Prospa Advance Pty Ltd

ABN 47 154 775 667

Annual Report
for the year ended 30 June 2018

Prospa Advance Pty Ltd
Directors' Report
For the year ended 30 June 2018

The Directors present their report, together with the financial statements for the year ended 30 June 2018 ("the financial year"), on the consolidated entity of Prospa Advance Pty Ltd ("Company" or "Parent Entity"), and its wholly owned subsidiaries ("the Group"). The parent and wholly owned entities are incorporated and domiciled in Australia.

Directors
The names and particulars of the Directors of the Company (the "Board") during or since the end of the financial year are:

Gregory Moshal
Beaumont Bertoli
Aviad Eyal
Gregory Ruddock
James Cameron (resigned 17 May 2018)
Gail Pemberton (appointed 25 February 2018)
Fiona Trafford-Walker (appointed 19 March 2018)

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

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

Review of operations
The profit for the Group in the current year before providing for income tax amounted to $3.0 million (30 June 2017: $1.4 million).

Summary of performance	**Year ended 30 Jun 2018 $'000**	**Year ended 30 Jun 2017 $'000 (restated)**
Interest income	94,986	50,809
Other income	9,699	5,538
Total revenue	**104,685**	**56,347**
Transaction costs	(4,950)	(2,608)
Net revenue	**99,735**	**53,739**
Operating expenses	(89,209)	(49,236)
Initial Public Offering expenses	(3,164)	-
Total operating expenses	**(92,373)**	**(49,236)**
Earnings before interest on corporate debt, fair value adjustments, tax, depreciation and amortisation	**7,362**	**4,503**
Depreciation and amortisation	(1,725)	(982)
Earnings before interest and tax	**5,637**	**3,522**
Interest on corporate debt	(2,861)	(2,087)
Fair value gain on financial instruments	194	-
Profit before income tax	**2,970**	**1,435**

The Group continued to significantly grow the size of its operations in the financial period. Interest income increased by $44.2 million (87%) to $95.0 million in the financial year driven by an increase in loan originations. Net revenue increased by $46.0 million (86%) to $99.7 million in the year.

Operating expenses increased by $39.9 million (81%) to $89.2 million in the financial year reflecting an increase in both variable and fixed overheads.

Review of operations (continued)
During the year the Group considered an Initial Public Offering ("IPO") which did not proceed to completion. Included in the total operating expenses are one off costs of $3.2 million incurred in relation to the IPO process.

Total assets increased by $140.4 million from 30 June 2017 driven by a $107.8 million increase in the loan receivables and a $25.8 million increase in the cash and cash equivalents.

Total liabilities increased by $137.9 million from 30 June 2017. This increase was predominantly accounted for by the issuance of convertible notes of $15.3 million, and a $113.6 million increase in borrowings to fund the continued growth in loan originations.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year
Subsequent to 30 June 2018, the Company has taken steps to explore raising additional funding. In October 2018 the Company offered convertible notes for $43.3 million in order to support business growth.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect, the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments
The entity will continue to pursue its objective of attaining above average returns on shareholders' equity and to achieve long term growth in its business consistent with increased profits on a year to year basis.

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

Funding
The Group's business operations are funded by a combination of a warehouse facility ("Prospa Trust Series 2015-1"), a rated term asset backed securities issuance ("Prospa Trust Series 2018-1"), corporate debt and cash on the balance sheet. Prospa Trust Series 2015-1 includes class A notes which were drawn to $97.5 million with a limit of $150 million. The class B notes were fully drawn to $45 million. Prospa Trust Series 2018-1 was fully drawn to $79.5 million at 30 June 2018. The Group's corporate debt facility of $20 million was also fully drawn at 30 June 2018. The Group has convertible notes of $15.3 million which were issued in January 2018. The Group had $35.2 million of cash and cash equivalents on the balance sheet as at 30 June 2018.

Key risks
The Group's principal risks include but are not limited to:

The Group's customers not meeting their financial obligations
The Group lends money to small businesses and over the term of the loan collects back principal, interest and fees. The Group is exposed to the risk that its customers do not repay their financial obligations to the Group.

Regulatory change risk
The Group operates in the financial services sector which is undergoing a significant period of political and regulatory scrutiny and expected regulatory change. Future changes to law or regulation, or potential changes to law and regulation which cause industry participants to proactively change their business model could adversely impact the Group's business.

Distribution partners' risk
The Group may not be able to retain its existing distribution partners or may not be able to increase the number of distribution partners in its network which could have an adverse impact on the Group's business.

Credit risk
There is a risk that inadequate or failed operation of the credit framework and credit processes may result in the Group unintentionally accepting higher than expected levels of credit risk.

Funding risk
A loss or adverse impact to any of the Group's funding sources could impact the Group's ability to fund new business loans.

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. Subscription for the remaining 1,500,000 shares has been deferred until no later than 30 June 2019.

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 2018 the total number of units on issue under the LTIP was 4,217,877 (30 June 2017: 2,901,875). The total pool allocated to the LTIP is 4,928,233 units. Further details of options outstanding at balance date are included in Note 19.

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.

Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and consequently the amounts in the Directors" report and the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

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 directors' report is signed in accordance with a resolution of directors made pursuant to Section 298 (2) of the Corporations Act 2001.

On behalf of the Directors:

Beaumont Bertoli
Director

3 October 2018
Sydney

Fiona Trafford-Walker
Director and Chairman of Audit Committee

3 October 2018
Sydney

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001

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

3 October 2018

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 2018, 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

Mark Lumsden
Partner
Chartered Accountants

Contents

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:

Level 1
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 3 October 2018. The Directors have the power to amend and reissue the financial statements.

Prospa Advance Pty Ltd
Consolidated Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Notes	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 (restated) $'000
Interest income		94,986	50,809
Other income		9,699	5,538
Total Revenue	3	104,685	56,347
Transaction costs		(4,950)	(2,608)
Net Revenue		99,735	53,739
Operating expenses			
Funding costs		(13,708)	(8,030)
Sales & marketing expenses		(21,638)	(14,017)
Product development expenses		(7,470)	(2,807)
General & administration expenses		(22,076)	(13,482)
Loan impairment expense		(24,317)	(10,899)
Initial Public Offering expenses		(3,164)	-
Total operating expenses	5	(92,373)	(49,236)
Earnings before interest on corporate debt, fair value adjustments, tax, depreciation and amortisation		7,362	4,503
Depreciation		(563)	(224)
Amortisation		(1,162)	(757)
Earnings before interest on corporate debt, fair value adjustments and tax		5,637	3,522
Interest on corporate debt		(2,861)	(2,087)
Fair value gain on financial instruments	20	194	-
Profit before income tax for the year attributable to the owners		2,970	1,435
Income tax expense	4	(876)	(658)
Profit for the year attributable to the owners	15	2,094	777
Other comprehensive loss for the period, net of tax	16	(104)	-
Total comprehensive profit for the period attributable to the owners		1,990	777

Prospa Advance Pty Ltd
Consolidated Statement of financial position
As at 30 June 2018

	Notes	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 (restated) $'000
Assets			
Current assets			
Cash and cash equivalents	6	35,193	9,407
Net loan receivables	7	173,279	113,536
Other financial asset	13	38	-
Prepayments and other assets		2,654	249
Total current assets		211,164	123,192
Non-current assets			
Net loan receivables	8	85,855	37,814
Intangible assets	9	5,683	4,817
Property, plant and equipment	10	1,535	659
Deferred tax assets	4	5,264	2,580
Total non-current assets		98,337	45,870
Total assets		309,501	169,062
Liabilities			
Current liabilities			
Trade and other payables		7,139	4,703
GST Provision	11	1,043	-
Borrowings	12	16,496	484
Employee benefits		1,422	564
Current tax liability		4,691	1,465
Other financial liability	13	2,345	1,631
Total current liabilities		33,136	8,847
Non-current liabilities			
Borrowings	12	238,934	126,068
Employee benefits		746	56
Total non-current liabilities		239,680	126,124
Total liabilities		272,816	134,971
Net assets		36,685	34,091
Equity			
Issued capital	14	36,149	36,149
Share option reserve		1,200	596
Cashflow hedge reserve	16	(104)	-
Retained earnings	15	(560)	(2,654)
		36,685	34,091

Prospa Advance Pty Ltd
Consolidated Statement of changes in equity
For the year ended 30 June 2018

	Issued Capital	Share Option Reserve	Cashflow Hedge Reserve	Retained Earnings	Total Equity
	Note 14		Note 16	Note 15	
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2016	10,883	315	-	(2,858)	8,341
Profit after income tax expense for the period	-	-	-	1,249	1,249
Total comprehensive income for the period	-	-	-	1,249	1,249
Transaction with owners in their capacity as owners:					
Preference shares issued during the period	25,400	-	-	-	25,400
Share issue costs applicable for offset	(134)	-	-	-	(134)
Transfer LTIP valuation to liability on sale	-	(11)	-	-	(11)
Share based payment expense	-	292	-	-	292
Balance at 30 June 2017	36,149	596	-	(1,609)	35,136

	Issued Capital	Share Option Reserve	Cashflow Hedge Reserve	Retained Earnings	Total Equity
Balance at 1 July 2017	36,149	596	-	(1,609)	35,136
Prior period adjustment (Note 26)	-	-	-	(1,045)	(1,045)
As at 1 July 2017 restated	36,149	596	-	(2,654)	34,091
Profit after income tax expense for the period	-	-	-	2,094	2,094
Other comprehensive loss for the period, net of tax	-	-	(104)	-	(104)
Total comprehensive income for the period	-	-	(104)	2,094	1,990
Transaction with owners in their capacity as owners:					
Share based payment expense	-	604		-	604
Balance at 30 June 2018	36,149	1,200	(104)	(560)	36,685

Prospa Advance Pty Ltd
Consolidated Statement of cash flows
For the year ended 30 June 2018

	Notes	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Cash flows from operating activities			
Finance income received		89,765	54,180
Other income received	3	9,699	152
Interest and other finance costs paid		(15,697)	(10,144)
Payments to suppliers and employees (inclusive of GST)		(56,072)	(29,813)
Income tax		(290)	-
Net cash from operating activities	25	27,405	14,375
Cash flows from investing activities			
Net increase in loans advanced to customers		(126,881)	(103,885)
Payments for property, plant and equipment		(1,442)	(299)
Payments intangibles		(2,024)	(2,483)
Net cash used in investing activities		(130,347)	(106,667)
Cash flows from financing activities			
Proceeds from borrowings		207,720	86,585
Repayment of borrowings		(78,992)	(16,689)
Proceeds from issue of shares		-	25,265
Share issue costs applicable for offset		-	(134)
Net cash from financing activities		128,728	95,028
Net increase in cash and cash equivalents		25,786	2,736
Cash and cash equivalents at the beginning of the financial year	6	9,407	6,671
Cash and cash equivalents at the end of the financial year	6	35,193	9,407

Note 1. Statement of significant accounting policies

Basis of accounting

The financial statements of Prospa Advance Pty Ltd and its wholly owned subsidiaries (the "Group") has transitioned from being a special purpose financial report for the year ended 30 June 2017 to a general purpose financial report for the year ended 30 June 2018. As part of the transition the Group is required to change its accounting policies to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). This transition is accounted for in accordance with Accounting Standard Board AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards. The classification and measurement of the financial statements has not changed as a result of the transition from special purpose financial reporting to general purpose financial reporting. On this basis, the directors have elected not to present a detailed explanation on the transition to A-IFRS.

Prospa Advance Pty Ltd is a for-profit company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the Board of Directors on 3 October 2018.

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

Basis of preparation

The general purpose financial statements have been prepared on an accrual basis. These financial statements for the year ended 30 June 2018 are being prepared for the benefit of the Directors. The financial year end has not changed and continues to be 30 June. It should be noted that this set of financial statements contains restatements relating to the year ended 30 June 2017. For further information in relation to these restatements see Note 26.

Compliance with IFRS

For the year ended 30 June 2018 the financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Rounding

The Group is a Company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise stated.

Parent entity information

In accordance with the Corporations Act 2001, the financial statements present the results of the Group only. Supplementary information about the Parent Entity is disclosed in Note 18.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, financial instruments and financial assets and financial liabilities at fair value through profit or loss and loans and other receivables which are measured at amortised cost.

Going concern

The financial statements of the Group have been prepared on a going concern basis. The Board of Directors have made an assessment of the Group's ability to continue as a going concern and have reviewed cashflow forecasts. They are satisfied that the Group has the resources to continue for the foreseeable future and pay debts as they fall due.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of Prospa Advance Pty Ltd ("Prospa") the Prospa Trust Series 2015-1 Security Trust and the Prospa Trust Series 2018-1 Security Trust as at 30 June 2018 and the results of the consolidated Group for the financial period then ended.

The Trusts are entities over which the Parent Entity has the power to govern the financial and operating policies and activities. The Trusts are fully consolidated from the date on which control was transferred to the Group. It is de-consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of an asset transferred. Accounting policies of the Trust have been changed where necessary to ensure consistency with the policies adopted by the Group.

Note 1. Statement of significant accounting policies (continued)

New or revised standards and interpretations
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 Group's assessment of these new standards and interpretations is set out below:

AASB 9 *Financial Instruments*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. It replaces AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

From 1 July 2018, adoption of AASB 9 will be compulsory for all financial services businesses. The Group has elected not to early adopt AASB 9, however the Group has conducted an impact assessment of AASB 9 adoption.

Classification and measurement
AASB 9 replaces the classification and measurement model in AASB 139 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;

- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or

- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

Implementation
The Group does not currently expect that there will be a material change to the classification and measurement of financial instruments as a result of implementing AASB 9 as the Group already measures financial assets in line with the requirements set out in AASB 9. Financial assets are currently measured at amortised cost which is in line with AASB 9 requirements.

Impairment
AASB 9 introduces a revised impairment model. The new impairment model in AASB 9 will be based on expected loss rather than an incurred loss model. The expected credit loss ("ECL") model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a default event to have occurred before credit losses are recognised. Key elements of the new impairment model are:

- requires more timely recognition of expected credit losses using a three-stage approach. For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months expected credit losses is required (stage 1). For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired a provision for full lifetime expected losses is required (stages 2 and 3 respectively);

Note 1. Statement of significant accounting policies (continued)

Impairment (continued)

- expected credit losses are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. This will involve a greater use of judgement than the existing impairment model; and

- interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired.

Implementation
The Group has elected not to early adopt AASB 9. A program is in process to assess the impact AASB 9 will have on the Group.

The Group has applied a 3 stage ECL model, using a combination of historical data and forecast assumptions to derive the expected credit loss on Stage 1 and Stage 2 segments of the portfolio (on a collective basis), with specific provisioning applicable to Stage 3.

It is not practical to disclose the financial impact of the implementation of AASB 9 until further assessment is completed by management.

Hedging
The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Implementation
Having completed an assessment of the Group’s current hedging relationships and the requirements of AASB 9, the directors do not anticipate that the application of the hedge accounting requirements under AASB 9 will have a material impact on the Group’s financial statements. There will be two main impacts. Firstly, there will be updates to hedge accounting documentation. Secondly, the change in the time value of money of the interest rate cap can retrospectively be classified as a cost of hedging and taken to Other Comprehensive Income via a Cost of Hedging Reserve~~.~~

AASB 15 *Revenue from contracts with customers*
AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. It replaces existing guidance, including AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

This standard is mandatory for reporting periods beginning on or after 1 January 2018 and therefore the Group will apply it in the accounting period commencing 1 July 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Note 1. Statement of significant accounting policies (continued)

AASB 15 *Revenue from contracts with customers (continued)*

The Group has several revenue streams. Revenue in the form of loan interest and origination fees is captured under AASB 9, they do not fall under AASB 15. Revenue from late fees and servicing fees will fall under AASB 15. Based on the preliminary analysis the Group has performed, the amendments are not expected to have an impact on the Group. The Group considered the 5-step approach and conclude that revenue that fall under AASB 15 is already accounted for in accordance with the new guidelines.

AASB 16 Leases

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 applies to annual reporting periods beginning on or after 1 January 2019 and replaces AASB 117 Leases and the related interpretations. It will apply to the Group in the accounting period commencing 1 July 2019.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under AASB 17 are presented as operating cash flows; whereas under the AASB 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 17 and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by AASB 16.

At the reporting date, the Group has non-cancellable operating lease commitments of $3 million, refer to Note 23. A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of AASB 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group’s consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

The standard will result in the recognition of an asset and liability on the balance sheet, however, the quantum of these balances will be determined by the level of operating lease commitments greater than 12 months duration at adoption and is not yet practicable to determine.

The other new or amended standards are not expected to have a significant impact on the Group’s consolidated financial statements.

Note 1. Statement of significant accounting policies (continued)

Revenue recognition
Revenue is recognised when the Group has completely satisfied its performance obligations, when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Effective interest method
The effective interest method is used for the recognition of interest on loans and loan origination fees reported together within interest income, and transaction costs and broker commissions directly attributable to the origination of a loan reported within transaction costs. Interest income and transaction costs together comprise the complete effective interest yield of the loan book. 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.

Interest income
Interest income includes interest and loan origination fees. Interest income is recognised using the effective interest method.

Fee income
Other income includes fees not directly attributable to the origination of loans including late fees and servicing fees, as well as interest on cash deposits. Fee income is recognised when the right to receive payment is established and receipt of the payment is probable and can be reasonably estimated.

Transaction costs
Transaction costs and broker commissions directly attributable to the origination of loans are included in the cost of financial assets and amortised to the profit and loss using the effective interest method.

Funding expense and interest on corporate debt
The Group's business operations are funded by a combination of securitisation trust warehouse facilities, corporate debt, convertible notes and cash on the balance sheet. Interest expense is recognised as it accrues using the effective interest rate method.

The Group's securitisation trust warehouse facilities and the asset backed security include class A and class B notes which carry a floating interest rate. Interest on the class A and class B notes is disclosed as funding expense.

Interest on the corporate debt facility and convertible note are at a fixed rate and are disclosed as interest on corporate debt. Included within interest on corporate debt is the unwinding of the discount on the embedded derivative over the course of its life.

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.

Note 1. Statement of significant accounting policies (continued)

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. The initial fair value of loan receivables includes capitalised origination fees net of directly attributable transaction costs.

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. The Group also carries a provision for impairment of loan receivables equal to 5.1% (30 June 2017: 5.1%) of the total loan receivables. This percentage requires a degree of estimation and judgement. The percentage is determined by use of a model. The model considers the aging of receivables, historical collection rates and specific knowledge of the individual borrower's financial liability.

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

Intangible assets
Software & Website
Expenditure on acquiring and developing software and eligible website development costs have been capitalised and amortised on a straight-line basis over the period of their expected benefit. The intangible assets are amortised over their useful lives as follows:

Website	3 years
Software (acquired)	5 years
Software Development (in-house)	7 years

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 Group. 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.

Note 1. Statement of significant accounting policies (continued)

Leases (continued)
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 Group 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.

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.

Derivative financial instruments
Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives used for risk management are designated into one of three hedge accounting relationships: fair value hedge; cash flow hedge; net investment hedges in foreign operations. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cashflow Hedges
Cashflow hedges hedge the exposure to variability of cash flows attributable to an asset, liability or future forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Note 1. Statement of significant accounting policies (continued)

Fair Value Hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

The Group holds derivative financial instruments as part of its risk management activities, the main purpose being to hedge its interest rate risk exposures. Further details of derivative financial instruments are disclosed in Note 13.

Convertible notes
The Group has convertible notes that on the occurrence of a trigger event can be converted into a variable number of shares. The option to convert these notes is deemed to be an embedded derivative. The convertible notes and associated embedded derivative are recognised as financial liabilities at fair value through profit or loss.

On initial recognition, the fair value of the embedded derivative is taken from the proceeds received to arrive at the value of the convertible notes. Subsequently, the fair value of the embedded derivative is measured at each reporting period until settlement. Fair value movements are recognised in the statement of profit or loss. The embedded derivative is unwound over the life of the convertible note.

Warrants
Warrants are recognised as financial liabilities at fair value. At each reporting date the fair value is measured with changes being recognised in the statement of profit or loss.

Other financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Trade and other payables
These amounts represent liabilities for goods and services provided to the Group 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 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 for expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity that match the estimated future cash outflows.

Note 1. Statement of significant accounting policies (continued)

Employee benefits (continued)
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 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.

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 Group 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.

Goods and Services Tax ("GST") and other similar taxes (continued)
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 Australian 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 loan receivables
The provision for impairment of loan receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by use of a model. The model takes 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 Group 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.

Share based payment option valuation
The fair value of the share based payment requires a degree of estimation and judgement. Refer to page 18 where details of the estimation and the methodology used is set out.

Fair value of financial instruments
Financial instruments include derivatives, warrants and convertible notes. The valuation of these instruments is dependent on estimation and judgements. To arrive at the valuation of the convertible note the Group has employed a Discounted Cash Flow ("DCF") valuation methodology using continuous compounding. Judgements are made in relation to the discount rate to be used in the DCF. To value the warrant the Group employed a probability weighted scenario analysis, based on expected timing of trigger events, and whether the warrant is expected to be in or out of the money.

AASB 9
AASB 9 introduces a revised impairment model. The inputs to this model require a degree of estimation and judgement. Refer to page 11 where details of the impairment model are set out.

Note 3. Interest and other income

	Year ended 30 Jun 2018 $'000	**Year ended 30 Jun 2017 $'000**
Interest income	94,986	50,809
Fee income	9,444	5,385
Bank interest	255	152
Total revenue	104,685	56,347
Transaction costs	(4,950)	(2,608)
	99,735	53,739

Note 4. Income tax expense

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 (restated) $'000
Income tax expense		
Current tax expense	3,505	1,913
Adjustment to current tax in prior years	10	-
Prior year adjustment (See note 26)	-	(202)
Deferred tax - origination and reversal of temporary differences	(2,639)	(1,053)
Aggregate income tax expense	876	658
Increase in deferred tax assets recognised in profit or loss	(2,639)	(1,053)
Increase in deferred tax assets recognised in other comprehensive income	(45)	-
Deferred tax - origination and reversal of temporary differences	(2,684)	(1,053)
Profit before income tax expense	2,970	1,435
Tax expense at the statutory tax rate of 30%	891	431
Tax effect amounts which are not deductible / (taxable) in calculating taxable income:		
Entertainment expenses	27	27
Share-based payments	181	169
Sundry items	285	31
Deferred tax adjustment	(518)	-
	866	658
Adjustment recognised for prior periods related to over provision	10	-
Income tax expense	876	658

Note 4. Income tax expenses (continued)

Deferred tax assets comprise

	Opening balance $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Closing balance $'000
Employee benefits	184	737	-	921
Provision for impairment of receivables	2,430	1,727	-	4,157
Derivatives	-	(23)	45	22
Property, Plant and Equipment and Intangibles	(34)	198	-	164
	2,580	2,639	45	5,264

Note 5. Operating expenses

Operating expenses for the year were $92.4 million, of that employee expenses were $29.2 million (June 2017: $19.2 million). In the Statement of profit or loss and other comprehensive income on page 6 these employee expenses are included within the Sales & Marketing expenses, the Product Development Expenses and the General and Administration expenses on a pro rata basis.

During the year the Group considered an Initial Public Offering which did not proceed to completion. During the financial year ended 30 June 2018, one off expenses of $3.2 million were incurred in relation to the Initial Public Offering.

Note 6. Current assets - cash and cash equivalents

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
At-call cash at bank	34,397	8,589
Held-to-maturity - Term Deposits less than 6 months maturity	796	818
	35,193	9,407

Included in the cash at bank is a restricted cash balance of $20.4m (June 2017: $5.5m).

Note 7. Current assets – net loan receivables

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Loan receivables	182,544	119,611
Less: provision for impairment	(9,265)	(6,075)
Net loan receivables	173,279	113,536

Note 8. Non-current assets – net loan receivables

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Loan receivables	90,446	39,837
Less: provision for impairment	(4,591)	(2,023)
Net loan receivables	85,855	37,814

Loan Receivables:

Loan receivables are made up by a diverse distribution of customers across industry, geography, time in trading and size. There are low levels of individual customer concentration, with 89% of loans disbursed in the 12 months to 30 June 2018 having an original loan size under $100,000 (30 June 2017: 90%), with an average loan term of 11.7 months (30 June 2017: 10.9 months).

Losses have been written off after 120 days of consecutive non-payment. Loans aged greater than 90 days past due is a key indicator of portfolio credit performance. The Group carries a provision for impairment of loan receivables equal to 5.1% (30 June 2017: 5.1%) of the total loan receivables. This percentage is based on historical and expected performance of the loan book.

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Loan receivables aged under 90 days	255,437	151,337
Loan receivables aged 90 days and over	17,553	8,111
Total loan receivables	272,990	159,448

Collateral held as security and other credit enhancements
The Group holds collateral to cover its credit risks associated with its financial assets. The Group takes a charge over assets for both loans over $100,000 and loans in default. If a loan is over $100,000, the Group will lodge a Personal Property Securities Register ("PPSR") in relation to the Borrower's business assets. If a loan goes into default, the Group will often lodge a caveat over a borrower or guarantor's property.

Impairment of loan receivables
As at 30 June 2018 the provision for loan impairment of $13.9 million includes a specific provision of $1.5 million in relation to loans assessed as: in liquidation, administration, bankruptcy, and fraudulent activities. As at 30 June 2017 the provision for loan impairment was $8.1 million.

Note 9. Non-current assets – intangible assets

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Website - at cost	747	474
Less: Accumulated amortisation – website	(358)	(138)
Software purchased - at cost	394	376
Less: Accumulated amortisation – software	(176)	(92)
Software Development - at cost	6,702	4,968
Less: Accumulated amortisation - software development	(1,626)	(771)
	5,683	4,817

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

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Plant and equipment - at cost	2,426	985
Less: Accumulated depreciation	(891)	(326)
	1,535	659

Note 11. GST Provision

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
GST Provision	1,043	-

During the financial year management noted it has over-claimed GST. Management has engaged with the tax authorities to rectify this position and the $1.0 million provision is the estimated cost of remediation. See Note 26 for further details.

Note 12. Borrowings

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Borrowings – current liabilities	16,496	484
Borrowings – non-current liabilities	238,934	126,068
Total borrowings	255,430	126,552

Note 12. Borrowings (continued)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities.

	Opening Balance $'000	Drawdowns $'000	Repayments $'000	Other Changes* $'000	Closing Balance $'000
Securitisation Trusts – 2015	108,457	113,000	(78,992)	-	142,464
Securitisation Trusts – 2018	-	79,470	-	-	79,470
Corporate Debt	18,369	-	-	398	18,767
Convertible Notes	-	15,250	-	(500)	14,750
Other *	(274)	-	-	253	(21)
	126,552	207,720	(78,992)	151	255,430

* Other/Other changes include fair value movements, interest provision/accruals and payments.

Facility Type (30 June 2018)	Expiry	Facility Limit	Drawn Balance as at 30 Jun 2018
Securitisation trust (2015) - Class A notes (Floating interest rate indexed to BBSY)	March 2021	$150 million	$97.5 million
Securitisation trust (2015)- Class B notes (Floating interest rate indexed to BBSY)	March 2021	$45 million	$45 million
Corporate debt (Fixed interest rate)	March 2022	$20 million	$20 million
Asset Back Securities Issuance (2018 Trust) – Class A (Floating interest rate indexed to BBSY) **	April 2019	$64.8 million	$64.8 million
Asset Back Securities Issuance (2018 Trust) – Class B (Floating interest rate indexed to BBSY) **	April 2019	$14.7 million	$14.7 million
Convertible Notes **	June 2019	N/A	$15.3 million

Facility Type (30 June 2017)	Expiry	Facility Limit	Drawn Balance as at 30 Jun 2017
Securitisation trust - Class A notes (Floating interest rate indexed to BBSY)	October 2019	$100 million	$63 million
Securitisation trust - Class B notes (Floating interest rate indexed to BBSY)	August 2020	$45 million	$45 million
Corporate debt (Fixed interest rate)	March 2022	$20 million	$20 million

**As per the agreements in place the principal amount on the Asset Back Securities Issuance (2018 Trust) and the Convertible Notes are not due and payable on the expiry date listed above.

Convertible Notes
In January 2018, the Group issued 1,525 convertible notes with an aggregate principal amount of $15.3 million. Interest is at a fixed rate per annum and will accrue on the face value of the note on a daily basis. Conversion of these notes may occur on the occurrence of a trigger event.

Within the convertible notes is an embedded derivative. The embedded derivative relates to the conversion option that is available to the holders of the notes.

Note 13. Other financial assets and liabilities

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Other financial assets		
Derivative Assets	38	-

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Other financial liabilities		
Derivative Liability – Interest Rate Swap	(161)	-
Warrant	(1,744)	(1,631)
Embedded Derivative	(440)	-
	(2,345)	(1,631)

The notes related to the 2015 Trust and 2018 Trust, details of which can been in Note 12, are linked to a floating interest rate. To reduce the risk of changing interest rates associated notes, the Group has entered into an interest rate swap contract and an interest rate cap contract with UBS AG Australia. The interest rate swap's notional principal is $83.3 million. It matures in May 2019. The notional value of the interest rate cap is $6.3 million with a maturity of February 2020. The amounts presented above represent the fair value of the derivatives as at 30 June 2018.

For the year ended 30 June 2017 an amount of $1.6 million was reclassified from borrowing costs to other financial liabilities to more accurately reflect the substance of the underlying financial instrument.

Warrants
The Group has a $2.0 million warrant which is related to the $20 million corporate debt facility (details of which can be seen in Note 12). It has a term of 7 years and will mature on 6 March 2024. The put options provides downside protection to the warrant holder to provide a floor return of $2.0 million. It is exercisable at any point up until maturity. Please refer to page 17 for details regarding the accounting policy for warrants.

Note 14. Contributed Equity

	Ordinary shares		Preference shares		Total	
	Number	$	Number	$	Number	$
30 Jun 2017 (restated)	21,712,630	317	15,645,067	36,148,421	37,357,697	36,148,738
30 Jun 2018	21,712,630	317	15,645,067	36,148,421	37,357,697	36,148,738

Number of shares on issue	30 June 2018	30 June 2017 (restated)	30 June 2016 (restated)
Opening balance (excluding treasury shares deduction)	23,812,337	23,841,305	22,271,598
Issue of shares/ (Reduction of shares)	-	(28,968)	1,569,707
Closing balance (excluding treasury shares deduction)	23,812,337	23,812,337	23,841,305
Less: treasury shares	(2,099,707)	(2,099,707)	(1,569,707)
Closing balance	21,712,630	21,712,630	22,271,598

Note 14. Contributed Equity (continued)

Treasury shares

The treasury shares mentioned above reflect shares that were issued in relation to the employee share option scheme.

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. Issued shares are fully paid. Shares are not entitled to cumulative dividends. 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.

A restatement has been made in relation to the number of ordinary shares as at 30 June 2016 and 30 June 2017. Prior to the restatement, the number of shares were 22,271,598 as at 30 June 2016 and 21,712,630 as at 30 June 2017. Shares issued in relation to the employee share option scheme (treasury shares) were incorrectly omitted from the 2016 and 2017 financial statements.

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 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.

Note 15. Equity – Retained earnings

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000 (restated)
Retained earnings at the beginning of the financial year	(2,654)	(3,432)
Profit after income tax expense for the year	2,094	778
Retained earnings at the end of the financial year	560	(2,654)

Note 16. Equity – Cashflow hedge reserve

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Balance at beginning of the year	-	-
Loss arising on changes in fair value of hedging instruments	(149)	-
Income tax related to loss recognised in other comprehensive income	45	-
Balance at the end of the year	(104)	-

Note 17. Equity – Dividends

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

Note 18. Parent and Controlled entity

	Country of Incorporation	100% Owned	
		30 Jun 2018	30 Jun 2017
Parent Entity			
Prospa Advance Pty Ltd	Australia		
Controlled Entity			
Prospa Trust Series 2015-1 Security Trust	Australia	100	100
Prospa Trust Series 2018-1 Security Trust	Australia	100	-

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000 (restated)
Total current assets	49,844	38,004
Total non-current assets	29,138	19,225
Total current liabilities	(26,882)	(7,281)
Total non-current liabilities	(19,875)	(17,667)
Total equity	32,226	32,281

	Year ended Jun 2018 $'000	Year ended Jun 2017 $'000 (restated)
Loss for the period	(552)	(18)
Total comprehensive loss for the period	(656)	(18)

Note 19. Share based payments

The employee long-term incentive plan enables the Company to offer eligible employees options to subscribe for shares or loan shares in the Company. Loan shares involve the purchase of shares in the Company by certain employees, funded by loans from the Company. The employee share ownership plan is designed to incentivise performance. No shares have been forfeited in the year. To date no shares have been exercised.

Employment Shares (1)	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP –Feb 16	30 Sep 2016	147	675,625
	31 Mar 2017	147	337,813
	30 Sep 2017	147	337,813
	31 Mar 2018	147	337,813
	30 Sep 2018	147	337,813
Total			**2,026,875**

Note 19. Share based payments (continued)

Employment Shares [1]	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP – Sep 2016	31 Mar 2017	200	13,333
	30 Sep 2017	200	13,333
	31 Mar 2018	200	13,333
	30 Sep 2018	200	13,333
	31 Mar 2019	200	13,333
	30 Sep 2019	200	13,333
Total			**80,000**

Employment Shares [1]	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP – Feb 2017	30 Sep 2017	200	28,333
	31 Mar 2018	200	28,333
	30 Sep 2018	200	28,333
	31 Mar 2019	200	28,333
	30 Sep 2019	200	28,333
	31 Mar 2020	200	28,333
Total			**170,000**

Employment Shares [1]	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP – Apr 2017	31 Mar 2018	467	104,167
	30 Sep 2018	467	104,167
	31 Mar 2019	467	104,167
	30 Sep 2019	467	104,167
	31 Mar 2020	467	104,167
	30 Sep 2020	467	104,167
Total			**625,000**

Employment Shares [1]	Vesting Date	Subscription price (cents / share)	No. of Shares
Tranche LTIP – Nov 2017	30 Sep 2018	467	90,417
	31 Mar 2019	467	90,417
	30 Sep 2019	467	90,417
	31 Mar 2020	467	90,417
	30 Sep 2020	467	90,416
	31 Mar 2021	467	90,416
Total			**542,500**

Note 19. Share based payments (continued)

Employment Shares (1)	**Vesting Date**	**Subscription price (cents / share)**	**No. of Shares**
Tranche LTIP – Feb 2018	31 Mar 2019	467	46,000
	30 Sep 2019	467	46,000
	31 Mar 2020	467	46,000
	30 Sep 2020	467	46,000
	31 Mar 2021	467	46,000
	30 Sep 2021	467	46,000
Total			**276,000**

Employment Shares (1)	**Vesting Date**	**Subscription price (cents / share)**	**No. of Shares**
Tranche LTIP – Apr 2018	30 Sep 2018	600	82,917
	31 Mar 2019	600	82,917
	30 Sep 2019	600	82,917
	31 Mar 2020	600	82,917
	30 Sep 2020	600	82,917
	31 Mar 2021	600	82,917
Total			**497,502**

(1) Employment shares require the holder to remain in full-time employment of the Company until the exercise date. There are a number of key performance indicators (KPIs) covering both financial and non-financial measures.

Set out below are summaries of the total options granted up to 30 June 2018 under the plan:

	Employment Shares			
	Tranche LTIP – Feb 2016	**Tranche LTIP - Sep 2016**	**Tranche LTIP - Feb 2017**	**Tranche LTIP - Apr 2017**
Grant Date	Feb 2016	Sep-2016	Feb-2017	Apr-2017
Exercise Price / Fair value (cents) (2)	147	200	200	467
Vesting Date	30 Sep 2016 31 Mar 2017 30 Sep 2017 31 Mar 2018 30 Sep 2018	31 Mar 2017 30 Sep 2017 31 Mar 2018 30 Sep 2018 31 Mar 2019 30 Sep 2019	30 Sep 2017 31 Mar 2018 30 Sep 2018 31 Mar 2019 30 Sep 2019 31 Mar 2020	31 Mar 2018 30 Sep 2018 31 Mar 2019 30 Sep 2019 31 Mar 2020 30 Sep 2020
Contractual Expiry	30 Jun 2016 31 Dec 2016 30 Jun 2017 31 Dec 2017 30 Jun 2018	31 Dec 2016 30 Jun 2017 31 Dec 2017 30 Jun 2018 31 Dec 2018 30 Jun 2019	30 Jun 2017 31 Dec 2017 30 Jun 2018 31 Dec 2018 30 Jun 2019 31 Dec 2019	31 Dec 2017 30 Jun 2018 31 Dec 2018 30 Jun 2019 31 Dec 2019 30 Jun 2020
Term (years)	3.00	3.00	3.00	3.00
Valuation Method	Black Scholes	Black Scholes	Black Scholes	Black Scholes
Risk Free Rate (%)	1.55%	1.53%	1.94%	1.94%
Dividend Yield (%)	0.00%	0.00%	0.00%	0.00%
Number Issued	2,026,875	80,000	170,000	625,000
Volatility	32%	32%	32%	32%

Note 19. Share based payments (continued)

	Tranche LTIP - Nov 2017	**Tranche LTIP – Feb 2018**	**Tranche LTIP – Apr 2018**
Grant Date	Nov-2017	Feb-2018	Apr-2018
Exercise Price / Fair value (cents) (2)	467	467	600
Vesting Date	30 Sep 2018 31 Mar 2018 30 Sep 2019 31 Mar 2020 30 Sep 2020 31 Mar 2021	31 Mar 2019 30 Sep 2019 31 Mar 2020 30 Sep 2020 31 Mar 2021 30 Sep 2021	30 Sep 2018 31 Mar 2019 30 Sep 2019 31 Mar 2020 30 Sep 2020 31 Mar 2021
Contractual Expiry	30 Jun 2018 31 Dec 2018 30 Jun 2019 31 Dec 2019 30 Jun 2020 31 Dec 2020	31 Dec 2018 30 Jun 2019 31 Dec 2019 30 Jun 2020 31 Dec 2020 30 Jun 2021	30 Jun 2018 31 Dec 2018 30 Jun 2019 31 Dec 2019 30 Jun 2020 31 Dec 2020
Term (years)	3.00	3.00	3.00
Valuation Method	Black Scholes	Black Scholes	Black Scholes
Risk Free Rate (%)	2.15%	2.10%	2.10%
Dividend Yield (%)	0.00%	0.00%	0.00%
Number Issued	542,500	276,000	497,502
Volatility	30%	42%	42%

(2) The fair value of the options is calculated at the date of grant using the Black Scholes option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.

Total expenses arising from share-based payment transactions recognised during the period were $603,567 (30 June 2017: $292,175).

Note 20. Financial instruments

Financial risk management objectives
The Group's activities expose it to a variety of financial risks, primarily credit risk, market risk and liquidity risk. The Group's risk management program focuses on understanding drivers of financial risk and seeks to minimise potential adverse effects on financial performance of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors have overall responsibility for the establishment and oversight of the risk management framework. The Board is responsible for developing and monitoring risk management policies. Risk management procedures are established by the Board and carried out by management to identify and analyse the risks faced by the Group and to set controls and monitor risks.

These are discussed individually below.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Group is concentrated in loan receivables.
The Group provides short term loans to the small business market and applies a strict credit policy. Loan receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group establishes an allowance for doubtful debts that represents its estimate of incurred losses in respect of loan receivables.

Note 20. Financial instruments (continued)

Credit risk (continued)
The portfolio of receivables to which the Group is exposed is well diversified across industries, geographies and customers and therefore, the Group does not have any material credit risk exposure to any single debtor or Group of debtors under the financial instrument contracts entered into by the Group.

With respect to credit risk arising from the financial assets of the Group comprised of cash and cash equivalents and loan receivables, the group’s maximum exposure to credit risk, excluding the value of any collateral or other security at balance sheet date is the carrying amount as disclosed in the statement of financial position and notes to the financial statements. The Group’s credit risk on liquid funds is limited as the counter parties are major Australian banks with favourable credit ratings assigned by international credit rating agencies.

Market risk
Market risk is the risk that changes in market prices such as interest rates that will affect the Group’s income or the value of holdings in its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk
The Group is exposed to interest rate risk because the Group borrows funds at both fixed and floating interest rates. Details of the Groups borrowings facilities is set out in Note 12. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of an interest rate swap contract and an interest rate cap contract. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The interest payable under the 2015 and 2018 Trusts is linked to the Bank Bill Swap Bid Rate (“BBSY”) – a variable floating interest rate benchmark. An element of the Group’s borrowings carry a fixed interest rate. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including an interest rate cap and an interest rate swap. Details of these are set out in Note 13.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group’s profit for the year ended 30 June 2018 would decrease/increase by $554,836 (2017: decrease/increase by $271,142). This is mainly attributable to the Group‘s exposure to interest rates on its variable rate borrowings

Capital management
The Group’s objective is to maintain a strong capital base so as to maintain the support of its investors and other business partners and, support the future growth initiatives of the Group. The Board reviews these objectives periodically. There were no changes to the Group’s approach to capital management in the period.

Foreign currency risk
The Group pays certain overseas suppliers in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. However, payments made in foreign currency are not of a significant value to have a material impact on the Group’s result.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has a diversified funding model and currently comprises of a mix of securitisation warehouse facilities, corporate debt and balance sheet cash.

The Group manages operational liquidity risk by maintaining cash reserves and available borrowing facilities and by continuously monitoring actual and forecast cash flows. The Group seeks to have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Note 20. Financial instruments (continued)

Liquidity risk (continued)

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities.

Consolidated 30 June 2018	**Less than 1 Year**	**Between 1 to 5 Years**	**Total**
	$'000	**$'000**	**$'000**
Financial assets			
Cash and cash equivalents	35,193	-	35,193
Loan receivables	173,279	85,855	259,134
Other financial assets	38	-	38
Total financial assets	208,510	85,855	294,365
Financial liabilities			
Trade and other payables	(7,139)	-	(7,139)
Borrowings	(16,496)	(238,934)	(255,430)
Other financial liabilities	(2,345)	-	(2,345)
Total financial liabilities	(25,980)	(238,934)	(264,914)

Consolidated 30 June 2017	**Less than 1 Year**	**Between 1 to 5 Years**	**Total**
	$'000	**$'000**	**$'000**
Financial assets			
Cash and cash equivalents	9,407	-	9,407
Loan receivables	113,536	37,814	151,350
Total financial assets	122,943	37,814	160,757
Financial liabilities			
Trade and other payables	(4,703)	-	(4,703)
Borrowings	(484)	(126,068)	(126,552)
Other financial liabilities	(1,631)	-	(1,631)
Total financial liabilities	(6,818)	(126,068)	(132,886)

Covenants
The Group has various financial and non-financial covenants under its financing facilities that can affect matters such as funding availability, repayments and the liabilities of the Group. Receivables funded within the senior facilities are tested at each drawdown for compliance with these covenants. If the Group's operating results deteriorate, including incurring significant losses, the Group may be unable to meet the covenants governing its indebtedness, which may require the Group to seek amendments, waivers of covenant compliance or alternative borrowing arrangements, or to reduce debt or raise additional equity.

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

Consolidated 30 June 2018	**Less than 1 Year**	**Between 1 to 5 Years**	**Total**
	$'000	**$'000**	**$'000**
Non-Interest bearing - trade and other payables	(7,139)	-	(7,139)
Interest bearing	(16,496)	(238,934)	(255,430)
	(23,635)	(238,934)	(262,569)

Note 20. Financial instruments (continued)

Covenants (continued)

Consolidated 30 June 2017	**Less than 1 Year**	**Between 1 to 5 Years**	**Total**
	$'000	**$'000**	**$'000**
Non-Interest bearing - trade and other payables	(4,703)	-	(4,703)
Interest bearing	(484)	(126,068)	(126,552)
	(5,187)	(126,068)	(131,255)

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value measurement

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – a valuation technique is used 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 used using inputs that are not observable based on observable market data (unobservable inputs).

The classification in the fair value hierarchy of the Group's financial assets and liabilities measured at fair value as at 30 June 2018 is presented in the tables below (June 2017: Financial assets: Nil. See table below for financial liabilities):

30 June 2018	**Carrying Value**	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Interest rate cap	11	-	11	-	11
Interest rate swap	27	-	27	-	27
Total financial assets	38	-	38	-	38

	Carrying Value	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial liabilities					
Interest rate swap	161	-	161	-	161
Embedded derivative	440	-	-	440	440
Warrant	1,744	-	-	1,744	1,744
Total financial liabilities	2,345	-	161	2,184	2,345

30 June 2017

	Carrying Value	**Fair Value Level 1**	**Fair Value Level 2**	**Fair Value Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial liabilities					
Interest rate swap	-	-	-	-	-
Embedded derivative	-	-	-	-	-
Warrant	1,631	-	-	1,631	1,631
Total financial liabilities	1,631	-	-	1,631	1,631

Note 20. Financial instruments (continued)

Fair value measurement (continued)

Reconciliation of Level 3 movements

The following table sets out the movements in level 3 fair values for the year ended 30 June 2018.

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Opening balance 1 July 2017	1,631	-
Fair value adjustments during the year		
- Warrant	113	1,631
- Embedded derivative	440	-
Closing balance 30 June 2018	2,184	1,631

There were no transfers between Level 1 and Level 2 during 2018.

Fair value gain/(loss) on financial instruments

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Unrealised gain on interest rate cap	11	-
Unrealised gain on interest rate swap	27	-
Fair value adjustment to warrant	(113)	-
Fair value adjustment to embedded derivative	270	-
	194	-

Fair value hierarchy for financial assets and financial liabilities not measured at fair value:

	Carrying Value $'000	Fair Value Level 1 $'000	Fair Value Level 2 $'000	Fair Value Level 3 $'000	Total $'000
Financial assets					
Cash and cash equivalents	35,193	35,193	-	-	35,193
Loan receivables	259,134	-	259,134	-	259,134
Total financial assets	294,327	35,193	259,134	-	294,327

	Carrying Value $'000	Fair Value Level 1 $'000	Fair Value Level 2 $'000	Fair Value Level 3 $'000	Total $'000
Financial liabilities					
Trade and other payables	7,139	-	-	7,139	7,139
Borrowings	255,430	-	255,430	-	255,430
Total financial liabilities	262,569	-	255,430	7,139	262,569

Note 20. Financial instruments (continued)

Valuation techniques

Derivatives
A Discounted Cash Flows model is used to determine fair value of derivative instruments. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Convertible notes
The valuation of the Convertible Note as a debt instrument, is valued on a Discounted Cash Flow basis. The valuation of the option value of the Convertible Note is established using the Black Scholes methodology.

Warrant
To value the warrant a probability weighted scenario analysis has been employed, based on expected timing of trigger events and whether the warrant is expected to be in or out of the money.

The Group has considered all financial assets and liabilities not carried at fair value to determine whether the carrying value is an accurate reflection of fair value. The Directors consider that due to the short-term nature and/or the variable rate arrangement of the borrowings, the carrying amounts of financial assets and financial liabilities, which include cash, client receivables, payables and borrowings, are assumed to approximate their fair values.

Derecognition of Financial Assets
The Group offers syndication arrangements to select Distribution Partners. Syndication allows for a Distribution Partner to invest in the loans that they introduce creating close alignment between the Group and our syndicating Distribution Partners. The Distribution Partner will contribute a portion of the initial capital and will be entitled to a pro rata share of principal collections over the life of the loan and will also be responsible for their pro rata share of any losses. The Group de-recognises the pro-rata portion of loans subject to syndication of $5.7million as at 30 June 2018 ($6.1 million as at 30 June 2017).

Loan receivables of $208.9 million (2017: $106.6 million) which were transferred to the Trusts were not derecognised as all the associated risks and rewards have been retained by the Group.

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:

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Audit services & Non-Audit Services		
Audit and review of the financial statements - Deloitte	305	60
Non-audit services – Deloitte		-
- Tax services	58	-
- Due diligence	1,042	-
	1,405	60

The fees for non-audit services relate to tax compliance and due diligence services.

Note 22. Contingent liabilities

The Company had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Note 23. Commitments

The following table summarises the operating lease commitments of the Group:

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Operating leases – land & buildings		
Lease payments due:		
- within 1 year	1,449	1,467
- later than 1 year and less than 5 years	1,017	1,905
Total minimum lease payments – land & buildings	2,466	3,372
Operating leases – computer equipment		
Lease payments due:		
- within 1 year	248	169
- later than 1 year and less than 5 years	268	264
Total minimum lease payments – computer equipment	516	433

Note 24. Events after the reporting period

Subsequent to 30 June 2018, the Company has taken steps to explore raising additional funding. In October 2018 the Company offered convertible notes for $43.3 million order to support business growth.

No other matter or circumstance has arisen since 30 June 2018 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.

Note 25. Reconciliation of profit after income tax to net cash from operating activities

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2018 $'000
Profit after income tax for the period	2,094	777
Adjustments for:		
Origination fees	2,348	2,038
Share premium reserve	604	565
Depreciation	1,725	982
Movement in bad debt provision	5,757	5,849
Impairment of receivables	18,560	5,050
Promotion interest adjustment	(3,874)	(2,849)
Interest accrued as part of borrowings	716	(27)
Late fees	(3,698)	(1,204)
Tax on cashflow hedge reserve	45	-
Change in operating assets and liabilities:		
(Increase) / decrease in prepayments and other receivables	(2,405)	1,347
(Increase) / decrease in other financial assets	(38)	-
(Increase) / decrease in deferred tax assets	(2,684)	(1,053)
Increase / (decrease) in trade and other payables and employee benefits	5,029	1,188
Increase / (decrease) in current tax liability	3,226	1,712
	27,405	14,375

Note 26. Restatement of comparative information – prior period adjustment

During year ended 30 June 2018, GST was over-claimed and an appropriate amount of withholding tax on obligations was not paid. This has resulted in understatement of expenses and tax liabilities, classified in operating expenses, trade and other payables, in financial year ended 30 June 2016 and 30 June 2017. Management has recorded these expenses and liabilities in the current year results, in respect of the prior year comparative.

The effect of restatement on those financial statements is summarised below:

	Year Ended 30 June 2017 $'000	Year Ended 30 June 2016 $'000
General & administration expenses - reported *	(14,140)	(22,287)
- Prior period restatement	(674)	(538)
General & administration expenses – restated	**(13,466)**	**(22,825)**
Income tax (expense) / benefit - reported	(860)	1,162
- Prior period restatement	202	(161)
Income tax (expense) / benefit – restated	**(658)**	**1,001**
Total comprehensive profit / (loss) - reported	1,249	(2,451)
- Prior period restatement	(472)	(376)
Total comprehensive profit / (loss) restated	**777**	**(2,827)**
Trade and other payables - reported	3,209	2,694
- Prior period restatement	1,493	820
Trade and other payables - restated	**4,702**	**3,514**
Current tax liability - reported	1,913	-
- Prior period restatement	(448)	(246)
Current tax liability - restated	**1,465**	**(246)**
Retained earnings– reported	(1,609)	(2,858)
Prior period restatement	(1,045)	(574)
Retained earnings – restated	**(2,654)**	**(3,432)**

*There has been a change in presentation and reclassification in the consolidated statement of profit or loss and other comprehensive income from financial year ended 30 June 2017 to 30 June 2018. General and administration expenses as at 30 June 2017 were comprised of overhead expenses as presented in the annual report for the financial year ended 30 June 2017.

Note 27. Related party transactions

Some of the directors of the Group have participated in the $20 million corporate debt facility. The total exposure of this participation is $2.2 million of the $20 million provided to the company. The terms of this participation are on an arm's length basis and consistent with other investors in the facility.

The Group has a $2 million warrant which is related to the $20 million corporate debt facility. Some of the directors have participated in this warrant. The total exposure of this participation is $215,000. The terms of this participation are on an arm's length basis and consistent with other investors in the facility.

Some of the directors of the Group also participated in the $15.3 million convertible note. The total exposure of this participation is $650,000 of the $15.3 million provided to the company. The terms of this participation are on an arm's length basis and consistent with other investors in the facility.

Note 28. Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The remuneration of Directors and other members of key management during the year were as follows:

	Year ended 30 Jun 2018 $'000	Year ended 30 Jun 2017 $'000
Salaries and other short-term employee benefits	3,802	2,246
Termination benefits	56	-
Post-employment benefits	281	198
Other long-term benefits	249	-
Share-based payment	263	216
Total compensation paid to key management personnel	4,651	2,660

Prospa Advance Pty Ltd
Directors' declaration
30 June 2018

Directors' declaration

The Directors have determined that the Company's 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 2018 and its performance for the period ended on that date in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; 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 signed in accordance with a resolution of the directors made pursuant to S.295(5) of the Corporations Act 2001.

On behalf of the Directors:

Beaumont Bertoli
Director

3 October 2018
Sydney

Fiona Trafford-Walker
Director and Chairman of Audit Committee

3 October 2018
Sydney

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001

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

Opinion

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

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the 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.

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 2018, 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.

Deloitte.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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.

- 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.

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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.

Deloitte. Touche. Tohmatsu.
DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 3 October 2018