,623,748</u>	<u>542,630</u>	<u>37,987</u>	<u>(25,339,619)</u>	<u>1,029,070</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Novatti Group Limited**  
**Statement of changes in equity**  
**For the half-year ended 31 December 2020**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Share based payments reserve \$</b>	<b>Foreign currency translation reserve \$</b>	<b>Convertible notes reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
Balance at 1 July 2020	26,684,947	1,756,615	620,115	-	(29,547,240)	(485,563)
Loss after income tax expense for the half-year	-	-	-	-	(3,119,314)	(3,119,314)
Other comprehensive income for the half-year, net of tax	-	-	(114,082)	-	-	(114,082)
Total comprehensive income for the half-year	-	-	(114,082)	-	(3,119,314)	(3,233,396)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 10)	9,540,000	-	-	-	-	9,540,000
Lapse of expired share options	-	(342,214)	-	-	342,214	-
Vesting of share based payments arrangements	-	1,716,682	-	-	-	1,716,682
Issue of shares in lieu of consultancy fees	50,000	-	-	-	-	50,000
Issue of shares on cashless exercise of options	17,667	(17,667)	-	-	-	-
Issue of shares on exercise of options	6,075	(2,075)	-	-	-	4,000
Issue of shares on conversion of convertible notes	183,377	-	-	-	-	183,377
Balance at 31 December 2020	<u>36,482,066</u>	<u>3,111,341</u>	<u>506,033</u>	<u>-</u>	<u>(32,324,340)</u>	<u>7,775,100</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Novatti Group Limited**  
**Statement of cash flows**  
**For the half-year ended 31 December 2020**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	15,322,195	14,427,652
Payments to suppliers and employees (inclusive of GST)	(18,346,024)	(15,671,686)
Interest received	29,793	13,114
Receipt of research and development grant	-	461,372
Receipt of Government Stimulus	616,341	-
Interest and other finance costs paid	(128,974)	(52,462)
Net cash used in operating activities	(2,506,669)	(822,010)
<b>Cash flows from investing activities</b>		
Payments for deferred consideration for acquisition of Emersion	(270,000)	-
Payments for plant and equipment	(71,730)	(51,476)
Payments for intangible assets	(170,000)	(1,138,788)
Payments for security deposits	-	(146,953)
Proceeds from disposal of investments	360,000	-
Net cash used in investing activities	(151,730)	(1,337,217)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	10,204,000	90,000
Proceeds from issue of convertible note facility	-	3,375,000
Cost of debt - convertible note facilities	-	(289,860)
Proceeds from borrowings	200,000	-
Share issue transaction costs	(660,000)	-
Repayment of borrowings	(122,601)	(402,506)
Repayment of lease liabilities	(192,882)	(88,157)
Net cash from financing activities	9,428,517	2,684,477
Net increase in cash and cash equivalents	6,770,118	525,250
Cash and cash equivalents at the beginning of the financial half-year	2,599,878	1,806,924
Effects of exchange rate changes on cash and cash equivalents	(217,984)	(98,539)
Cash and cash equivalents at the end of the financial half-year	<u>9,152,012</u>	<u>2,233,635</u>

*The above statement of cash flows should be read in conjunction with the accompanying notes*



## **Note 1. General information**

The financial statements cover Novatti Group Limited as a consolidated entity consisting of Novatti Group Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Novatti Group Limited's functional and presentation currency.

Novatti Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 3  
461 Bourke Street  
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 February 2021.

## **Note 2. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### **New or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

## **Note 3. Operating segments**

### *Identification of reportable operating segments*

The Group is organised into five operating business segments:

- (1) Novatti Platform, incorporating enterprise sales and Maintenance & Support via the Novatti Platform
- (2) Billing Solutions, incorporating Basis2 operating under Novatti Incorporated
- (3) Transaction Services incorporating Flexewallet Pty Ltd, Flexe Payments (South Africa) Pty Ltd, Flexe Payments Ltd, Vasco Pay Pty Ltd and Emersion Software Systems Pty Ltd.
- (4) Banking, incorporating the banking services under Novatti IBA Pty Ltd. Novatti B Holding Company Pty Ltd hold the financial assets as its parent entity
- (5) Novatti Group Limited, the legal parent that holds the financial assets for the Group

These operating business segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

**Note 3. Operating segments (continued)**

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a monthly basis.

*Types of products and services*

The principal products and services of each of these operating segments are as follows:

Novatti Platform	Develops, deploys and supports specialised mobile and alternate payment technology, primarily through the deployment of the Novatti Platform.
Billing Solutions	Basis2 trading under Novatti Inc. provides a technologically advanced billing and CIS solution to service providers in the utilities industry.
Transaction Processing	TransferBridge: Provides a comprehensive global network that interconnects emerging payment platforms, remittance operators, financial institutions, retailers, utilities and all types of telecommunication operators Flexewallet and Flexe Payments: Offers customers an alternative payment method in the form of a prepaid cash voucher. Vouchers can be used for a multitude of payment methods such as prepaid account top-ups and for secure online payment of goods and services. Vouchers are available in a variety of currencies and locations globally. Emersion Software Systems Pty Ltd integrates diverse business applications, such as subscription billing, payments and provisioning, into existing business platforms such as Customer Relationship Management Software.
Banking Services	Vasco Pay Pty Ltd: Provides a payment system centred around reloadable prepaid cards that meets the needs and wants of international and local university and college students.  Novatti IBA Pty Ltd, on approval as a Restricted Authorised Deposit-Taking Institution ('RADI') or its banking licence by APRA, Novatti IBA Pty Ltd will offer new banking services to Australian customers with a focus on the migrant demographic.

*Intersegment transactions*

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

*Intersegment receivables, payables and loans*

Intersegment loans are initially recognised at the consideration received. Intersegment loans are eliminated on consolidation.

*Operating segment information*

	Novatti Platform	Billing Solutions	Transaction Services	Banking Services	Novatti Group Limited	Total
<b>Consolidated - 31 December 2020</b>	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Sales to external customers	1,912,187	980,545	4,378,939	-	78,476	7,350,147
Other income	467,375	-	157,888	76,625	265,743	967,631
<b>Total revenue</b>	<u>2,379,562</u>	<u>980,545</u>	<u>4,536,827</u>	<u>76,625</u>	<u>344,219</u>	<u>8,317,778</u>
<b>EBITDA</b>	(18,937)	136,615	379,810	(769,698)	(1,402,029)	(1,674,239)
Depreciation and amortisation	(153,962)	(97,831)	(385,786)	(7,655)	(95,034)	(740,268)
Interest revenue	1,164	-	327	2	21,574	23,067
Finance costs	(98,412)	(255)	(96,431)	(21)	(514,560)	(709,680)
Other costs	-	(11,369)	-	-	-	(11,369)
<b>Profit/(loss) before income tax expense</b>	<u>(270,147)</u>	<u>27,160</u>	<u>(102,080)</u>	<u>(777,372)</u>	<u>(1,990,049)</u>	<u>(3,112,488)</u>
Income tax expense						(6,826)
<b>Loss after income tax expense</b>						<u>(3,119,314)</u>

**Note 3. Operating segments (continued)**

**Consolidated – 31 December 2020**

<b>Assets</b>						
Segment assets	6,538,138	1,718,887	23,109,346	28,820	7,393,508	38,788,699
<b>Total assets</b>						<b>38,788,699</b>
<b>Liabilities</b>						
Segment liabilities	4,927,675	254,866	19,008,245	1,780,317	5,042,496	31,013,599
<b>Total liabilities</b>						<b>31,013,599</b>

	Novatti Platform	Billing Solutions	Transaction Services	Banking Services	Novatti Group Limited	Total
<b>Consolidated - 31 December 2019</b>	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Sales to external customers	1,263,913	1,048,836	2,610,287	-	-	4,923,036
Other income	-	-	-	-	665	665
<b>Total revenue</b>	<b>1,263,913</b>	<b>1,048,836</b>	<b>2,610,287</b>	<b>-</b>	<b>665</b>	<b>4,923,701</b>
<b>EBITDA</b>	(1,113,167)	138,626	(277,843)	(3,403,197)	(1,073,553)	(5,729,134)
Depreciation and amortisation	(165,326)	(104,355)	(16,655)	(5,130)	(71,103)	(362,569)
Interest revenue	3,010	-	3,589	3	6,511	13,113
Finance costs	(93,815)	(569)	(39,330)	(13,852)	(94,679)	(242,245)
Other costs	-	(9,555)	(44,940)	(139,700)	(214,320)	(408,515)
<b>Profit/(loss) before income tax expense</b>	<b>(1,369,298)</b>	<b>24,147</b>	<b>(375,179)</b>	<b>(3,561,876)</b>	<b>(1,447,144)</b>	<b>(6,729,350)</b>
Income tax expense						(23,491)
<b>Loss after income tax expense</b>						<b>(6,752,841)</b>

**Consolidated - 30 June 2020**

<b>Assets</b>						
Segment assets	4,292,554	1,779,062	24,112,444	33,721	2,621,788	32,839,569
<b>Total assets</b>						<b>32,839,569</b>
<b>Liabilities</b>						
Segment liabilities	4,874,838	545,241	21,218,049	1,804,496	4,882,508	33,325,132
<b>Total liabilities</b>						<b>33,325,132</b>

For the breakdown of operating segment revenue into disaggregated revenue components, refer to Note 4.

**Note 4. Revenue**

Sales revenue:

Platform sales  
Billing Solutions  
Transaction processing  
Cards

Timing of revenue recognition Services provided at point in time	Timing of revenue recognition Services provided over time	Consolidated 31 December 2020
\$	\$	\$
-	1,912,187	1,912,187
573,297	407,248	980,545
4,378,939	-	4,378,939
78,476	-	78,476
<u>5,030,712</u>	<u>2,319,435</u>	<u>7,350,147</u>

Sales revenue:

Platform sales  
Billing solutions  
Transaction processing

Timing of revenue recognition Services provided at point in time	Timing of revenue recognition Services provided over time	Consolidated 31 December 2019
\$	\$	\$
-	1,263,913	1,263,913
599,168	449,668	1,048,836
2,610,287	-	2,610,287
<u>3,209,455</u>	<u>1,713,581</u>	<u>4,923,036</u>

**Note 5. Other income**

Government grants  
Research and development grant  
Interest  
Other  
Other income

Consolidated 31 December 2020	Consolidated 31 December 2019
\$	\$
722,760	-
240,000	-
23,067	13,113
4,871	665
<u>990,698</u>	<u>13,778</u>

**Note 6. Current assets - financial assets - funds in trust**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Settlement funds	6,486,569	9,102,731
Remittance funds	9,511,916	8,349,270
	<u>15,998,485</u>	<u>17,452,001</u>

**Note 7. Non-current assets - investments accounted for using the equity method**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Investment in JV ATX	26,306	22,456
Investment in JV Lifepay*	750,000	-
	<u>776,306</u>	<u>22,456</u>

\*Life Pay Pty Ltd Joint Venture was entered into between Lifepay Pty Ltd and Novatti Pty Ltd, a subsidiary of Novatti Group Ltd, on 3 July 2020. Novatti Pty Ltd was granted 6M shares at 12.5 cents, in exchange for its contribution to provide the joint venture with technology and platform integration services.

**Note 8. Non-current assets - intangible assets**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Brand asset	567,630	567,630
Less: Accumulated amortisation	(144,611)	(116,183)
	<u>423,019</u>	<u>451,447</u>
Intellectual property	847,000	847,000
Less: Accumulated amortisation	(305,217)	(262,542)
	<u>541,783</u>	<u>584,458</u>
Customer lists	3,566,387	3,784,726
Less: Accumulated amortisation	(922,754)	(723,679)
	<u>2,643,633</u>	<u>3,061,047</u>
Other intangible assets	520,592	45,592
Less: Accumulated amortisation	(23,932)	-
	<u>496,660</u>	<u>45,592</u>
Product development	1,642,764	1,642,764
Less: Accumulated amortisation	(247,404)	(81,868)
	<u>1,395,360</u>	<u>1,560,896</u>
	<u>5,500,455</u>	<u>5,703,440</u>

**Note 8. Non-current assets - intangible assets (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

<b>Consolidated</b>	Brand asset \$	Intellectual property \$	Customer lists \$	Other intangible assets \$	Product development \$	Total \$
Balance at 1 July 2020	451,447	584,458	3,061,047	45,592	1,560,896	5,703,440
Additions	-	-	-	475,000	-	475,000
Exchange differences	-	-	(145,474)	-	-	(145,474)
Amortisation expense	(28,428)	(42,675)	(271,940)	(23,932)	(165,536)	(532,511)
Balance at 31 December 2020	<u>423,019</u>	<u>541,783</u>	<u>2,643,633</u>	<u>496,660</u>	<u>1,395,360</u>	<u>5,500,455</u>

**Note 9. Convertible note facilities**

	<b>Consolidated</b>	
	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
<b>Current liabilities</b>		
Loan payable - Convertible note facility	4,162,037	1,100,000
Embedded derivative - Convertible note facility	893,683	-
<b>Non-current liabilities</b>		
Loan payable - Convertible note facility	-	2,817,927
Embedded derivative - Convertible note facility	-	1,726,651
	<u>5,055,720</u>	<u>5,644,578</u>

**\$2.275 million 9% convertible note facility**

**- Proceeds from issue \$2,275,000, less transaction costs of \$150,150.**

On 7 November 2019, Novatti Group issued convertible notes for the amount of \$2.275 million to professional and sophisticated investors.

The primary terms of the convertible note facility are:

Issuer: Novatti Group Ltd

Face value: \$2.275M (\$1 per note)

Interest: 9% pa – payable quarterly based on the face value

Term: 15 November 2019 to 30 July 2021

Conversion price: Lesser of

i. \$0.25 and

ii. lowest share issue price under any capital raising by Novatti Group Ltd between the date of issue of the notes and the date of receipt of conversion notice.

On 3 July 2020 the Group issued 700,000 fully paid ordinary shares on conversion of 175,000 convertible notes.

**Note 9. Current liabilities - convertible note facilities (continued)**

**\$1.225 million 9% convertible note facility**

**- Proceeds from issue \$1,225,000, less transaction costs of \$63,500.**

On 18 February 2020, Novatti Group issued an additional convertible note facility for the amount of \$1.225 million to professional and sophisticated investors under the same terms as the \$2.275 million notes noted above.

The primary terms of the convertible note facility are:

Issuer: Novatti Group Ltd

Face value: \$1.225M (\$1 per note)

Interest: 9% pa – payable quarterly based on the face value

Term: 18 February 2020 to 30 July 2021

Conversion price: Lesser of

- i. \$0.25 and
- ii. lowest share issue price under any capital raising by Novatti Group Ltd between the date of issue of the notes and the date of receipt of conversion notice.

**\$1.1million convertible note facility**

**- Proceeds from issue \$1,100,000 less transaction costs of \$139,710.**

On the 8 November 2019, Novatti B Holding Company Pty Ltd (NBHC) the Group's wholly owned subsidiary and head of its banking services unit, issued a \$1.1 million convertible note to Australian Fintech Investment Group Pty Ltd (AFIG).

The primary terms of the convertible note facility are:

Issuer: NBHC

Holder: AFIG

Face value: \$1.1M Interest: nil

Term: 8 November 2019 to 31 March 2020\*.

Conversion formula: If NBHC obtains its Restricted Authorised Deposit-taking Institution (RADI) license from the Australian Prudential Regulation Authority (APRA), the facility automatically converts into the number of NBHC shares equal to 5.5% of its issued capital, (1,100,000 NBHC shares based on 20M shares on issue at the time of agreement).

As at 31 December 2020, all convertible note facilities had been reclassified as current liability, as the expiry date was within 12 months of half year end.

The three convertible notes are measured at level two of the fair value hierarchy as these have been calculated utilising market observable factors. The convertible notes are unsecured.

As part of its convertible note, the Group's embedded derivative was subsequently valued at fair value as at 31 December 2020, with gains or losses recognised in the statement of profit or loss and other comprehensive income. The embedded derivatives were valued using the Black-Scholes valuation method. Key valuation inputs are as follows:

- Valuation date: 31 December 2020
- Stock price: \$0.26 (26 cents)
- Strike price: \$0.25 (25 cents)
- Expiry date: 30 July 2021
- Volatility: 80%
- Risk free rate: 0.49%

**Note 10. Equity - issued capital**

	Consolidated			
	31 December 2020 Shares	30 June 2020 Shares	31 December 2020 \$	30 June 2020 \$
Ordinary shares - fully paid	<u>227,156,538</u>	<u>185,210,500</u>	<u>36,482,066</u>	<u>26,684,947</u>



**Note 10. Equity - issued capital (continued)**

*Movements in ordinary share capital*

Details	Date	Shares	\$
Balance	1 July 2020	185,210,500	26,684,947
Issue of shares on conversion of 175,000 convertible notes (4 for 1)	3 July 2020	700,000	183,377
Issue of shares on exercise of options	3 July 2020	175,000	-
Issue of placement shares to institutional and sophisticated investors	7 July 2020	40,000,000	10,000,000
Issue of placement shares to Directors	15 September 2020	800,000	200,000
Issue of shares in lieu of consultancy fees	15 September 2020	200,000	50,000
Issue of shares on cashless exercise of options	5 November 2020	51,038	17,667
Issue of shares on exercise of options	8 December 2020	20,000	6,075
Cost of capital raising		-	(660,000)
Balance	31 December 2020	<u>227,156,538</u>	<u>36,482,066</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Share buy-back*

There is no current on-market share buy-back.

**Note 11. Contingent liabilities**

There exists a bank guarantee for offices leased in Melbourne. As at 31 December 2020 this totalled \$79,408 (30 June 2020: \$79,169). No other guarantees exist.

Monies held in trust (note 6) are pledged for settlement and remittance funds payable.

The parent entity had no contingent liabilities as at 31 December 2020 (30 June 2020: Nil).

**Note 12. Events after the reporting period**

The impact of Coronavirus (COVID-19) pandemic is ongoing and while there have been mixed financial and operational impacts for the Consolidated Entity up to 31 December 2020, it is not practical to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 13. Earnings per share**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax attributable to the owners of Novatti Group Limited	<u>(3,119,314)</u>	<u>(6,752,841)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>225,360,878</u>	<u>166,925,798</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>225,360,878</u>	<u>166,925,798</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(1.38)	(4.04)
Diluted earnings per share	(1.38)	(4.04)

As at 31 December 2020, the Group has 37,028,335 unlisted options on issue. These options are considered to be non-dilutive whilst the Group is in a loss position.

**Note 14. Share-based payments**

**Options issued under employee share option plan**

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Board, grant options over ordinary shares in the Company to certain key management personnel and staff of the Group.

The Employee Share Option Plan is designed to provide long-term incentives for Senior Management (including Directors) and staff to deliver long-term shareholder returns. Options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

Set out below are summaries of options granted under the plan:

	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
	<b>31 December 2020</b>	<b>31 December 2020</b>	<b>31 December 2019</b>	<b>31 December 2019</b>
Outstanding at the beginning of the financial half-year	17,870,000	\$0.195	10,500,000	\$0.191
Granted	13,100,000	\$0.249	8,870,000	\$0.200
Exercised	(186,667)	\$0.200	(500,000)	\$0.190
Expired/forfeited	<u>(4,080,000)</u>	<u>\$0.191</u>	<u>(1,000,000)</u>	<u>\$0.200</u>
Outstanding at the end of the financial half-year	<u>26,703,333</u>	<u>\$0.222</u>	<u>17,870,000</u>	<u>\$0.185</u>

**Note 14. Share-based payments (continued)**

31 December  
2020

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the half-year
27/11/2018	30/11/2022	\$0.190	9,000,000	-	-	(3,666,667)	5,333,333
25/11/2019	30/11/2023	\$0.200	3,500,000	-	(166,667)	(333,333)	3,000,000
19/12/2019	19/12/2022	\$0.200	5,370,000	-	(20,000)	(80,000)	5,270,000
10/07/2020	10/07/2023	\$0.200	-	850,000	-	-	850,000
10/07/2020	01/03/2024	\$0.200	-	441,667	-	-	441,667
10/07/2020	01/03/2025	\$0.200	-	441,667	-	-	441,667
10/07/2020	01/03/2026	\$0.200	-	66,666	-	-	66,666
10/07/2020	31/12/2022	\$0.200	-	3,200,000	-	-	3,200,000
25/11/2020	30/11/2024	\$0.270	-	2,500,000	-	-	2,500,000
22/12/2020	22/12/2023	\$0.275	-	3,600,000	-	-	3,600,000
22/12/2020	14/10/2023	\$0.300	-	2,000,000	-	-	2,000,000
			17,870,000	13,100,000	(186,667)	(4,080,000)	26,703,333
Weighted average exercise price			\$0.195	\$0.249	\$0.200	\$0.191	\$0.222

31 December  
2019

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the half-year
21/07/2016	31/12/2019	\$0.200	333,333	-	-	(333,333)	-
21/07/2016	31/12/2019	\$0.200	333,333	-	-	(333,333)	-
21/07/2016	31/12/2019	\$0.200	333,334	-	-	(333,334)	-
27/11/2018	30/11/2022	\$0.190	9,500,000	-	(500,000)	-	9,000,000
25/11/2019	30/11/2023	\$0.200	-	3,500,000	-	-	3,500,000
19/12/2019	19/12/2022	\$0.200	-	5,370,000	-	-	5,370,000
			10,500,000	8,870,000	(500,000)	(1,000,000)	17,870,000
Weighted average exercise price			\$0.191	\$0.200	\$0.190	\$0.200	\$0.195

**Note 14. Share-based payments (continued)**

For the options granted during the current financial half-year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/07/2020	10/07/2023	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	01/03/2024	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	01/03/2025	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	01/03/2026	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	31/12/2022	\$0.285	\$0.200	80.00%	-	0.98%	\$0.162
10/07/2020	31/12/2022	\$0.285	\$0.200	80.00%	-	0.98%	\$0.143
10/07/2020	31/12/2022	\$0.285	\$0.200	80.00%	-	0.98%	\$0.111
25/11/2020	30/11/2024	\$0.270	\$0.270	70.00%	-	0.30%	\$0.111
25/11/2020	30/11/2024	\$0.270	\$0.270	70.00%	-	0.30%	\$0.114
25/11/2020	30/11/2024	\$0.270	\$0.270	70.00%	-	0.30%	\$0.119
22/12/2020	22/12/2023	\$0.240	\$0.275	70.00%	-	0.98%	\$0.102
22/12/2020	22/12/2023	\$0.240	\$0.275	70.00%	-	0.98%	\$0.083
22/12/2020	14/10/2023	\$0.240	\$0.300	70.00%	-	0.98%	\$0.092
22/12/2020	14/10/2023	\$0.240	\$0.300	70.00%	-	0.98%	\$0.076
22/12/2020	14/10/2023	\$0.240	\$0.300	70.00%	-	0.98%	\$0.048

**Options issued to consultants**

On 15 September 2020, the Group issued 7,000,000 unquoted options to consultants in lieu of investor relation service fees. These options were valued using Black-Scholes valuation model. As at 31 December 2020, a share based payment of \$574,034 was recognised in the statement of profit or loss and other comprehensive income.

**Note 15. Fair value measurement**

The net fair value of financial assets and liabilities approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – a valuation technique is applied using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices)
- Level 3 – a valuation technique is applied using inputs that are not based on observable market data (unobservable inputs)

Consolidated	Other investments (Level 3) \$
Balance at 1 July 2020	860,000
Additions	
- Investment in Rent Pay Pty Ltd	250,000
- Investment in Splitpay Group	76,000
Disposal of SendFx	(360,000)
Balance as at 31 December 2020	<u>826,000</u>

These investments are in private entities where obtaining input values is not readily possible. Input values recognised were based on judgement and most recent transaction values. A 10% price variance in other investments is not expected to have a material effect on the statement of profit or loss and other comprehensive income and statement of financial position.

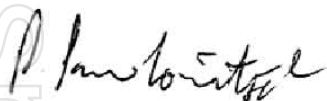
**Novatti Group Limited**  
**Directors' declaration**  
**31 December 2020**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



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Peter Pawlowitsch  
Chairman

26 February 2021



## Novatti Group Limited

### Independent auditor's review report

## Report on the Review of the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Novatti Group Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Novatti Group Limited is not in accordance with the *Corporations Act 2001* including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### Responsibility of Management for the Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### ACCOUNTANTS & ADVISORS


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#### Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

  
William Buck  
William Buck Audit (Vic) Pty Ltd  
ABN 59 116 151 136

  
N. S. Benbow  
Director

Melbourne, 26 February 2021

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