Prospa Advance Pty Ltd

ABN 47 154 775 667

Annual Report
for the year ended 30 June 2017

Prospa Advance Pty Ltd
Directors' report
30 June 2017

The directors present their report, together with the financial statements, on the consolidated entity (the Group) consisting of Prospa Advance Pty Ltd (the Company or Parent) and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of the Company during the whole of the financial period and up to the date of this report, unless otherwise stated:

Gregory Moshal
Beaumont Bertoli
Aviad Eyal
Gregory Ruddock
James Cameron (appointed 6th March 2017)

Principal activities

During the financial period the principal continuing activities of the Group consisted of provision of loans to small businesses. This activity has not changed during the period.

Dividends

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

Review of operations

The profit for the Group after providing for income tax amounted to $1,248,867 (30 June 2016: *Loss* $2,451,155).

Summary of performance	**Year ended June 2017**	**Year ended June 2016**
	$	**$**
Revenue	56,194,639	24,460,261
Finance expense – Prospa Trust	(8,030,225)	(4,711,522)
Net revenue	**48,164,414**	**19,748,739**
Other income	152,376	215,871
Total income net of Prospa Trust finance expense	**48,316,790**	**19,964,610**
Other expense	(42,574,786)	(21,793,339)
Employee share option expense	(564,768)	(212,775)
EBITDA	**5,177,236**	**(2,041,504)**
Depreciation and amortisation	(981,641)	(281,092)
EBIT	**4,195,595**	**(2,322,596)**
Finance expense – Prospa Advance	(2,086,721)	(1,290,683)
Profit/(loss) before income tax	**2,108,874**	**(3,613,279)**

Significant changes in the state of affairs
During the period, the Company issued 5,291,565 new preference shares. Preference shares rank in almost all respects equally with the ordinary shares in the share capital of the Company and entitle the holder to participate in dividends and carry substantially the same voting rights as applied to the ordinary shares in the company. In the event of a listing of any of the shares on the Australian Stock Exchange, all of the preferences shares will be deemed to be converted into ordinary shares on the basis of one ordinary share for every preference share. The total subscription price for the preference shares issued during the period was $28,399,829. There were no other significant changes in the state of affairs of the company during the financial period.

Matters subsequent to the end of the financial period
No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Likely developments and expected results of operations
Information on likely developments in the operations of the company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

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

Shares under option and shares issued on the exercise of options
On 24 July 2014 the company issued options over 5,000,000 shares of the company with various exercise dates. In 2015, the conditions for issuance of 2,800,000 of these shares were met and these shares were subsequently issued. In 2016, the conditions for issuance of the remaining 2,200,000 were met and of these 700,000 were issued.

In January 2016, Prospa launched a Long Term Incentive Plan (LTIP). The LTIP comprises a combination of options and loan shares which have been issued to eligible employees, with vesting conditions attached to these interests. As at 30 June 2017 the total number of units on issue under the LTIP was 2,901,875 (30 June 2016: 2,026,875). The total pool allocated to the LTIP is 4,928,233 units.

Further details of options outstanding at balance date are included in Note 20.

Indemnity and insurance of auditor
The company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial period, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

Auditor's independence declaration

A copy of the auditor's independence declaration in accordance with the auditor independence requirements of the Australian professional ethical pronouncements is set out on the following page.

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

On behalf of the directors

Gregory Moshal
Director

22 December 2017
Sydney

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The Board of Directors
Prospa Advance Pty Ltd
Level 2, 4 – 12 Yurong Street
Sydney NSW 2000

22 December 2017

Dear Board Members

Prospa Advance Pty Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Prospa Advance Pty Ltd.

As lead audit partner for the audit of the financial statements of Prospa Advance Pty Ltd for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Jonathan Perkinson
Partner
Chartered Accountants

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General information

The financial statements cover Prospa Advance Pty Ltd as a consolidated group. The financial statements are presented in Australian dollars, which is Prospa Advance Pty Ltd's functional and presentation currency.

Prospa Advance Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	**Principal place of business**
Level 2 4-16 Yurong Street Sydney NSW 2000	Level 2 4-16 Yurong Street Sydney NSW 2000

A description of the nature of the company'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 22 December 2017. The directors have the power to amend and reissue the financial statements.

Prospa Advance Pty Ltd
Statement of profit or loss and other comprehensive income
For the 12 months period ended 30 June 2017

	Note	Year ended Jun 2017 $	Year ended Jun 2016 $
Revenue	3	56,194,639	24,460,261
Finance expense		(10,116,946)	(6,002,205)
Net revenue		46,077,693	18,458,056
Other income	3	152,376	215,871
Total income net of finance expense		46,230,069	18,673,927
Expenses			
Operating expenses		(5,460,235)	(3,113,812)
Marketing expenses		(4,980,432)	(3,326,563)
Employee benefits expense		(17,645,626)	(8,708,645)
Bad debt actual expense		(5,849,474)	(2,461,184)
Bad debt provision movement		(5,049,828)	(1,891,874)
Accounting & legal expense		(531,885)	(377,645)
Property expenses		(1,368,785)	(691,769)
Depreciation and amortisation		(981,641)	(281,092)
Overhead expenses		(1,688,521)	(1,221,847)
Long-term incentive plan		(564,768)	(212,775)
Total expenses		(44,121,195)	(22,287,206)
Profit / (loss) before income tax	4	2,108,874	(3,613,279)
Income tax (expense) / benefit	5	(860,007)	1,162,124
Profit / (loss) after income tax for the period attributable to the owners of Prospa Advance Pty Ltd	17	1,248,867	(2,451,155)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive profit / (loss) for the period attributable to the owners of Prospa Advance Pty Ltd		1,248,867	(2,451,155)

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

Prospa Advance Pty Ltd
Statement of financial position
As at 30 June 2017

	Note	30 Jun 2017 $	30 Jun 2016 $
Assets			
Current assets			
Cash and cash equivalents	6	9,406,877	6,671,608
Loan receivables	7	113,535,739	49,257,604
Other receivables	7	248,937	1,408,385
Total current assets		123,191,553	57,337,597
Non-current assets			
Loan receivables	8	37,814,131	7,092,072
Intangible assets	9	4,817,641	3,091,467
Property, plant and equipment	10	658,974	579,582
Deferred tax assets	5	2,579,605	1,526,284
Total non-current assets		45,870,351	12,289,405
Total assets		169,061,904	69,627,002
Liabilities			
Current liabilities			
Trade and other payables	11	3,209,542	2,694,149
Borrowings	13	484,397	12,738,409
Employee benefits	12	564,175	257,014
Current tax liability		1,913,328	-
Total current liabilities		6,171,442	15,689,572
Non-current liabilities			
Borrowings	14	127,698,518	45,575,680
Employee benefits	15	56,053	21,156
Total non-current liabilities		127,754,571	45,596,836
Total liabilities		133,926,013	61,286,408
Net assets		35,135,891	8,340,594
Equity			
Issued capital	16	36,148,738	10,883,411
Share option reserve		595,935	314,832
Retained earnings	17	(1,608,782)	(2,857,649)
Total equity		35,135,891	8,340,594

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

Prospa Advance Pty Ltd
Statement of changes in equity
For the 12 months period ended 30 June 2017

	Issued Capital	Share option reserve	Retained Earnings	Total Equity
	$	$	$	$
Balance at 1 July 2015	1,000,228	102,057	(406,494)	695,791
Loss after income tax expense for the period	-	-	(2,451,155)	(2,451,155)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(2,451,155)	(2,451,155)
Transaction with owners in their capacity as owners:				
Net ordinary shares issued during the period	95	-	-	95
Preference shares issued during the period	10,000,012	-	-	10,000,012
Share issue costs applicable for offset	(116,924)	-	-	(116,924)
Share based payment expense	-	212,775	-	212,775
Balance at 30 June 2016	10,883,411	314,832	(2,857,649)	8,340,594
Balance at 1 July 2016	10,883,411	314,832	(2,857,649)	8,340,594
Profit after income tax expense for the period	-	-	1,248,867	1,248,867
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	1,248,867	1,248,867
Transaction with owners in their capacity as owners:				
Ordinary shares sold during the period	(6)	-	-	(6)
Preference shares issued during the period	25,399,815	-	-	25,399,815
Share issue costs applicable for offset	(134,482)	-	-	(134,482)
Transfer LTIP valuation to liability on sale	-	(11,072)	-	(11,072)
Share based payment expense	-	292,175	-	292,175
Balance at 30 June 2017	36,148,738	595,935	(1,608,782)	35,135,891

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

Prospa Advance Pty Ltd
Statement of cash flows
For the 12 months period ended 30 June 2017

	Note	12 months ended Jun 2017 $	12 months ended Jun 2016 $
Cash flows from operating activities			
Finance income received		56,194,639	24,460,261
Other income received / (expense paid)		152,378	(86,422)
Interest and other finance costs paid		(10,144,215)	(1,357,850)
Payments to suppliers and employees (inclusive of GST)		(29,812,663)	(16,406,658)
Net cash from operating activities	25	16,390,139	6,609,331
Cash flows from investing activities			
Net increase in loans advanced to customers		(105,899,497)	(42,563,653)
Payments for property, plant and equipment and intangibles		(2,782,312)	(3,071,423)
Net cash used in investing activities		(108,681,809)	(45,635,076)
Cash flows from financing activities			
Proceeds from borrowing		86,585,263	45,348,939
Repayment of borrowings		(16,689,169)	(10,712,650)
Proceeds from issue of shares		25,265,327	10,000,107
Share issue costs applicable for offset		(134,482)	(116,924)
Net cash from financing activities		95,026,939	44,519,472
Net increase in cash and cash equivalents		2,735,269	5,493,727
Cash and cash equivalents at the beginning of the financial period		6,671,608	1,177,881
Cash and cash equivalents at the end of the financial period	6	9,406,877	6,671,608

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

Note 1. Statement of significant accounting policies

The financial report is a special purpose financial report for use by directors and members of Prospa Advance Pty Ltd (the "company"). The directors have determined that Prospa Advance Pty Ltd and its controlled entity (the "consolidated entity") is not a reporting entity because there are no users dependent on general purpose financial statements.

The financial report was authorised for issue by the Board of Directors on 22 December 2017.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

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

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

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The effects of AASB 9, AASB 15 and AASB 16 are yet to be fully assessed.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2016-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 February 2016	1 January 2019

Basis of preparation

The financial statements have been prepared on an accrual basis. These financial statements for the 12 months period ended 30 June 2017 are being prepared for the benefit of the directors. The financial year end has not changed and continues to be 30 June.

These financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the disclosure requirements of AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', AASB 1031 'Materiality', AASB 1048 'Interpretation of Standards' and AASB 1054 'Australian Additional Disclosures', as appropriate for for-profit oriented entities.

No other Australian Accounting Standards, Australian Accounting Interpretations or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

Historical cost convention
The financial statements have been prepared under the historical cost convention.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Note 1. Statement of significant accounting policies (continued)

Principles of Consolidation
This special purpose financial report incorporates the assets and liabilities of Prospa Advance Pty Ltd ("Prospa") and the Prospa Trust Series 2015-1 Security Trust as at 30 June 2017 and the results of the consolidated group for the financial period then ended.

The Trust is the entity over which the consolidated entity has the power to govern the financial and operating policies.

The Trust is fully consolidated from the date on which control was transferred to the consolidated entity. It is de-consolidated from the date that control ceases.

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

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Finance income
Interest revenue is recognised as it accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other income
Other income is recognised when the right to receive payment is established and receipt of the payment is likely and reasonably estimable.

Income tax
The income tax expense or benefit for the period is the tax payable on that 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 differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.
An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Loans and other receivables
Loan receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Loan receivables generally have repayment periods of 3-12 months.

Note 1. Statement of significant accounting policies (continued)

Collectability of loan receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of loan receivables is raised when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the borrower, probability that the borrower will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 120 days overdue) are considered indicators that the loan receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The company has raised a provision for impairment of loan receivables equal to 5% (30 June 2016: 5%) of total debtors. This percentage is based on historical and expected performance of the loan book.

Other receivables are recognised at amortised cost, less any provision for impairment.

Intangible assets
Website costs
Significant costs associated with website development are capitalised on a straight line basis over the period of their expected benefit.

Software
Expenditure on acquiring and developing software has been capitalised and amortised on a straight line basis over the period of their expected benefit.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3 - 5 years

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Note 1. Statement of significant accounting policies (continued)

Impairment of non-financial assets
Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits
Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
Liabilities for long service leave and annual leave not expected to be settled wholly within 12 months after the end of the reporting period. They are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Regardless of when settlement is expected to occur, liabilities for long service leave and annual leave are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments
Equity-settled share-based compensation benefits are provided to certain employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the company receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

Note 1. Statement of significant accounting policies (continued)

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied. The company does not have any cash-settled share based payments.

Issued capital
Ordinary shares and preference 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.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the ageing of receivables, historical collection rates and specific knowledge of the individual borrower’s financial position.

Estimation of useful lives of assets
The company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The company assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Employee benefits provision
As discussed in Note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 3. Revenue and other income

	12 months ended Jun 2017 $	12 months ended Jun 2016 $
Finance income	56,194,639	24,460,261
Other revenue		
Bank interest	152,376	215,871
Total revenue and other income	56,347,015	24,676,132

Note 4. Expenses

	12 months ended Jun 2017 $	12 months ended Jun 2016 $
Profit / (loss) before income tax includes the following specific expenses:		
Amortisation & depreciation		
Intangibles amortisation	757,267	197,933
Plant and equipment depreciation	224,374	83,159
Total amortisation & depreciation	981,641	281,092
Superannuation expense		
Defined contribution superannuation expense	1,236,513	620,683
Operating lease expenses		
Rental expense	962,819	449,280

Note 5. Income tax expense

	12 months ended Jun 2017 $	12 months ended Jun 2016 $
Income tax expense		
Current tax expense / (benefit)	1,913,328	-
Deferred tax - origination and reversal of temporary differences	(1,053,321)	(1,162,182)
Aggregate income tax expense / (benefit)	860,007	(1,162,124)
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(1,053,321)	(1,162,182)
Deferred tax - origination and reversal of temporary differences	(1,053,321)	(1,162,182)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit / (Loss) before income tax expense	2,108,874	(3,613,279)
Tax expense / (benefit) at the statutory tax rate of 30%	632,662	(1,083,985)
Tax effect amounts which are not deductible / (taxable) in calculating taxable income:		
Entertainment expenses	27,099	26,211
Share-based payments	169,431	63,833
Sundry items	30,815	(168,183)
	227,345	(78,139)
Adjustment recognised for prior periods	-	-
Income tax expense / (benefit)	860,007	(1,162,124)

Deferred tax assets comprise

Deferred tax asset brought forward	1,526,284	364,102
Temporary differences	1,053,321	1,162,182
	2,579,605	1,526,284

Note 6. Current assets - cash and cash equivalents

	30 Jun 2017 $	30 Jun 2016 $
At-call cash at bank	8,588,571	6,204,318
Held-to-maturity - Term Deposits less than 6 months maturity	818,306	467,290
	9,406,877	6,671,608

Note 7. Current assets - loan and other receivables

	30 Jun 2017	30 Jun 2016
	$	$
Loan receivables	119,611,062	51,942,504
Less: current provision for impairment of receivables	(6,075,323)	(2,684,900)
	113,535,739	49,257,604
Other receivables	248,937	1,408,385
	113,784,676	50,665,989

Note 8. Non-current assets – loan receivables

Loan receivables	39,837,574	7,456,109
Less: current provision for impairment of receivables	(2,023,443)	(364,037)
	37,814,131	7,092,072

Note 9. Non-current assets – intangible assets

Website - at cost	474,784	302,626
Less: Accumulated amortisation - website	(137,767)	-
Software purchased - at cost	376,169	164,923
Less: Accumulated amortisation - software	(91,666)	(27,186)
Software Development - at cost	4,967,626	2,867,677
Less: Accumulated amortisation - software development	(771,505)	(216,573)
	4,817,641	3,091,467

Note 10. Non-current assets - property, plant and equipment

Plant and equipment - at cost	984,546	685,287
Less: Accumulated depreciation	(325,572)	(105,705)
	658,974	579,582

Note 11. Current liabilities - trade and other payables

Trade and other payables	3,209,542	2,694,149

Note 12. Current liabilities - employee benefits

	30 Jun 2017	30 Jun 2016
	$	$
Employee benefits	564,175	257,014

Note 13. Current liabilities – borrowings

Borrowings	484,397	12,738,409

Note 14. Non-current liabilities – borrowings

Borrowings	127,698,518	45,575,680

Facility Type	Expiry	Facility Limit	Drawn Balance as at 30 June 2017
Securitisation trust - Class A notes	October 2019	$100 million	$63 million
Securitisation trust - Class B notes	August 2020	$45 million	$45 million
Corporate debt	March 2022	$20 million	$20 million

Note 15. Non-current liabilities - employee benefits

Employee benefits	56,053	21,156

Note 16. Contributed Equity

	30 Jun 2017 Shares	30 Jun 2016 Shares	30 Jun 2017 $	30 Jun 2016 $
Ordinary shares - fully paid	21,712,630	22,271,598	317	323
Preference Shares – fully paid	15,645,067	10,353,502	36,399,866	11,000,012
Share issue costs applicable for offset	-	-	(251,445)	(116,924)
Total	**37,357,697**	**32,625,100**	**36,148,738**	**10,883,411**

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.

Preference shares

(a) In the prior year ended 30 June 2016, the company issued 6,825,000 preference shares for a total consideration of $10,000,000. Preference shares rank in almost all respects equally with the Ordinary Shares in the share capital of the company and entitle the holder to participate in dividends and carry substantially the same voting rights as applied to the ordinary shares in the company. In the event of a listing of any of the shares in the on Australian Stock Exchange, all of the preference shares will be deemed to be converted into ordinary shares on the basis of one ordinary share for every preference share. The company incurred expenses of $116,924 in relation to the preference share issues.

(b) During the financial period ended 30 June 2017, the company issued 5,291,565 preference shares for a net consideration of $25,399,829. This consisted of total consideration received $28,399,829 less management sell-down of $3,399,981. Preference shares rank in almost all respects equally with the Ordinary Shares in the share capital of the company and entitle the holder to participate in dividends and carry substantially the same voting rights as applied to the ordinary shares in the company. In the event of a listing of any of the shares in the on Australian Stock Exchange, all of the preference shares will be deemed to be converted into ordinary shares on the basis of one ordinary share for every preference share. The company incurred expenses of $134,482 in relation to the preference share issues.

Note 17. Equity – Retained Earnings

	Jun 2017 $	Jun 2016 $
Retained earnings at the beginning of the financial year	(2,857,649)	(406,494)
Profit / (Loss) after income tax expense for the period	1,248,867	(2,451,155)
Retained earnings at the end of the financial period	(1,608,782)	(2,857,649)

Note 18. Equity - dividends

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

Note 19: Parent and Controlled entity

	Country of Incorporation	100% Owned	
		Jun 2017	Jun 2016
Parent Entity			
Prospa Advance Pty Ltd	Australia		
Controlled Entity			
Prospa Trust Series 2015-1 Security Trust	Australia	100	100

Parent entity disclosures

	30 June 2017 $	30 June 2016 $
Total current assets	38,003,809	15,025,171
Total non-current assets	19,225,219	7,306,282
Total current liabilities	(4,605,106)	(14,680,387)
Total non-current liabilities	(19,297,693)	(21,157)
Total equity	33,326,229	(7,629,909)

	12 months ended Jun 2017 $	12 months ended Jun 2016 $
Profit / (Loss) for the year	454,448	(3,161,741)
Total comprehensive profit / (loss) for the year	454,448	(3,161,741)

Note 20. Share based payments

The employee long-term incentive plan enables the company to offer eligible employees options to subscribe for shares in the company. The employee share ownership plan is designed to incentivise performance. The following options were issued during the year:

Employment Shares [1]	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP – Sep 2016	31 March 2017	200.000	13,333
	30 September 2017	200.000	13,333
	31 March 2018	200.000	13,333
	30 September 2018	200.000	13,333
	31 March 2019	200.000	13,333
	30 September 2019	200.000	13,333
Total:			**80,000**

Employment Shares [1]	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP – Feb 2017	30 September 2017	200.000	28,333
	31 March 2018	200.000	28,333
	30 September 2018	200.000	28,333
	31 March 2019	200.000	28,333
	30 September 2019	200.000	28,333
	31 March 2020	200.000	28,333
Total:			**170,000**

Employment Shares [1]	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP – Apr 2017	31 March 2018	467.000	104,167
	30 September 2018	467.000	104,167
	31 March 2019	467.000	104,167
	30 September 2019	467.000	104,167
	31 March 2020	467.000	104,167
	30 September 2020	467.000	104,167
Total:			**625,000**

1) Employment shares require the holder to remain in full-time employment of the Company until the exercise date.

Note 20. Share based payments (continued)

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

	Employment Shares		
	Tranche LTIP - Sep 2016	**Tranche LTIP – Feb 2017**	**Tranche LTIP – Apr 2017**
Grant Date	Sep-16	Feb-17	Apr-17
Exercise Price (cents)	200.000	200.000	467.000
Vesting Date	31 March 2017 30 September 2017 31 March 2018 30 September 2018 31 March 2019 30 September 2019	30 September 2017 31 March 2018 30 September 2018 31 March 2019 30 September 2019 31 March 2020	31 March 2018 30 September 2018 31 March 2019 30 September 2019 31 March 2020 30 September 2020
Term (years)	3.00	3.00	3.00
Valuation Method	Black Scholes	Black Scholes	Black Scholes
Risk Free Rate (%)	1.53%	1.94%	1.94%
Dividend Yield (%)	0.00%	0.00%	0.00%
Number Issued	80,000	170,000	625,000
Volatility	32%	32%	32%

Total expenses arising from share-based payment transactions recognised during the period is $292,175.

Note 21. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Deloitte, the auditor of the company:

	12 months ended Jun 2017 $	12 months ended Jun 2016 $
Audit services		
Audit of the financial statements - BDO	-	32,500
Audit of the financial statements - Deloitte	60,000	48,000
	60,000	80,500

Note 22. Contingent liabilities

The company had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Note 23. Commitments

	2017 $	2016 $
Operating leases – land & buildings		
Lease payments due:		
- not later than 1 year	1,467,222	754,557
- later than 1 year and less than 5 years	1,904,894	-
Total minimum lease payments – land & buildings	3,372,116	754,557
Operating leases – computer equipment		
Lease payments due:		
- not later than 1 year	168,867	126,259
- later than 1 year and less than 5 years	263,955	246,707
Total minimum lease payments – computer equipment	432,822	372,966

Note 24. Events after the reporting period

No matter or circumstance other than disclosed below has arisen since 30 June 2017 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

A senior funder extended its warehouse facility by $50M on the 15th November 2017.

Note 25. Reconciliation of profit / (loss) after income tax to net cash from operating activities

	12 months ended Jun 2017 $	12 months ended Jun 2016 $
Profit / (loss) after income tax for the period	1,248,867	(2,451,156)
Adjustments for:		
Depreciation and amortisation	981,641	281,092
Share option reserve	564,768	212,775
Provision against loan receivables	5,849,474	2,461,184
Bad debts written off	5,049,828	1,891,874
Interest accrued as part of borrowings	(27,268)	4,038,252
Change in operating assets and liabilities:		
Decrease / (increase) in other receivables	1,347,428	(672,190)
Decrease / (increase) in deferred tax asset	(1,053,320)	(1,162,182)
(Decrease) / increase in trade and other payables and provisions	515,393	2,311,975
Increase / (decrease) in current tax liability	1,913,328	(302,293)
	16,390,139	6,609,331

Prospa Advance Pty Ltd
Directors' declaration
30 June 2017

The directors have determined that the company is not a reporting entity and that these special purpose financial statements have been prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The directors of the company declare that:

1 The financial statements comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, present fairly the company's financial position as at 30 June 2017 and its performance for the period ended on that date in accordance with the accounting policies described in Note 1 to the financial statements; and

2 In the directors' opinion, there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors and is signed by:

Gregory Moshal
Director

22 December 2017
Sydney

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Independent Auditor's Report to the directors of Prospa Advance Pty Ltd

Opinion

We have audited the financial report being a special purpose financial report of Prospa Advance Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, 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 2017 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards to the extent described in Note 1 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 auditor independence requirements of 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.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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 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, 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.

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 and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the directors. The directors' responsibility also includes 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Deloitte.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Jonathan Perkinson
Partner
Chartered Accountants
Sydney, 22 December 2017