

Ratesetter Australia Pty Limited

ABN 29 161 376 638

Annual Report - 31 March 2020 and 31 March 2019

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General information

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

Ratesetter Australia Pty Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5
14 Martin Place
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities is 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 30 July 2020. The directors have the power to amend and reissue the financial statements.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Ratesetter Australia Pty Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the years ended 31 March 2020 and 31 March 2019.

Directors

The following persons were directors of Ratesetter Australia Pty Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Daniel Foggo
Peter Behrens
Martin Dalgeish
Adrian MacKenzie
Neil Brown
Vaughn Richtor (resigned on 20 September 2019)
Robert Chaloner (resigned on 20 December 2019)
Mary Ploughman (appointed on 19 February 2020)

The following persons were alternate directors of Ratesetter Australia Pty Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Toby Simmons (appointed as alternate to Robert Chaloner from 13 February 2018 to 20 December 2019)
Angus Whitehead (appointed as alternate to Adrian MacKenzie from 29 April 2019)
Cameron Brownjohn (appointed as alternate to Neil Brown from 29 April 2019)

Principal activities

The principal activities of the Group during the financial year were the provision of finance to consumers in Australia. 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 loss for the Group after providing for income tax amounted to \$16,232,000 (31 March 2019: \$13,264,000; 31 March 2018: \$7,462,000).

Significant changes in the state of affairs

On 11 October 2019, Ratesetter Finance Pty Limited was registered with Australian Securities and Investment Commission. The purpose and principal activity of this entity is the origination of automotive loans that are subsequently sold to the Ratesetter Funding Trust No 1.

On 18 November 2019, Ratesetter Funding Trust No 1 was incorporated to facilitate the warehouse loan funding facility for its automotive loans. On 24 December 2019, the Group secured a warehouse facility with National Australia Bank as senior lender, a large international bank and a large domestic investor as mezzanine financiers. The facility is initially sized at \$50,000,000 with the ability to seek increases up to \$150,000,000 as the loan book grows.

On 12 December 2019, the Group raised \$10,083,346 from the issue of 10,083,346 convertible notes bearing interest at 10% per annum up to 31 December 2021 and then 15% from 1 January 2022 until maturity on 31 December 2022.

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

Matters subsequent to the end of the financial year

The Coronavirus ('COVID-19') was declared a pandemic in March 2020 by the World Health Organisation ('WHO'). Subsequent to the end of the reporting period, there have been considerable economic impacts in Australia and globally arising from the outbreak of COVID-19. In particular, social distancing and travel restriction measures imposed by the Australian Government and other countries in early 2020 have caused disruption to businesses and economic activity.

No other matter or circumstance has arisen since 31 March 2020 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 and expected results of operations

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

Environmental regulation

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

Shares under option

Unissued ordinary shares of Ratesetter Australia Pty Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
16 October 2015	31 March 2021	\$3.00	158,334
14 March 2016	31 March 2022	\$3.00	65,000
1 April 2016	31 March 2022	\$3.00	30,000
16 February 2017	31 March 2022	\$4.95	13,333
31 March 2017	31 March 2023	\$4.95	164,999
9 June 2017	31 March 2023	\$4.95	50,000
20 September 2017	31 March 2023	\$5.74	20,000
23 November 2017	31 March 2023	\$5.74	16,666
22 January 2018	31 March 2023	\$5.74	5,000
1 April 2018	31 March 2024	\$5.74	128,333
5 May 2018	31 March 2024	\$5.74	45,000
1 August 2018	31 March 2024	\$8.00	10,000
3 September 2018	31 March 2024	\$8.00	20,000
3 December 2018	31 March 2024	\$8.30	20,000
6 May 2019	31 March 2024	\$8.30	140,000
1 June 2019	31 March 2025	\$8.30	60,000
1 August 2019	31 March 2024	\$8.30	20,000
1 December 2019	31 March 2024	\$8.30	73,334
2 December 2019	31 March 2024	\$8.30	35,000
13 January 2020	31 March 2030	\$8.30	375,000
19 February 2020	31 March 2030	\$8.30	40,000
20 March 2020	31 March 2030	\$8.30	5,000
31 March 2020	31 March 2030	\$8.30	50,000
8 July 2020	31 March 2030	\$8.30	65,000
22 July 2020	31 March 2030	\$8.30	100,000
			<u>1,709,999</u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Ratesetter Australia Pty Limited issued on the exercise of options during the year ended 31 March 2020 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, 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 of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

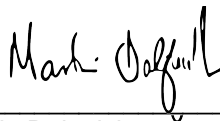
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Daniel Foggo
Director



Martin Dalgeish
Director

30 July 2020
Sydney

Auditor's Independence Declaration

To the Directors of RateSetter Australia Pty Ltd and its controlled entities

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of RateSetter Australia Pty Ltd and its controlled entities for the years ended 31 March 2020 and 31 March 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M R Leivesley
Partner – Audit & Assurance

Sydney, 30 July 2020

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Ratesetter Australia Pty Limited
Statements of profit or loss and other comprehensive income
For the years ended 31 March 2020 and 31 March 2019



	Note	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Revenue				
Interest revenue	4	39,840	27,800	15,159
Other income	5	1,671	1,052	990
Total revenue before transaction costs		41,511	28,852	16,149
Transaction costs		(1,582)	(992)	(346)
Net income		39,929	27,860	15,803
Expenses				
Funding costs		(20,984)	(14,417)	(7,489)
Expense passed to unitholders		680	387	26
Customer loan impairment expense		(10,716)	(7,714)	(4,048)
Sales and marketing expense		(10,112)	(8,289)	(4,442)
Product development expense		(4,653)	(3,859)	(1,885)
General and administration expense		(9,671)	(6,663)	(5,339)
Depreciation and amortisation expense	6	(705)	(569)	(268)
Total expenses		(56,161)	(41,124)	(23,445)
Loss before income tax expense		(16,232)	(13,264)	(7,642)
Income tax expense	7	-	-	-
Loss after income tax expense for the year attributable to the owners of Ratesetter Australia Pty Limited		(16,232)	(13,264)	(7,642)
Other comprehensive income				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Hedging loss		(36)	-	-
Other comprehensive income for the year, net of tax		(36)	-	-
Total comprehensive income for the year attributable to the owners of Ratesetter Australia Pty Limited		(16,268)	(13,264)	(7,642)
		Cents	Cents	Cents
Basic earnings per share	32	(76.09)	(66.70)	(42.21)
Diluted earnings per share	32	(76.09)	(66.70)	(42.21)

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

Ratesetter Australia Pty Limited
Statements of financial position
As at 31 March 2020 and 31 March 2019



	Note	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Assets				
Cash and cash equivalents	8	42,028	28,520	24,090
Term deposits	9	457	9,442	537
Customer loans	10	360,184	237,442	136,591
Trade receivables		357	139	24
Other assets	11	2,434	927	480
Property, plant and equipment	12	303	310	184
Right-of-use assets	13	1,102	1,631	20
Intangibles	14	327	21	-
Total assets		407,192	278,432	161,926
Liabilities				
Trade payables		3,448	3,124	1,998
Other liabilities	15	4,813	2,406	2,079
Borrowings	16	401,982	261,576	152,255
Lease liabilities	17	1,206	1,716	23
Provisions	19	652	375	154
Derivative financial instruments	18	1,543	-	-
Total liabilities		413,644	269,197	156,509
Net assets/(liabilities)		(6,452)	9,235	5,417
Equity				
Issued capital	20	42,328	42,328	25,546
Reserves	21	1,401	856	556
Accumulated losses		(50,181)	(33,949)	(20,685)
Total equity/(deficiency)		(6,452)	9,235	5,417

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

Ratesetter Australia Pty Limited
Statements of changes in equity
For the years ended 31 March 2020 and 31 March 2019



Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 April 2017	15,201	273	(13,043)	2,431
Loss after income tax expense for the year	-	-	(7,642)	(7,642)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(7,642)	(7,642)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	10,345	-	-	10,345
Share-based payments (note 33)	-	283	-	283
Balance at 31 March 2018	25,546	556	(20,685)	5,417

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 April 2018	25,546	556	(20,685)	5,417
Loss after income tax expense for the year	-	-	(13,264)	(13,264)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(13,264)	(13,264)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	16,782	-	-	16,782
Share-based payments (note 33)	-	300	-	300
Balance at 31 March 2019	42,328	856	(33,949)	9,235

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 April 2019	42,328	856	(33,949)	9,235
Loss after income tax expense for the year	-	-	(16,232)	(16,232)
Other comprehensive income for the year, net of tax	-	(36)	-	(36)
Total comprehensive income for the year	-	(36)	(16,232)	(16,268)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 33)	-	581	-	581
Balance at 31 March 2020	42,328	1,401	(50,181)	(6,452)

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

Ratesetter Australia Pty Limited
Statements of cash flows
For the years ended 31 March 2020 and 31 March 2019



	Note	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Cash flows from operating activities				
Interest income received		41,021	31,243	19,685
Other income received		1,671	1,051	990
Interest and other finance costs paid		(20,686)	(14,416)	(7,489)
Payments to suppliers and employees		(24,186)	(19,687)	(12,138)
Net cash from/(used in) operating activities	30	(2,180)	(1,809)	1,048
Cash flows from investing activities				
Net increase in loans to customers		(135,057)	(111,364)	(75,762)
Payments for property, plant and equipment	12	(79)	(198)	(131)
Payments for intangibles	14	(396)	(21)	-
Proceeds from/(payments for) term deposits		8,985	(8,905)	(342)
Proceeds from disposal of property, plant and equipment		-	8	-
Net cash used in investing activities		(126,547)	(120,480)	(76,235)
Cash flows from financing activities				
Proceeds from issue of shares	20	-	17,409	10,499
Share issue transaction costs		-	(627)	(155)
Proceeds from borrowings	31	243,456	174,732	110,211
Proceeds from issue of convertible notes	31	10,083	-	-
Repayment of borrowings	31	(110,740)	(64,307)	(32,003)
Repayment of lease liabilities	31	(564)	(488)	(265)
Net cash from financing activities		142,235	126,719	88,287
Net increase in cash and cash equivalents		13,508	4,430	13,100
Cash and cash equivalents at the beginning of the financial year		28,520	24,090	10,990
Cash and cash equivalents at the end of the financial year	8	<u>42,028</u>	<u>28,520</u>	<u>24,090</u>

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

The Group incurred a loss after income tax of \$16,232,000 (2019: \$13,264,000; 2018: \$7,642,000) and operating cash outflows of \$2,180,000 (2019: \$1,809,000) for the financial year ended 31 March 2020. As of the reporting date total liabilities exceeded total assets by \$6,452,000 (2019: total assets exceeded total liabilities by \$9,235,000 2018: total assets exceeded total liabilities by \$5,417,000). The consolidated financial statements of the Group have been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlements of liabilities in the ordinary course of business.

The ability of the Group to meet operating cash requirements for the next 12 months and continue as a going concern is based upon the following factors:

- the Convertible notes issued are expected to be converted into ordinary shares upon initial public offering of ordinary shares in the Company;
- the application of AASB 9 has resulted in \$10,792,000 in upfront fees received being deferred on to the balance sheet reducing total assets of the Group;
- the Group expects to receive continued investor support and funding;
- access to the Group's warehouse funding facility enables the business to continue to grow with limited capital investment; and
- the available cash of \$6,681,000 as at the date of this report together with cashflows forecast to be generated from interest and fees will be sufficient to meet the working capital requirements.

The financial statements have been prepared on the going concern basis for the above reasons. Accordingly, the financial statements do not include adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for financial instruments which are measured at fair value.

Critical accounting estimates

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 34.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Ratesetter Australia Pty Limited ('Company' or 'parent entity') as at 31 March 2020 and the results of all subsidiaries for the year then ended. Ratesetter Australia Pty Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Note 1. Significant accounting policies (continued)

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are 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 the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented as one operating segment through satisfying the aggregation criteria in AASB 8 'Operating Segments'. The information presented is on the same basis as the internal reports provided to the Chief Executive Office on an aggregated basis. Refer to note 3 for further information.

Revenue recognition

The Group recognises revenue as follows:

Interest income

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

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Other fee income

Other fee income which mainly consists of borrower arrears fees, administration fees and referral fees are recognised as income at a point in time as they are incurred.

Government rebates

Government rebates including any research and development tax incentives are recognised in profit or loss in the period in which the rebates are received.

Note 1. Significant accounting policies (continued)

Transaction costs

Transaction costs include commissions for brokers and broker aggregator groups directly attributable to the origination of loans. These costs are recognised in profit or loss using the effective interest method.

Funding costs

Interest paid and payable to retail and wholesale investors, who fund the Group's business, are disclosed as funding costs.

Expense passed to unitholders

Expense passed to unitholders reflects the fact that some impairment expenses recognised by the Group are passed on to investors in the Ratesetter Wholesale Lending Platform via a reduction in unitholder liabilities. This is recognised as a reduction in expenses (contra expense) in the statement of profit or loss. Expenses passed to unitholders are recognised at the point in time the impairment expenses are incurred by the Group.

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 the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Ratesetter Australia Pty Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 1. 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.

Term deposits

Term deposits are held with financial institutions with original maturities greater than three months.

Customer loans

Customer loans are initially recognised at fair value plus capitalised origination fees less capitalised transaction costs and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. The initial fair value of customer loans includes capitalised origination fees net of capitalised transaction costs.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and recognised initially at fair value and subsequently at amortised cost. They are generally due for settlement within 30 days.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ('ECL') on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain. ECL on the Ratesetter Wholesale Lending Platform is offset by passing the losses to the wholesale investors. This is reflected in expense passed to unitholders in the statement of profit or loss.

Note 1. Significant accounting policies (continued)

The Group has applied the general approach to measuring ECL based on credit migration between three stages. ECL is modelled collectively for portfolios of similar exposure and is measured as the product of the probability of default ('PD'), the loss given default ('LGD') and the exposure at default ('EAD') and includes forward-looking and macroeconomic information. As detailed in note 2, the calculation of ECL requires judgement and the choice of inputs, estimates and assumptions used involves uncertainty at the time that they are made. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

Stage 1	12 month ECL	No significantly increased credit risk	Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition, a provision for ECL associated with the probability of default events occurring within the next 12 months ('12 month ECL').
Stage 2	Lifetime ECL	Significantly increased credit risk	In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing probable losses over the life of the financial instrument ('lifetime ECL'). This stage references exposures that are at least 30 days past due (equivalent to at least one missed payment cycle) but less than 90 days past due (less than three missed payment cycles).
Stage 3	Lifetime ECL	Objective evidence of impairment	Financial instruments that move into Stage 3 require a lifetime ECL to be recognised. This stage references exposures that are at least 90 days past due.

To measure ECL, the Group applies a PD x EAD x LGD approach incorporating the time value of money. For stage 1 assets a forward-looking approach on a 12-month horizon is applied. For stage 2 assets a lifetime view on the credit is applied. The lifetime ECL is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months until maturity. For stage 3 assets the PD equals 100% and the LGD and EAD represent a lifetime view of the losses based on characteristics of defaulted loans.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in the statement of profit or loss.

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 over their expected useful lives as follows:

Leasehold improvements	4 years
Fixtures and fittings	10 years
Office equipment	4 years

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Note 1. Significant accounting policies (continued)

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Expenditure on acquiring and developing 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 of three years.

Impairment of non-financial assets

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

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

Trade and other payables

These amounts represent liabilities for goods and services provided to the 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.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability within borrowing in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried on the amortised cost basis until extinguished on conversion or redemption. The corresponding interest on convertible notes is expensed to profit or loss.

Unitholder liabilities

Unitholder liabilities are funds invested by retail and wholesale investors into the lending platforms managed by the Group. Investors' interests are structured as units in the relevant managed investment scheme under which the platform operates. Unitholder liabilities are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Note 1. Significant accounting policies (continued)

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary 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 and currency that match, as closely as possible, the estimated future cash outflows.

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 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 Group 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.

Note 1. Significant accounting policies (continued)

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.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled prior to vesting, an adjustment is made in that period to reverse all historically recognised expenses on the cancelled awards. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Embedded derivative

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not classified as fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial instrument out of the fair value through profit or loss category.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 1. Significant accounting policies (continued)

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Ratesetter Australia Pty Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 March 2020. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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 various other 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.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Amortisation of deferred upfront fees

The expected life used for the amortisation of deferred upfront fees requires a degree of estimation and judgement. It is based on customer prepayment history analysis at the product level and industry prepayment trends where available. If historical product information is not sufficiently available or for simplicity, the contractual term is used. Where the expected life differs from the actual repayment life of the loan, such differences will impact the carrying value of the customer loans and the interest income that is recognised in the current and future periods.

Allowance for expected credit losses

The assessment of credit risk, and the estimation of ECL requires a degree of estimation and judgement. It is based on unbiased and probability weightings, and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date. As detailed in note 1, the Group has established a process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes.

The ongoing economic impacts from the COVID-19 pandemic has increased estimation uncertainty in the preparation of ECL calculations. The estimation uncertainty is associated with:

- (a) the extent and duration of the disruption to businesses arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- (b) the extent and duration of the expected economic downturn. This includes the disruption to capital markets, deteriorating availability of credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- (c) the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

ECL estimates disclosed in these financial statements are based on forecasts of economic conditions which reflect assumptions and expectations as at 31 March 2020. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are subject to uncertainties which are often outside the control of the entity. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements. Refer to note 10 for further details on the financial impact of COVID-19 on the ECL provision.

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

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

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Derivative financial instruments

Interest rate swap contracts, designated as cash flow hedges, are measured at fair value. Reliance is placed on future cash flows and judgement is made on a regular basis, through prospective and retrospective testing, including at the reporting date, that the hedges are still highly effective.

Note 3. Operating segments

Identification of reportable operating segments

The Group's operations consist primarily of the provision of financial services in Australia. The Group has considered the requirements of AASB 8 'Operating Segments' and assessed that the Group has one operating segment, representing the consolidated results, as this is the only segment which meets the requirements of AASB 8.

Major customers

There are no customers which account for more than 10% of the Group's revenue for the year ended 31 March 2020 (2019: none; 2018: none) .

Note 4. Interest revenue

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Origination and loan fees	11,083	10,942	6,616
Interest income	28,415	16,625	8,359
Bank interest	342	233	184
	<u>39,840</u>	<u>27,800</u>	<u>15,159</u>

Note 5. Other income

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Other fee income	705	183	197
Government rebates	966	869	793
	<u>1,671</u>	<u>1,052</u>	<u>990</u>

Other fee income is recognised at a point in time. The income is recognised entirely from Australian customers.

Note 6. Expenses

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Loss before income tax includes the following specific expenses:			
<i>Depreciation</i>			
Leasehold improvements	22	16	-
Fixtures and fittings	19	17	9
Office equipment	45	31	15
Buildings right-of-use assets	529	505	244
Total depreciation	615	569	268
<i>Amortisation</i>			
Website	90	-	-
Total depreciation and amortisation	705	569	268
<i>Finance costs</i>			
Interest and finance charges paid/payable on warehouse borrowings	123	-	-
Interest and finance charges paid/payable on lease liabilities	54	65	7
Convertible note interest	297	-	-
Finance costs expensed	474	65	7
<i>Superannuation expense</i>			
Defined contribution superannuation expense	1,032	824	502
<i>Share-based payments expense</i>			
Share-based payments expense	581	300	283

Operating expenses for the year were \$56,161,000 (2019: \$41,124,000; 2018: \$23,445,000), of which employee expenses were \$14,593,000 (2019: \$11,757,000; 2018: \$7,232,000). In the statement of profit or loss and other comprehensive income these employee expenses are included within the 'sales and marketing expense', the 'product development expense' and the 'general and administration expense' on a departmental allocation basis.

Note 7. Income tax expense

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>			
Loss before income tax expense	(16,232)	(13,264)	(7,642)
Tax at the statutory tax rate of 27.5%	(4,464)	(3,648)	(2,102)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:			
Non-deductible expenses	(93)	(748)	(1,362)
	(4,557)	(4,396)	(3,464)
Current year losses for which no tax benefit was recognised	4,157	4,147	3,053
Current year temporary differences for which no deferred tax asset was recognised	400	249	411
Income tax expense	-	-	-

As at 31 March 2020, the balance of carry forward tax losses for which a tax benefit was not recognised were \$20,631,000 (2019: \$8,812,000; 2018: \$4,893,000). Utilisation of carried forward tax losses in future periods would be subject to the business meeting the continuity of ownership test or same business test in respect of those losses.

Note 8. Cash and cash equivalents

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Cash at bank	6,681	3,781	7,546
Cash held in trust	24,704	14,034	8,032
Cash held in Provision Fund	10,643	10,705	8,512
	<u>42,028</u>	<u>28,520</u>	<u>24,090</u>

Cash held in trust

The trust cash balances are held as part of the Group's funding arrangements and are not available to the Group for any other purposes.

Cash held in Provision Fund

The Provision Fund was established to help protect retail investors in the Group's Retail Lending Platform from losses from borrower late payment or default. Based on a determination by the Provision Fund Claims Committee, cash held in Provision Fund can be used to compensate retail investors in instances of late payment and default. Cash held in Provision Fund comes from borrowers who contribute an amount based on their risk profile and is incorporated as part of their loan. Cash held in Provision Fund is not available to the Group for general corporate purposes.

Note 9. Term deposits

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Term deposits	-	9,000	-
Restricted term deposits	457	442	537
	<u>457</u>	<u>9,442</u>	<u>537</u>

Refer to note 24 for further information on fair value measurement.

The term deposits bear interest of nil (2019: 2.75%; 2018: nil) per annum and have matured as of 31 March 2020. The restricted term deposits bears interest of 1.25% (2019: 1.25%; 2018: 2.75%) per annum and has a maturity of less than one year.

Note 10. Customer loans

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Gross customer loans	380,882	253,490	147,620
Less: Deferred upfront fees	(10,792)	(9,595)	(7,169)
Less: Allowance for expected credit losses	(9,906)	(6,453)	(3,860)
	<u>360,184</u>	<u>237,442</u>	<u>136,591</u>

Allowance for expected credit losses

The gross customer loan receivables by stages and allowance for expected credit losses provided for above are as follows:

	Carrying amount			Allowance for expected credit losses		
	2020 \$'000	2019 \$'000	2018 \$'000	2020 \$'000	2019 \$'000	2018 \$'000
Consolidated						
Stage 1-12 month ECL	363,111	242,065	142,341	4,446	3,021	2,201
Stage 2-Lifetime ECL-not credit impaired	16,392	10,166	4,706	4,439	2,505	1,239
Stage 3-Lifetime ECL-credit impaired	1,379	1,259	573	1,021	927	420
	<u>380,882</u>	<u>253,490</u>	<u>147,620</u>	<u>9,906</u>	<u>6,453</u>	<u>3,860</u>

The maturity profile of gross customer loans are as follows:

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
less than 1 year	13,180	12,279	16,684
1 to 2 years	39,413	32,708	25,371
2 to 5 years	269,699	187,511	103,892
greater than 5 years	58,590	20,992	1,673
	<u>380,882</u>	<u>253,490</u>	<u>147,620</u>

Note 10. Customer loans (continued)

Movements in the allowance for expected credit losses are as follows:

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Opening balance	6,453	3,860	1,850
Additional provisions recognised	10,478	6,911	3,708
Receivables written off during the year as uncollectable	(8,335)	(4,746)	(1,852)
Recoveries during the year	1,310	428	154
Closing balance	<u>9,906</u>	<u>6,453</u>	<u>3,860</u>

Impact of Covid-19

In response to COVID-19, the Group undertook a review of retail and wholesale credit portfolios and the related ECL as at 31 March 2020. The ECL methodology, SICR thresholds, and definition of default remained consistent with prior periods. The model inputs, including forward-looking information, scenarios and associated weightings were however revised with higher probability weightings given to the short (less than 6 months duration) and long (greater than 12 months duration) recession scenarios. This resulted in an increase of \$330,000 in the ECL provision as at the reporting date.

Note 11. Other assets

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Prepayments	1,495	422	215
GST receivable	794	417	254
Other assets	145	88	11
	<u>2,434</u>	<u>927</u>	<u>480</u>

Note 12. Property, plant and equipment

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Leasehold improvements - at cost	81	81	-
Less: Accumulated depreciation	(38)	(16)	-
	<u>43</u>	<u>65</u>	<u>-</u>
Fixtures and fittings - at cost	175	168	140
Less: Accumulated depreciation	(54)	(35)	(21)
	<u>121</u>	<u>133</u>	<u>119</u>
Office equipment - at cost	242	170	95
Less: Accumulated depreciation	(103)	(58)	(30)
	<u>139</u>	<u>112</u>	<u>65</u>
	<u>303</u>	<u>310</u>	<u>184</u>

Note 12. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial years are set out below:

Consolidated	Leasehold improvements \$'000	Fixtures and fittings \$'000	Office equipment \$'000	Total \$'000
Balance at 1 April 2017	-	49	28	77
Additions	-	79	52	131
Depreciation expense	-	(9)	(15)	(24)
Balance at 31 March 2018	-	119	65	184
Additions	81	35	82	198
Disposals	-	(4)	(4)	(8)
Depreciation expense	(16)	(17)	(31)	(64)
Balance at 31 March 2019	65	133	112	310
Additions	-	7	72	79
Depreciation expense	(22)	(19)	(45)	(86)
Balance at 31 March 2020	43	121	139	303

Note 13. Right-of-use assets

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Buildings - right-of-use assets	2,380	2,380	264
Less: Accumulated depreciation	(1,278)	(749)	(244)
	1,102	1,631	20

Additions to the right-of-use assets during the year were \$nil (2019: \$2,116,000; 2018: \$nil).

The low-value assets expensed during the year was \$46,000 (2019: \$nil; 2018: \$nil).

The Group leases buildings for its offices under agreements of four years expiring on 30 April 2022.

Refer to note 17 for the details on the lease liabilities.

Note 14. Intangibles

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Website development - at cost	417	21	-
Less: Accumulated amortisation	(90)	-	-
	327	21	-

Note 14. Intangibles (continued)

Reconciliations

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

	Website \$'000
Consolidated	
Balance at 1 April 2018	-
Additions	21
Balance at 31 March 2019	21
Additions	396
Amortisation expense	(90)
Balance at 31 March 2020	327

Note 15. Other liabilities

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Interest payable	81	-	-
GST payable	506	278	155
Accrued expenses	1,158	957	900
Subsidies received in advance	1,767	580	-
Other liabilities	1,301	591	1,024
	4,813	2,406	2,079

Note 16. Borrowings

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Investor funds on loan	374,609	261,576	152,255
Warehouse borrowings	18,500	-	-
Convertible notes	8,873	-	-
	401,982	261,576	152,255

Refer to note 23 for further information on financial instruments.

Investor funds on loan

Investor funds on loan includes funding from retail and wholesale investors.

Funding from retail investors

Funding from retail investors is governed by the constitution of the Group's Retail Lending Platform and its product disclosure statement. Funding on loans are for terms from six months to seven years and are most commonly for amounts less than \$45,000.

Note 16. Borrowings (continued)

Funding from wholesale investors

Funding from wholesale investors is in accordance with the provisions of the Trust Deed of the Group's Wholesale Lending Platform, the Information Memorandum relating to the Group's Wholesale Lending Platform and Investor Mandate Agreements entered into between members of the Group's Wholesale Lending Platform ('Members') and the Trustee. Funding are for amounts up to \$100,000 for terms from six months to seven years. Members are required to make a minimum investment of \$1,000,000 in the Trust, unless otherwise agreed by the Trustee and reflected in a Member's Investment Mandate Agreement.

Warehouse borrowings

On 24 December 2019, the Group secured a warehouse facility with National Australia Bank as senior lender, a large international bank and a large domestic investor as mezzanine financiers. The facility is initially sized at \$50,000,000 with the ability to seek increases up to \$150,000,000 as volumes grow. The warehouse funding facility is secured by automotive loans. Interest is charged at the bank bill swap bid rate plus an agreed margin for each financier. The facility has a scheduled termination date on 24 December 2020. The agreement can be renewed annually on an agreed anniversary date.

Convertible notes

On 12 December 2019, the Group raised \$10,083,346 from the issue of 10,083,346 convertible notes bearing interest at 10% per annum up to 31 December 2021 and then 15% from 1 January 2022 until maturity on 31 December 2022.

Within the convertible notes was an embedded derivative that related to the conversion option that was available to the holders of the notes as disclosed in note 18.

Each note will be converted into new ordinary shares in the Company ('Conversion') at the time of the first to occur of the following events:

- the completion of a trade sale of all, or substantially all, of the Company's business and assets;
- the completion of an offer to acquire all of the shares in the Company; or
- the completion of an initial public offering ('IPO') of ordinary shares in the Company made under a prospectus that states that the Company has applied, or will apply, in conjunction with the offering, for quotation of the shares in an IPO on the Australian Securities Exchange,

Each being an exit event and the date of the relevant event being the Conversion Date. Upon any of the above mentioned events, the price at which the notes will be converted ('Conversion Price') will be the price per security less a discount of 15%.

If conversion or redemption has not occurred prior to the maturity date of the notes, then the Company must redeem the notes on the maturity date for the face value of the convertible note together with any accrued interest capitalised and any other amount owing in respect of the convertible note (if any) to the date of repayment divided by 0.85.

Total secured liabilities

The total secured liabilities are as follows:

	Consolidated		
	2020	2019	2018
	\$'000	\$'000	\$'000
Warehouse borrowings	18,500	-	-

Note 16. Borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following warehouse facility:

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Total facilities*			
Warehouse facility	47,500	-	-
Used at the reporting date			
Warehouse facility	18,500	-	-
Unused at the reporting date			
Warehouse facility	29,000	-	-

* The warehouse facility limit excludes \$2,500,000 provided by Ratesetter Finance Pty Ltd.

Note 17. Lease liabilities

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Lease liability	1,206	1,716	23

Refer to note 23 for further information on financial instruments.

Note 18. Derivative financial instruments

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Cash flow hedges	36	-	-
Embedded derivatives	1,507	-	-
	1,543	-	-

Refer to note 23 for further information on financial instruments.

Refer to note 24 for further information on fair value measurement.

Note 19. Provisions

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Annual leave	519	275	154
Long service leave	33	-	-
Other provisions	100	100	-
	652	375	154

Note 20. Issued capital

	2020 Shares	2019 Shares	2018 Shares	Consolidated 2020 \$'000	2019 \$'000	2018 \$'000
Ordinary shares - fully paid	21,333,074	21,333,074	19,107,558	42,328	42,328	42,328
Preference shares - fully paid			128,000			16
	<u>21,333,074</u>	<u>21,333,074</u>	<u>19,235,558</u>	<u>42,328</u>	<u>42,328</u>	<u>25,546</u>

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 April 2017	17,010,290	15,177
Redeemable preference shares conversion		68,000	9
A class shares conversion		200,000	-
Issuance		1,829,268	10,499
Share issue cost		-	(155)
Balance	31 March 2018	19,107,558	25,530
Redeemable preference shares conversion		128,000	16
Issuance of shares		2,097,516	17,409
Share issue cost		-	(627)
Balance	31 March 2019	21,333,074	42,328
Balance	31 March 2020	<u>21,333,074</u>	<u>42,328</u>

Movements in redeemable preference shares

Details	Date	Shares	\$'000
Balance	1 April 2017	196,000	25
Conversion to ordinary shares		(68,000)	(9)
Balance	31 March 2018	128,000	16
Conversion to ordinary shares		(128,000)	(16)
Balance	31 March 2019	-	-
Balance	31 March 2020	<u>-</u>	<u>-</u>

Ordinary shares

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

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

Redeemable preference shares

Redeemable preference shares entitle the holder the same rights as the holder of ordinary shares and are issued subject to the Shareholders' agreement and the Constitution except as expressly set out in the Redeemable Convertible Preference Share Terms.

Note 20. Issued capital (continued)

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Note 21. Reserves

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Hedging reserve - cash flow hedges	(36)	-	-
Share-based payments reserve	1,437	856	556
	<u>1,401</u>	<u>856</u>	<u>556</u>

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Hedging reserve \$'000	Share-based payments reserve \$'000	Total \$'000
Consolidated			
Balance at 1 April 2017	-	273	273
Share-based payments expense	-	283	283
Balance at 31 March 2018	-	556	856
Share-based payments expense	-	300	300
Balance at 31 March 2019	-	856	856
Hedging loss	(36)	-	(36)
Share-based payments expense	-	581	581
Balance at 31 March 2020	<u>(36)</u>	<u>1,437</u>	<u>1,401</u>

Note 22. Dividends

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

Note 23. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by senior executives under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits.

Market risk

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from cash at bank, term deposits and borrowings. Cash at bank, term deposits and borrowings obtained at variable rates expose the Group to interest rate risk. Cash at bank and term deposits obtained at fixed rates expose the Group to fair value interest rate risk.

For the Group the unitholder loans outstanding (note 16) are principal payment loans. The amount is not subject to interest rate and thus not subject to interest rate risk.

As at the reporting date, the Group had the following variable rate cash at bank and term deposits outstanding:

	2020		2019		2018	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated						
Cash and cash equivalents	0.63%	42,028	0.80%	28,520	0.91%	24,090
Term deposits	-	-	2.75%	9,000	-	-
Restricted term deposit	1.25%	457	1.25%	442	2.78%	537
Convertible notes	10.00%	(8,873)	-	-	-	-
Net exposure to cash flow interest rate risk		<u>33,612</u>		<u>37,962</u>		<u>24,627</u>

An official increase/decrease in interest rates of 50 (2019: 50; 2018: 50) basis points would have an adverse/favourable effect on profit before tax of \$168,000 (2019: \$190,000; 2018: \$123,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Borrowings to fund automotive loans are variable rate borrowings where the rates are reset regularly to current market rates. Interest rate risk is managed on these borrowings by entering into interest rate swaps, whereby the Group pays fixed rate and receives floating rate. The contracts require settlement monthly of net interest receivable or payable. The settlement dates coincide with the dates on which interest is payable on the underlying borrowing. The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the cash flow hedge reserve, to the extent that the hedge is effective.

It is reclassified into the statement of profit or loss if the hedging relationship ceases. In the year ended 31 March 2020, nil amounts were reclassified into profit or loss. There was no material hedge ineffectiveness in the current year.

The Group hedges a significant portion of the variability in future cash flows attributable to the interest rate risk on floating rate borrowings using interest rate swaps. As at 31 March, the Group had a hedge ratio of 54%, however, the hedge was topped up to over 90% in the immediate subsequent days in line with the hedge policy. There were no forecast transactions for which cash flow hedge accounting had to be ceased as a result of the forecast transaction not occurring in the current period.

Note 23. Financial instruments (continued)

As at the reporting date, the Group had the following floating rate borrowings and the interest rate swap:

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Floating rate borrowings	18,500	-	-
Interest rate swap notional amount	(10,000)	-	-

The Group also has indirect exposure to interest rate fluctuations via the fees it generates on funds invested in the lending platforms it manages. The Group charges RateSetter Lending Platform investors a fee of 10% of interest they receive from borrowers. If market interest rates reduce and if as a result the rate required by investors on this lending platform reduces, this will have an impact on the Group's income over time. This will, however, only impact new loans and existing variable rate loans as the rate on existing fixed rate loans will not change.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. All credit decisions are governed by product level credit policies prescribing how prospective customers are assessed including obtaining 3rd party credit reporting data, responsible lending obligations and setting appropriate credit/loan limits. The Group obtains security in respect of loans in some circumstances to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

As disclosed in note 1, the Group has applied a PD x EAD x LGD approach in estimating expected credit losses on customer loans (note 10) and is based on assumptions as detailed in note 2. These assumptions include the assessed credit worthiness of the borrower.

Where there has been a significant increase in the credit risk of a customer loan since origination, the allowance will be based on the lifetime expected credit loss. The Group uses a rebuttable presumption that a significant deterioration in credit risk exists when contractual payments are more than 30 days past due (i.e. ECL model Stage 2).

Where there has been objective evidence of impairment for a customer loan, the allowance will be based on lifetime expected credit loss. In certain cases, a customer loan will be considered in default when internal or external information indicate that the Group is unlikely to receive the outstanding contractual amount in full (i.e. ECL model Stage 3).

The definition of default used in measuring ECLs is aligned to the definition used for internal credit risk management purposes across all portfolios. Default occurs when there are indicators that a borrower is unlikely to meet contractual credit obligations to the Company in full, or the borrower is a minimum of 90 days past due. Loans are classified as credit impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner. Loans are written-off when there is no realistic probability of recovery.

Recovery prospects may include but are not limited to primary security (realisation of the underlying receivable assets or other business balance sheet assets) or secondary security (including but not limited to pursuing personal guarantors or mortgages).

For loans funded from the Retail Lending Platform, retail investors can recover credit losses from the Provision Fund, as described in note 8. This recovery process does alter the level of credit losses reported by the Group given that the Provision Fund is consolidated within the financials of the Group and hence the recovery of credit losses by retail investors is funded by cash held within the Group.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 23. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	2020 \$'000	Consolidated 2019 \$'000	2018 \$'000
Warehouse facility	29,000	-	-

The warehouse needs to be extended by 24 December 2020 by agreement with the existing financiers or replaced with alternative funding or it will enter an amortisation phase. The warehouse can also be placed into amortisation at any time during its life if there is a breach of certain warehouse terms leading to a stop funding event. Subject to the continuance of satisfactory credit ratings, the warehouse facility may be drawn at any time and have an average maturity of 1 year rolling (2019: nil years).

Remaining contractual maturities

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. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated - 2020					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	3,448	-	-	-	3,448
Subsidies received in advance	1,767	-	-	-	1,767
Other liabilities	1,301	-	-	-	1,301
<i>Interest-bearing</i>					
Unitholder liabilities	145,224	114,364	158,112	12,177	429,877
Warehouse borrowings	18,914	-	-	-	18,914
Convertible notes payable	-	-	11,722	-	11,722
Lease liability	538	541	127	1	1,207
Total non-derivatives	171,192	114,905	169,961	12,178	468,236
Derivatives					
Embedded derivatives	-	-	1,543	-	1,543
Total derivatives	-	-	1,543	-	1,543
Consolidated - 2019					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	3,124	-	-	-	3,124
Subsidies received in advance	580	-	-	-	580
Other liabilities	591	-	-	-	591
<i>Interest-bearing</i>					
Unitholder liabilities	132,316	64,826	88,406	5,194	290,742
Lease liability	510	554	652	-	1,716
Total non-derivatives	137,121	65,380	89,058	5,194	296,753

Note 23. Financial instruments (continued)

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated - 2018					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	1,998	-	-	-	1,998
Other liabilities	1,024	-	-	-	1,024
<i>Interest-bearing</i>					
Unitholder liabilities	88,669	41,506	32,872	399	163,446
Lease liability	23	-	-	-	23
Total non-derivatives	91,714	41,506	32,872	399	166,491

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 24. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2020				
Liabilities				
Cash flow hedges	36	-	-	36
Embedded derivatives	-	1,507	-	1,507
Total liabilities	36	1,507	-	1,543

There were no transfers between levels during the financial year.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Unquoted investments have been valued using a discounted cash flow model.

Note 25. Key management personnel disclosures

Directors

The following persons were directors of Ratesetter Australia Pty Limited during the financial year:

Daniel Foggo - Chief Executive Officer
Peter Behrens - Non-Executive Director
Martin Dalglish - Non-Executive Director
Adrian MacKenzie - Non-Executive Director
Neil Brown - Non-Executive Director
Mary Ploughman - Non-Executive Director
Robert Chaloner - Non-Executive Director
Vaughn Richtor - Non-Executive Director

Note 25. Key management personnel disclosures (continued)

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Miles Drury - Chief Financial Officer
 Benjamin Milsom - Chief Commercial Officer
 Glenn Riddell - Chief Operating Officer
 Natalie Housson - Managing Director of Finance and Operations

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	2020	Consolidated	2018
	\$	2019	\$
Short-term employee benefits	1,009,566	853,145	781,461
Post-employment benefits	92,251	75,505	72,339
Share-based payments	124,963	153,068	101,611
	<u>1,226,780</u>	<u>1,081,718</u>	<u>955,411</u>

Investments in the Retail Lending Platform

The amount of investments made to the Retail Lending Platform by the directors and key management personnel is set out below:

	2020	Consolidated	2018
	\$	2019	\$
Directors	2,002,141	555,486	155,103
Other key management personnel	3,137	129	124
	<u>2,005,278</u>	<u>555,615</u>	<u>155,227</u>

Note 26. Related party transactions

Parent entity

Ratesetter Australia Pty Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 25.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Note 26. Related party transactions (continued)

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	2020 \$	Consolidated 2019 \$	2018 \$
Unitholder liabilities	374,609,022	261,575,966	152,255,126

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton, the auditor of the Company:

	2020 \$	Consolidated 2019 \$	2018 \$
<i>Audit services - Grant Thornton</i>			
Audit or review of the financial statements	141,770	91,935	87,637
<i>Other services - Grant Thornton</i>			
Preparation of the tax return	23,587	22,700	26,646
	<u>165,357</u>	<u>114,635</u>	<u>114,283</u>

Note 28. Contingent liabilities

The Group has given bank guarantees as at 31 March 2020 of \$352,000 (2019: \$352,000; 2018: \$537,000) to Perpetual Trustee Company Limited and KI Martin Place Pty Ltd. This is secured by the term deposit held by the Group.

The Group has given collateral security as at 31 March 2020 of \$95,000 (2019: \$90,000; 2018: \$nil) to the superannuation clearing house as a Transaction Negotiation Authority relating to payment of superannuation.

Note 29. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest		
		2020 %	2019 %	2018 %
Ratesetter Australia RE Limited	Australia	100.0%	100.0%	100.0%
-The Trustee for Ratesetter Australia Provision Fund*	Australia	-	-	-
-The Trustee for Ratesetter Lending Platform*	Australia	0.7%	0.7%	0.2%
-The Trustee for Ratesetter Wholesale Lending Platform*	Australia	0.9%	0.8%	4.5%
Ratesetter Early Access Provider Pty Limited	Australia	100.0%	100.0%	100.0%
-The Trustee for Ratesetter Subvention Trust	Australia	99.9%	99.9%	99.9%
-The Trustee for Ratesetter Early Access Facility Trust	Australia	99.9%	99.9%	99.9%
Ratesetter Finance Pty Limited	Australia	100.0%	-	-
-Ratesetter Funding Trust No 1	Australia	100.0%	-	-

Note 29. Interests in subsidiaries (continued)

- * Management have determined that the Company controls the subsidiaries, Ratesetter Lending Platform, Ratesetter Wholesale Lending Platform and the Ratesetter Australia Provision Fund, even though it holds less than half of the voting rights of these entities. This is because the Company has the power to direct the relevant activities of these subsidiaries, has the rights to variable returns from its involvement with these subsidiaries and has the decision making right over the subsidiaries.

Note 30. Reconciliation of loss after income tax to net cash from/(used in) operating activities

	2020	Consolidated	
	\$'000	2019	2018
		\$'000	\$'000
Loss after income tax expense for the year	(16,232)	(13,264)	(7,642)
Adjustments for:			
Depreciation and amortisation	705	569	268
Loan impairment expense	10,716	7,714	4,048
Share-based payments	581	300	283
Other non-cash items	186	(100)	135
Change in operating assets and liabilities:			
Decrease in customer loans	1,198	2,425	3,755
Increase in trade receivables	(218)	(115)	(10)
Increase in other operating assets	(1,506)	(448)	(273)
Increase in trade payables	489	185	185
Increase in other operating liabilities	1,901	925	299
Net cash from/(used in) operating activities	<u>(2,180)</u>	<u>(1,809)</u>	<u>1,048</u>

Note 31. Changes in liabilities arising from financing activities

	Investor funds on loan	Warehouse borrowings	Convertible notes	Lease liabilities	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 April 2017	74,130	-	-	281	74,411
Proceeds from borrowings	110,211	-	-	-	110,211
Repayment of borrowings	(32,003)	-	-	(265)	(32,268)
Interest	-	-	-	7	7
Other changes	(83)	-	-	-	(83)
Balance at 31 March 2018	152,255	-	-	23	152,278
Proceeds from borrowings	174,732	-	-	-	174,732
Repayment of borrowings	(64,307)	-	-	(488)	(64,795)
Interest	-	-	-	65	65
Acquisition of leases	-	-	-	2,116	2,116
Other changes	(1,104)	-	-	-	(1,104)
Balance at 31 March 2019	261,576	-	-	1,716	263,292
Proceeds from borrowings	224,956	18,500	10,083	-	253,539
Repayment of borrowings	(110,740)	-	-	(564)	(111,304)
Interest	-	-	297	54	351
Embedded derivatives	-	-	(1,507)	-	(1,507)
Other changes	(1,183)	-	-	-	(1,183)
Balance at 31 March 2020	<u>374,609</u>	<u>18,500</u>	<u>8,873</u>	<u>1,206</u>	<u>403,188</u>

Note 32. Earnings per share

	Consolidated		
	2020	2019	2018
	\$'000	\$'000	\$'000
Loss after income tax attributable to the owners of Ratesetter Australia Pty Limited	<u>(16,232)</u>	<u>(13,264)</u>	<u>(7,642)</u>
	Number	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>21,333,074</u>	<u>19,886,339</u>	<u>18,103,142</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>21,333,074</u>	<u>19,886,339</u>	<u>18,103,142</u>
	Cents	Cents	Cents
Basic earnings per share	(76.09)	(66.70)	(42.21)
Diluted earnings per share	(76.09)	(66.70)	(42.21)

1,571,665 (2019: 823,333; 2018: 636,667) options were excluded from the weighted average number of ordinary shares used in calculating diluted earnings per share as they were anti-dilutive.

Note 33. Share-based payments

The Company has an Employee Share Option Plan ('Employee Plan'), as adopted in 2015. It is intended that the Employee Plan will enable the Company to retain and attract skilled and experienced employees and provide them with the motivation to make the Group more successful. The Employee Plan is designed to support interdependence between the Company and eligible persons for their long-term mutual benefit.

Under the Employee Plan, an option is a right to subscribe for or acquire a fully paid ordinary share in the capital of the Company. The Board may offer options to any eligible person it determines and determine the extent of that person's participation in the Employee Plan. An offer by the Board shall specify the date of grant, the total number of options granted, exercise price and exercise period for the options and any other matters the Board determines, including exercise conditions attaching to the options.

Unless otherwise determined by the Board, no payment is required for the grant of Options under the Employee Plan. Options granted under the Employee Plan are not capable of being transferred or encumbered by a participant, unless the Board determines otherwise. Options do not carry any voting or dividend rights.

The Company has made a grant of staff options under the Employee Plan in each of the financial years 2016, 2017, 2018, 2019 and 2020. As at the date of this report, 1,571,665 (2019: 823,333; 2018: 636,667) options are held under the Employee Plan on the following terms subject to the Employee Plan rules:

- each option gives the right to subscribe for or acquire one ordinary share in the Company;
- nil consideration is payable for the option grant;
- exercise price is variable for each option grant;
- for each employee, options vest in an average of 3.4 (2019: 3.8) years following the date of grant but subject to the satisfaction of specific exercise conditions associated with the performance of the relevant employee; and
- exercise period ends 2 years or 7 years after the vesting date of the options.

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

2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
16/10/2015	31/03/2021	\$3.00	158,334	-	-	-	158,334
14/03/2016	31/03/2022	\$3.00	65,000	-	-	-	65,000
01/04/2016	31/03/2022	\$3.00	30,000	-	-	-	30,000
16/02/2017	31/03/2022	\$4.95	13,333	-	-	-	13,333
31/03/2017	31/03/2023	\$4.95	178,333	-	-	(13,334)	164,999
09/06/2017	31/03/2023	\$4.95	50,000	-	-	-	50,000
20/09/2017	31/03/2023	\$5.74	20,000	-	-	-	20,000
23/11/2017	31/03/2023	\$5.74	50,000	-	-	(33,334)	16,666
22/01/2018	31/03/2023	\$5.74	15,000	-	-	(10,000)	5,000
01/04/2018	31/03/2024	\$5.74	148,333	-	-	(20,000)	128,333
05/05/2018	31/03/2024	\$5.74	45,000	-	-	-	45,000
01/08/2018	31/03/2024	\$8.00	10,000	-	-	-	10,000
03/09/2018	31/03/2024	\$8.00	20,000	-	-	-	20,000
03/12/2018	31/03/2024	\$8.30	20,000	-	-	-	20,000
06/05/2019	31/03/2024	\$8.30	-	150,000	-	(10,000)	140,000
01/06/2019	31/03/2025	\$8.30	-	60,000	-	-	60,000
01/08/2019	31/03/2024	\$8.30	-	20,000	-	-	20,000
01/12/2019	31/03/2024	\$8.30	-	100,000	-	(10,000)	90,000
02/12/2019	31/03/2024	\$8.30	-	35,000	-	-	35,000
13/01/2020	31/03/2030	\$8.30	-	385,000	-	-	385,000
19/02/2020	31/03/2030	\$8.30	-	40,000	-	-	40,000
20/03/2020	31/03/2030	\$8.30	-	5,000	-	-	5,000
31/03/2020	31/03/2030	\$8.30	-	50,000	-	-	50,000
			823,333	845,000	-	(96,668)	1,571,665

Note 33. Share-based payments (continued)

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
16/10/2015	31/03/2021	\$3.00	161,667	-	-	(3,333)	158,334
14/03/2016	31/03/2022	\$3.00	65,000	-	-	-	65,000
01/04/2016	31/03/2022	\$3.00	30,000	-	-	-	30,000
16/02/2017	31/03/2022	\$4.95	40,000	-	-	(26,667)	13,333
31/03/2017	31/03/2023	\$4.95	195,000	-	-	(16,667)	178,333
09/06/2017	31/03/2023	\$4.95	50,000	-	-	-	50,000
20/09/2017	31/03/2023	\$5.74	20,000	-	-	-	20,000
10/11/2017	31/03/2023	\$5.74	10,000	-	-	(10,000)	-
23/11/2017	31/03/2023	\$5.74	50,000	-	-	-	50,000
22/01/2018	31/03/2023	\$5.74	15,000	-	-	-	15,000
01/04/2018	31/03/2024	\$5.74	-	225,000	-	(76,667)	148,333
05/05/2018	31/03/2024	\$5.74	-	45,000	-	-	45,000
01/08/2018	31/03/2024	\$8.00	-	10,000	-	-	10,000
03/09/2018	31/03/2024	\$8.00	-	20,000	-	-	20,000
03/12/2018	31/03/2024	\$8.30	-	20,000	-	-	20,000
			636,667	320,000	-	(133,334)	823,333

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
16/10/2015	31/03/2021	\$3.00	235,000	-	-	(73,333)	161,667
14/03/2016	13/03/2022	\$3.00	65,000	-	-	-	65,000
01/04/2016	31/03/2022	\$3.00	30,000	-	-	-	30,000
12/08/2016	31/03/2022	\$3.00	20,000	-	-	(20,000)	-
16/02/2017	31/03/2022	\$4.95	40,000	-	-	-	40,000
01/04/2017	31/03/2023	\$4.95	-	205,000	-	(10,000)	195,000
09/06/2017	31/03/2023	\$4.95	-	50,000	-	-	50,000
20/09/2017	31/03/2023	\$5.74	-	20,000	-	-	20,000
10/11/2017	31/03/2023	\$5.74	-	10,000	-	-	10,000
23/11/2017	31/03/2023	\$5.74	-	50,000	-	-	50,000
22/01/2018	31/03/2023	\$5.74	-	15,000	-	-	15,000
			390,000	350,000	-	(103,333)	636,667

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2020 Number	2019 Number
16/10/2015	31/03/2021	158,334	158,334
14/03/2016	31/03/2022	65,000	-
01/04/2016	31/03/2022	30,000	-
16/02/2017	31/03/2022	13,333	-
		266,667	158,334

There are no options exercisable as at 31 March 2018.

The weighted average share price and exercise price during the financial year was \$6.60 (2019: \$4.81; 2018: \$4.28).

Note 33. Share-based payments (continued)

The weighted average remaining contractual life of options outstanding at the end of the financial year was 5.27 years (2019: 3.78 years; 2018: 4.28 years).

The share-based payment expense during the financial year was \$581,000 (2019: \$300,000; 2018: \$283,000).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/04/2018	31/03/2024	\$5.74	\$5.74	55.00%	-	2.66%	\$2.580
05/05/2018	31/03/2024	\$5.74	\$5.74	55.00%	-	2.66%	\$2.550
01/08/2018	31/03/2024	\$8.00	\$8.00	55.00%	-	2.66%	\$3.450
03/09/2018	31/03/2024	\$8.00	\$8.00	55.00%	-	2.66%	\$3.410
03/12/2018	31/03/2024	\$8.30	\$8.30	55.00%	-	2.66%	\$3.410
06/05/2019	31/03/2024	\$8.30	\$5.74	50.00%	-	1.40%	\$2.850
01/06/2019	31/03/2025	\$8.30	\$5.74	50.00%	-	1.16%	\$3.230
01/08/2019	31/03/2024	\$8.30	\$8.00	50.00%	-	0.86%	\$2.700
01/12/2019	31/03/2024	\$8.30	\$8.00	50.00%	-	0.43%	\$2.500
02/12/2019	31/03/2024	\$8.30	\$8.30	50.00%	-	0.43%	\$2.500
13/01/2020	31/03/2030	\$8.30	\$8.30	50.00%	-	0.87%	\$2.950
09/02/2020	31/03/2030	\$8.30	\$8.30	50.00%	-	0.75%	\$2.890
20/03/2020	31/03/2030	\$8.30	\$8.30	50.00%	-	0.45%	\$2.830
31/03/2020	31/03/2030	\$8.30	\$8.30	50.00%	-	0.45%	\$2.820

Note 34. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2020 \$'000	Parent 2019 \$'000	2018 \$'000
Loss after income tax	(11,677)	(10,800)	(6,366)
Total comprehensive income	(11,677)	(10,800)	(6,366)

Note 34. Parent entity information (continued)

Statement of financial position

	2020 \$'000	Parent 2019 \$'000	2018 \$'000
Total current assets	17,997	16,393	9,133
Total assets	19,729	18,355	9,337
Total current liabilities	4,811	2,211	1,169
Total liabilities	16,397	3,927	1,192
Equity			
Issued capital	42,328	42,328	25,546
Share-based payments reserve	1,437	856	556
Accumulated losses	(40,433)	(28,756)	(17,957)
Total equity	3,332	14,428	8,145

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Except for the amount disclosed in note 28, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 March 2020, 31 March 2019 and 31 March 2018.

Contingent liabilities

Except for the amount disclosed in note 28, the parent entity had no other contingent liabilities as at 31 March 2020, 31 March 2019 and 31 March 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 March 2020, 31 March 2019 and 31 March 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 35. Events after the reporting period

The Coronavirus ('COVID-19') was declared a pandemic in March 2020 by the World Health Organisation ('WHO'). Subsequent to the end of the reporting period, there have been considerable economic impacts in Australia and globally arising from the outbreak of COVID-19. In particular, social distancing and travel restriction measures imposed by the Australian Government and other countries in early 2020 have caused disruption to businesses and economic activity.

No other matter or circumstance has arisen since 31 March 2020 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.

In the directors' opinion:

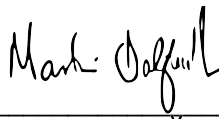
- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 March 2020 and 31 March 2019 and of their performance for the financial years ended on these dates; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Daniel Foggo
Director



Martin Dalgeish
Director

30 July 2020
Sydney

Independent Auditor's Report

To the Members of RateSetter Australia Pty Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of RateSetter Australia Pty Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 March 2020 and 31 March 2019, the consolidated statement of profit or loss and other comprehensive income to 31 March 2020 and 31 March 2019, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 31 March 2020 and 31 March 2019 and of its performance for the years ended on those dates; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that for the year ended 31 March 2020, the Group incurred a net loss of \$16,232,000, net operating cash outflows of \$2,180,000 and, as of that date, the Group's liabilities exceeded its assets by \$6,452,000. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter – Covid-19

We draw attention to Note 1 Statement of Significant Accounting Policies under the heading ‘Critical accounting judgements, estimates and assumptions – Allowance for expected credit losses’ in the financial report. This note describes the impact of the ongoing Covid-19 pandemic on the Group’s financial position and performance.

In our view, this matter is fundamental to the users understanding of the financial report and the financial position and performance of the Group. Our conclusion is not modified with respect to this matter.

Information other than the financial report and auditor’s report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group’s report for the year ended 31 March 2019, 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 accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the Directors’ for the financial report

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

In preparing the financial report, the Directors are responsible for assessing the Group’s ability 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 have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor’s report.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M R Leivesley
Partner – Audit & Assurance

Sydney, 30 July 2020