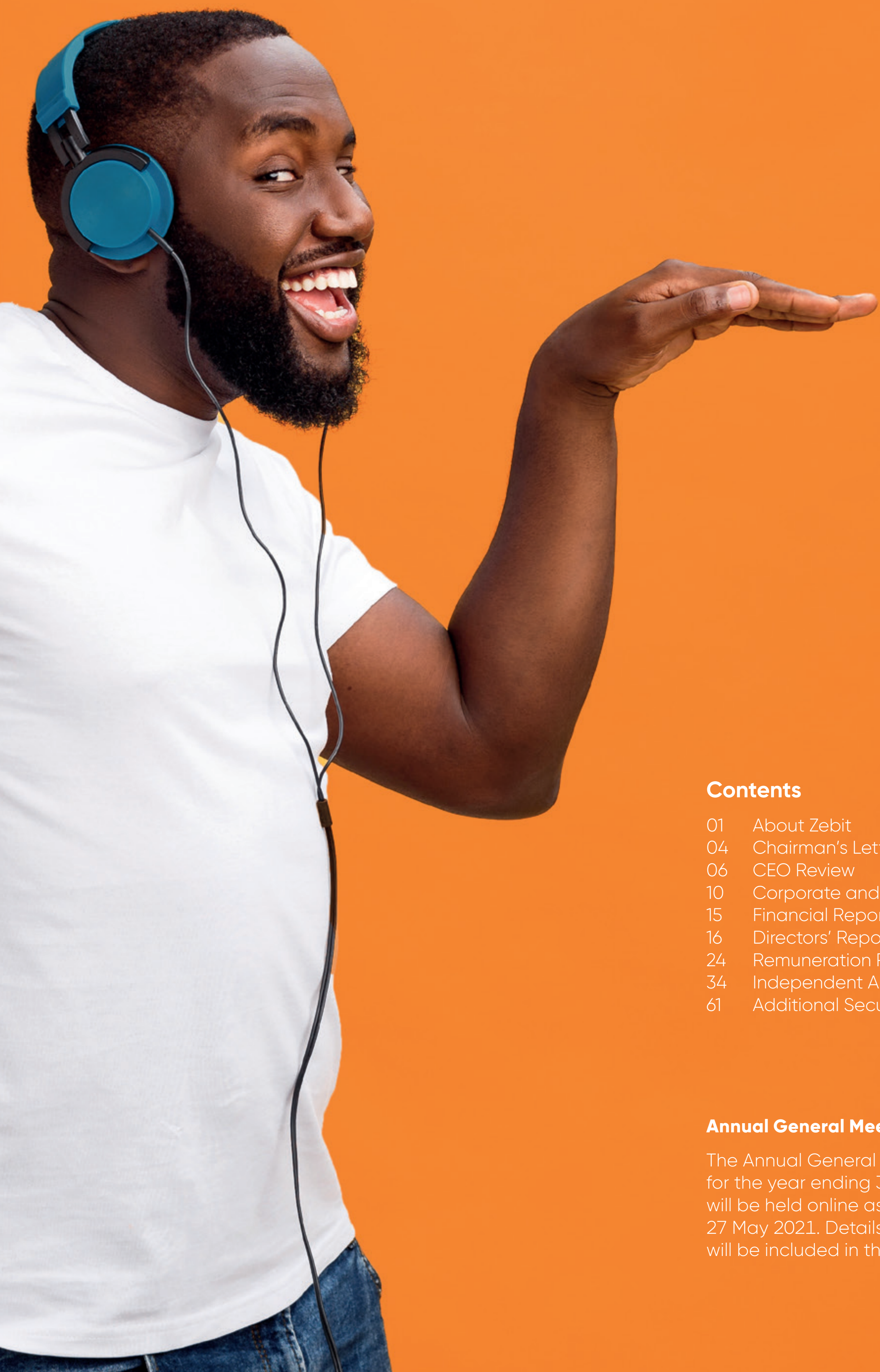
Need it. Get it. Zebit.™

Annual Report 2020



Contents

Annual General Meeting 2020

The Annual General Meeting of Zebit, Inc for the year ending 31 December 2020 will be held online as a Virtual AGM on 27 May 2021. Details on how to participate will be included in the Notice of Meeting.

Financial Highlights

for the Year ended
31 December 2020

Revenue

US$87.7m

▲ 6.7% vs
Prospectus forecast of US$82.2m

Beat Prospectus

Bad Debts[2]

10.5%

Improvement of 440bp vs
Prospectus forecast of 14.9%

Beat Prospectus

Net loss after tax of

US$7.4m

Improvement of 34.2% vs
Prospectus forecast
loss of $11.3m

Beat Prospectus

EBITDA loss of

(US$3.7m)

improvement of 51.4% vs
Prospectus forecast
loss of (US$7.6m)

Beat Prospectus

Average Active Customer Monthly Spend[3]

US$410

▲ 9.3% vs
Prospectus forecast of US$375

Beat Prospectus

Contribution margin[1]

15.8%

▲ 350bp vs
Prospectus forecast of 12.3%

Beat Prospectus

1 "Contribution Margin" is Gross Margin less Bad Debt Reserve.

2 "Bad Debt Reserve" is the proportion of bad debt Zebit expects to take for historical outstanding sales. Refer to Section 6.2.4 of Zebit's Prospectus for further information.

3 "Average Monthly Spend per Active Customer" is calculated as the average order value multiplied by the average number of orders per month made by an active customer.

Value Creation with a Purpose is at Zebit's Core

Zebit exists to offer financially credit-challenged consumers a better alternative to legacy payday or instalment lenders and rent-to-own or lease-to-own retailers. Customers typically need help the most when they fall behind on payments. Zebit's product design and customer service approach are geared toward no-penalty recovery (i.e. if customers are late, they can cure and not suffer a fee or a reduction in their eCommerce spending limit), coupled with transparency, care, dignity, and helpfulness. Zebit also never charges late fees, penalties such as insufficient funds fees, or repossesses products. Zebit believes this approach strengthens its consumer brand equity and stands out as a key point of differentiation in an industry where the norm is to take punitive measures when repayment fails.

Company

Zebit is an eCommerce company with its own custom BNPL solution. The Company's mission is to disrupt legacy product financing options in the U.S. including the rent-to-own and lease-to-own business models and/or eliminate the need for consumers to take out high-cost payday and instalment loan products. Zebit seeks to give financially underserved consumers (approximately 120 million Americans) the ability to pay for products and spread their payments over six months. The Company also works with any past-due customers to figure out an achievable payment plan, rather than penalising the customers with late fees or penalties.

We believe that all consumers should have fair access to credit and not be taken advantage of or solely defined by their credit score.

Zebit's marketplace provides customers with access to nearly 100k different products with transparent pricing with the aim of building a long term loyal customer base.

The Zebit Difference

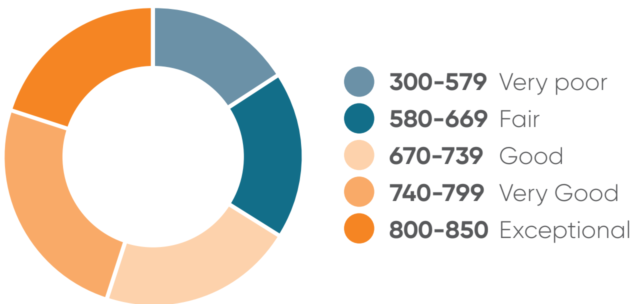
Zebit considers legacy rent-to-own and lease-to-own companies as its main competitors and differentiates itself in the following ways:

Price positioning – Zebit offers its customers the opportunity to acquire a wide range of products across 25 different categories. Rent-to-own companies, who target a similar consumer demographic to Zebit, generally offer a limited selection of electronic products, appliances, and furniture at a total cost that is much higher than Zebit's pricing, due to interest and other fees that they charge.

Selection – Zebit sells approximately 100k active products across 25 different categories depending on the time of year and the assortment that is relevant to its customer base. The Company is building a one-stop shop for its customers' every day and aspirational purchase needs. This is in stark comparison to rent-to-own and lease-to-own companies which typically focus on three categories – furniture, electronics, and appliances.

Early mover advantage – Zebit is one of the first eCommerce companies to address the large, financially underserved consumer base in the U.S. Recent innovation in credit and product financing, including BNPL providers, has focused on near prime to super prime consumers (640 FICO Credit Score and above). In contrast, Zebit's target user base is financially underserved consumers (640 FICO Credit Score and below) as well as those customers who have no FICO score at all.

701 FICO® Score is the average score for Americans[4/5]



Data assets – Zebit has built a unique big data set and proprietary algorithms on financially underserved consumer behaviour through a culmination of years of rigorous testing and experimentation. The data and the modeling are both key components in controlling credit risk on a customer and order level. There is no off-the-shelf data repository or risk score in the U.S. that can be efficiently leveraged to gain a full view of this customer segment and its propensity to repay.

Online only – Zebit operates purely online, creating cost savings by avoiding manual applications or underwriting, physical stores, advanced inventory purchases that tie up capital, or warehouse and logistics overheads. This allows the Company to operate on lower gross margins than bricks-and-mortar competitors and traditional online retailers with more capital-intensive operations.

Technology infrastructure – a suite of proprietary sourcing, marketing, analytics, forecasting and pricing systems have been internally developed and refined by Zebit since its inception in 2015. These systems include machine learning based algorithmic prediction engines that optimize an end-to-end customer experience, in addition to creating a highly scalable platform to facilitate future growth.

4 https://www.experian.com/blogs/ask-experian infographic-what-are-the-different-scoring-ranges/

5 This does not include people with NO credit score or one that is too old to score.

How Zebit Makes Money

Zebit earns revenue like any eCommerce company. Revenue is recognised when a product is delivered to the customer and is calculated as the gross merchandise value ("GMV"). The Company's gross margin equals the difference between the price the Company sells the product to the consumer less the cost of goods the Company incurs in sourcing the product. Zebit provides clear and transparent pricing to all consumers and NEVER charges its customers late fees or penalties.

1. Unique and defensible business model that allows customers to shop online while also offering them a "no penalties" credit solution
2. Differentiation based on advanced decision science models that discern risk using proprietary big data set
3. History of growth and execution since 2015, led by a seasoned management team

Chairman's Letter

Dear shareholders,

In 2020, Zebit achieved a significant milestone in its corporate history with its successful launch as a public company on the Australian Securities Exchange (ASX) on 26 October. We raised A$35 million through the process and are positioned for growth through 2021. Originally, the transaction was scheduled for May 2020; however, the COVID-19 pandemic created significant uncertainty in financial markets, postponing the IPO for five months until late October. The delay forced management to constrain the Company's natural growth in order to conserve capital and extend the runway of the business until the capital raise was fully secured. The IPO capital was immediately deployed to scale the business and add ongoing enhancements to the Company's bespoke eCommerce and credit platform.

The capital raised enabled the team to resume the Company's accelerated growth, as demonstrated by its strong Q4-20 performance. Importantly we not only beat our 2019 results, but also exceeded our Prospectus forecast for FY20 across key financial metrics including revenue, bad debts, contribution margin, and net loss.

Zebit has a dedicated and highly experienced management team, which has demonstrated its ability to execute in various economic and capital market environments. Its success, however, has also been underpinned by a groundswell of change across the markets in which it operates. Zebit sits uniquely at the intersection of several powerful trends including the rapid penetration of eCommerce; a large and growing population in the U.S. that lives paycheck to paycheck and lacks access to credit to make purchases of ordinary goods that most of us take for granted; and a market environment that lacks differentiated competition.

Zebit is the operator of its own eCommerce website, the Zebit Marketplace, offering nearly 100,000 products across multiple product categories and is a clear beneficiary of the continued trend toward online retailing. Consumers spent US$861 billion online with U.S. merchants in 2020, up 44.0% on the previous year. The eCommerce share of total retail sales continues to rise, hitting 21.3% in 2020[6], up from 15.8% in 2019 and 14.3% in 2018. The growth and penetration of eCommerce is a powerful tailwind for Zebit.

Our unique competitive landscape is another factor supporting the Company's outlook. I do not believe that Zebit competes directly with the other 'Buy Now Pay Later' (BNPL) companies. Zebit's offering not only serves a different customer segment, but serves a different customer need for longer term credit and the ability to make larger purchases. While a number of other BNPL companies target the more financially sophisticated consumer, Zebit has deliberately chosen to focus on a similarly large but entirely different and unserved segment of the U.S. market, which is typically below the credit thresholds required to qualify for other BNPL products.

Zebit's target market comprises of approximately 120 million people in the US who are living paycheck to paycheck, who are underbanked and largely ignored by other BNPL and credit providers due to the perceived credit risk associated with these consumers. Prior to Zebit, their primary options for credit were predatory high-cost lending models such as rent-to-own, lease-to-own or payday loans – where consumers can end up paying multiples of the cost of a product through higher interest rates and charges. In serving these customers, the Company is working to solve a chronic social and structural problem, as these consumers are trapped into servicing spiralling debt costs which consume a large portion of their earnings. With Zebit, new possibilities are open.

Zebit's success is also driven by its technology and the investment in building its digital marketplace, financing system, and data. Four full years of operations have created a large data set that gives Zebit an edge over its peers in underwriting. The Company has dedicated significant time and effort into the development of its proprietary credit modelling technology to understand and control this risk. This is not easy for competitors to replicate, giving us a material competitive advantage. Over the last four years, the Company has invested millions of dollars creating the algorithms and modelling that underpin the credit assessment of our customers. Over time and with continued investment, this platform has continued to evolve and become more precise.

Our business model is unique and, until recently, relatively unknown even amongst sophisticated institutional investors in Australia who are vastly more familiar with mainstream 'pure-play' BNPL companies which target 'banked' customers at higher income levels and do not operate their own eCommerce marketplace. We are conscious of the need for further education and engagement with investors about the powerful cash flow model that is the Zebit business.

One of our priorities is to ensure that a growing number of investors understand Zebit's unique offering, its significant growth trajectory, and the strong financial returns the business is able to generate.

In closing, I must give my sincere thanks to Zebit's executive team, and our growing number of employees for their contribution to Zebit's achievements in an extraordinary year. The entire Company did an outstanding job, firstly shepherding the business through the COVID-19-induced delay to funding and then ultimately raising A$35m via IPO on the ASX. The capital has set Zebit up for strong growth.

I would also like to thank shareholders for their support, including those who invested at the IPO and subsequently. You are part owners of a genuinely unique business, supported by strong tailwinds, a highly aligned Board and executive team with significant equity in the business and a vast market of customers whose lives we can positively impact. With the right capital behind the business, the power of the Zebit model can be fully unleashed.

Jim M. P. Feuille
Chairman of the Board

6 *https://www.digitalcommerce360.com/article/us-ecommerce-sales/*

CEO Review

Dear shareholders,

Our mission, strategy, risk management, and operational execution underpin our success thus far in reinventing eCommerce for approximately 120m financially disenfranchised U.S. consumers. These factors will be instrumental as we scale Zebit in 2021 and beyond while building extraordinary shareholder value.

Overview

In late October 2020, Zebit celebrated a major milestone in its history by successfully raising growth capital on the ASX. This was another meaningful proof point in our quest to disrupt a massive multi-billion-dollar market related to how 120 million U.S. consumers shop and gain access to non-predatory product financing where they can manage affordable payments over six months. This milestone could not have been realized without the resolve and game-changing ambitions of employees, existing and new investors, and our diverse customer base.

Zebit's mission has always been about solving one of the biggest social problems in the U.S. Our game plan from the beginning has focused on breaking the endless cycle of debt caused by predatory product financing alternatives and delivering a compelling and equitable value proposition to the end consumer. We differentiate ourselves through our approach to underwriting the credit risk of an opaque population, coupled with a strong eCommerce product offering and a six-month financing term. This powerful combination has allowed us to capture customer share of wallet, high repeat purchase rates, and maintaining long-tail engagement. Zebit's unique position as both an eCommerce and BNPL company makes its competitive advantage difficult to replicate.

In our IPO investment thesis, Zebit offered investors several compelling reasons to invest, including:

1. an untapped multi-billion dollar market opportunity;
2. recurring high growth with a history to match;
3. an operating model with deep moats around competitive differentiation and barriers to entry;
4. a fundamentally new way of assessing consumer risk by harnessing the power of our proprietary big data assets that fuel Zebit's unique machine learning modeling algorithms that assess identity, allocate consumer spending limits, configure repayment variables, and ultimately control credit risk;
5. an experienced set of operators who know how to scale businesses to profitability; and
6. a mission centred around making needed social change.

Despite COVID-19 and the associated uncertainty of its impact on the U.S. economy, Zebit committed to a 12-month Prospectus forecast with three major financial themes – growing topline revenue, increasing contribution margin spread, and lowering net loss. Zebit materially outperformed the Prospectus forecast for H2-20 and the full year. The highlights below capture the strong results during an extraordinarily uncertain year:

Exceeded top line revenue forecast by approximately US$5.5m

Increased contribution margin to 15.8% vs the forecast of 12.3%

Realized lower bad debts of 10.5% of revenue vs the forecast of 14.9%

Reduced net loss by US$3.9m, a 34.2% drop vs forecast

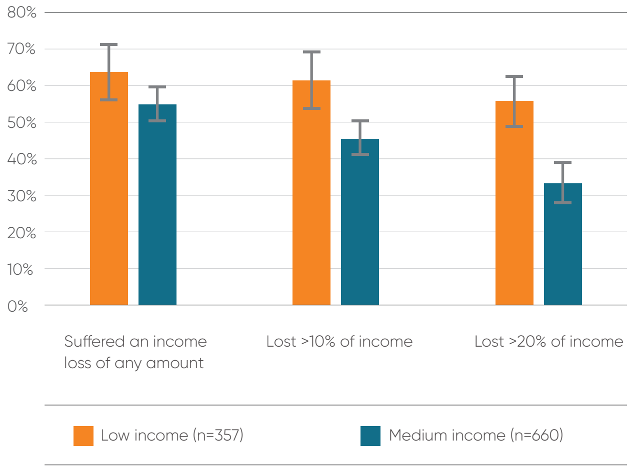
Achieved positive EBITDA for Q3-20 & Net Income profitability for month of Dec-20

The foundation of robust revenue growth, expanding contribution margin, and lowered bad debts resulted from proactive consumer credit management, deploying new versions of credit and risk models in production, and the natural "auto de-risking" of revenue that comes from long standing customers making repeat purchases. It is important to re-emphasize the last point. Zebit's value proposition and risk modeling ultimately transform consumers from "higher risk" to verifiable "stable and reliable credit performers" over time. As our customers "graduate," they receive spending limit increases and lower down payment percentages at checkout which motivate them to buy more often. This behaviour equates to higher annual spend and expanded contribution margin per order. The ongoing revenue impact of tenured customers is a major determinant for achieving full-year profitability over the mid-term.

Switching gears to look at the Company from an outside-in perspective, COVID-19 has deepened existing income inequality in the U.S. and further increased racial and political division that were played out for all to see.

According to a University of Chicago study published in January 2021, sixty percent of Americans earning below US$30,000 annually pre-COVID-19, lost income. Low-income households also lost a higher fraction of their income and were less likely to recover income, compared with higher-income households.

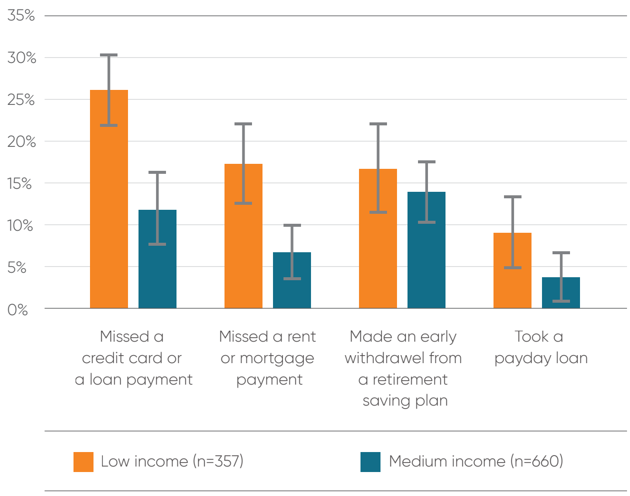
Share of respondents who incurred a household income loss in at least one month between February and October 2020 by income group



Bertrand, Briscese, Grignani, Nassar (2020) ChicagoBooth.edu/PovertyLab/COVIDResearch

Among low-income households, 17% have missed a rent or mortgage payment and over a quarter have missed a credit card or a loan payment since the start of the pandemic. Across income groups, about 15% of families withdrew from their retirement savings, and a smaller but significant portion of families have taken payday loans, short-term unsecured cash advances often with high interest rates.

Share of respondents who faced financial hardship in at least one month between March and October 2020 by income group



Bertrand, Briscese, Grignani, Nassar (2020) ChicagoBooth.edu/PovertyLab/COVIDResearch

In sum, all of the above factors lead to two simple observations – the need and demand for Zebit has never been higher and careful risk management will be the key to protecting the business as we continue to grow.

While our relationship with the Australian investment community is just beginning, I believe the results we have delivered thus far should confirm your confidence in our business and the power of the market opportunity with our consumer base. Despite our physical distance, the management team is determined to maintain a high level of communication with its shareholders that is straightforward, timely and transparent. Success in building Zebit is heavily and directly aligned with successful outcomes for all of you.

Outlook for 2021

We performed well in 2020 but I believe the best is yet to come. Our growth in 2021 will be supported by the capital raised at the IPO and an increase in our debt facility with Bastion to US$35 million which closed in Feb-21. The increase in our facility ensures we have the requisite capital to support Q4-21 peak sales.

COVID-19 fuelled an acceleration of eCommerce in 2020, which also saw a synergistic boom for traditional BNPL companies. As the U.S. and the world emerges from
the pandemic, there is speculation that consumers will return to normal shopping behaviours and the growth will stall in specific product verticals that are traditionally bought in store. We do not expect this trend will impact Zebit, given our customers' need for credit and lack of alternatives. Therefore, our focus remains on select key themes to drive growth. These include, but are not limited to, expanding acquisition channels and capabilities, using updated models to drive more approvals per application, and testing product prices to increase engagement and drive long-tail revenue.

Conclusion

In closing, our people, strategy, and our values have been the foundation of our success since inception. They will continue to underpin our work today, tomorrow and into the future.

Our strategic objectives are intended to fuel intelligent growth that supports our financial objectives. We are working diligently to establish ourselves as a world-class eCommerce company that is revolutionizing product financing across credit spectrums.

We are here on the ASX for the long term and look forward to developing lasting investor relationships that will share in the growth in value we expect to deliver along the way.

Thank you again to our board of directors, shareholders, and employees for a remarkable start to the journey and the year ahead of us.

Marc Schneider
Co-Founder, President and CEO

Key growth drivers

Expanding Acquisition Channels and Capabilities

Extending the Company's reach to make the brand visible to more consumers is a key strategy in 2021. To that end, we are implementing a new Software as a Service ("SaaS") affiliate platform to rapidly facilitate onboarding of more B2B partners, exploring new B2C test channels like TV, and using our platform to build a rewards program to incentivise and increase organic customer acquisition.

Driving Higher Approval Rates

Driving higher approval rates allows us to monetize the robust application flow we already receive. This will be a combination of user experience ("UX") testing combined with implementing new data assets to make our registration process easier and with fewer drop-offs. The goal here is to simplify our application process to reduce drop-off opportunity and convert abandoned applications into approvals.

Increasing Engagement Across Customer Lifecycle

Increasing engagement drives revenue growth and is the most powerful factor in Zebit's quest toward profitability. Efforts in 2021 will include optimization of the down payment at checkout and initial spending limits allocated to new customers, product assortment diversification including staples, disposables, and traditional grocery items, and strategic pricing optimization.

Exploring Adjacent Revenue Opportunities

Given the accelerated demand for BNPL offerings to typically float 4 payments over 4-6 weeks, Zebit intends to pilot its core offering to allow up credit consumers to buy on Zebit and finance each purchase over six-months, without interest, hidden fees, or penalties. Given our large product portfolio, we are confident we can buttress traditional BNPL with longer term financing that allows up credit consumers to make larger purchases through Zebit.

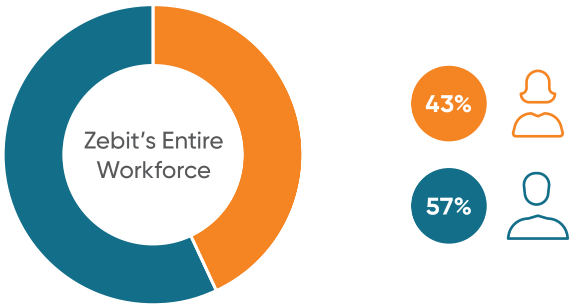
Corporate and Social Responsibility

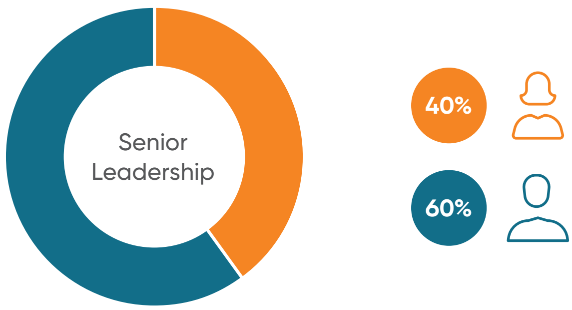
Zebit's Commitment to Its Customers and Its People

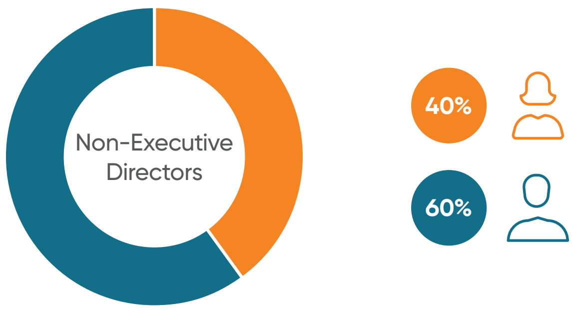
From the beginning, Zebit has consciously built its business by hiring individuals who bring unique skill sets, values, experiences, and backgrounds to the table. We also look for people who are connected in some way to the Company's social mission of levelling the credit playing field for 120m U.S. credit-challenged consumers by allowing them to shop and pay over time. Simply looking at the fabric and composition of the employee base today, the Company continues to assemble a very diverse workforce, never discriminating based on gender, age, physical ability, race, ethnicity, marital or family status, religion, sexual orientation, cultural or socioeconomic background. Our diversity within our staff, management team, and Board of Directors is consistent with and supports Zebit's values of welcoming differences while creating a culture of belonging.

All executives, managers and employees are responsible for promoting workplace diversity. Zebit's employees benefit from market-driven salaries, benefits package, and an employee stock option plan. For the year ending 31 December 2020, Zebit's workforce consisted of:

Diversification







The Directors of Zebit bring to the Board a set of diverse experiences and relevant skills, including industry and global business knowledge, financial management, public and private company experience, and strong corporate governance. One Director is based in Australia and four in San Francisco, CA, with Marc Schneider (Founder and CEO), based in San Diego.

Ethics and Responsibility

A key pillar of Zebit has always been to act lawfully, ethically, and responsibly in relation to the consumer base we serve and the regulatory environment we operate within. The Company's expectations around this are set out in its Code of Conduct policy. This policy applies to all Directors and employees of the Company. In fact, Zebit pledges "No Harm" to its customers as the Company does not charge any kind of penalty fee and it also rewards a customer's positive repayment behaviour.

Zebit also pledges to use simple and transparent language so that customers can easily understand its value proposition. Zebit's commitment to how it interacts with its customers carries forward into every aspect of the business. From compliance with consumer finance laws and regulations to securities laws, Zebit expects all employees and Directors to uphold standards that align with expectations of investors and the investment community. Zebit's emphasis on good corporate behaviour can also be found through its Anti-Bribery and Corruption Policy, which strictly prohibits the offer or acceptance of bribes among other requirements for ethical behaviour. The Company has zero tolerance for bribery and corruption and is committed to emphasizing a corporate culture of uncompromising integrity and professionalism. Zebit has also implemented a Whistleblower policy that provides multiple avenues for employees to communicate any perceived violations of law or corporate policies.

Remuneration

Zebit recognises a successful business requires a remuneration framework, which is transparent, equitable, and aligned to shareholder outcomes. The Company's remuneration objectives are focused on attracting, rewarding, and retaining top talent. Each employee plays a key role in in achieving sustainable growth and future success of the business. Zebit provides long-term incentives to employees through its employee stock option plan and believes in rewarding performance, as the Company has a track record of granting increased option ownership to employees who are top performers. The Company offers competitive pay and above-market benefits when benchmarked against similar companies.

Environment

Zebit is not directly subject to significant environmental regulation, but Zebit understands the importance of being a good steward of resources. As a technology-based eCommerce retailer, Zebit imparts an environmental footprint created through the shipment of goods across the United States, and the Company's delivery of items direct to consumers contributes to a reduction of cars on the road. The Company continues to search for ways to reduce its carbon footprint and work with vendors who are innovative on the packaging and logistics front to stem waste that impacts the environment and climate change.

Data Privacy and Security

As the Company is an eCommerce retailer that also finances products for its customers, Zebit collects personally identifiable information (PII) in the ordinary course of business. Maintaining customer trust is important, and Zebit takes Data Privacy and Security very seriously. The Company has achieved SOC2 Type II compliance and PCI Level 3. Further, Zebit is responsible for continued compliance with federal and state laws that govern data privacy, security, and breaches.

Maintaining the security and privacy of our customers' confidential data is one of the Company's highest priorities. Zebit considers data security risks and undergoes an annual security audit (SOC2) by a third-party firm. Zebit understands that an adaptable and agile security program is vital to the integrity of its business and has risk infrastructure in place to mitigate cybersecurity risk. The Company safeguards data by using a combination of preventative and detective technologies, policies and procedures are in place to validate and enforce our security controls. The Company is insured for certain cyber risk and security incidents.

Governance

Through oversight, review, and counsel, Zebit's Board of Directors sets overarching strategic guidance, establishes and promotes business goals, and directs and monitors the Company's performance. Corporate governance provides a structure for management and the Board to set objectives and monitor performance of the Company. The Board is committed to actively seeking out candidates with diverse backgrounds, experiences and skills that can strengthen Zebit's commitment to integrity, diversity of thought, sound business practices, and inclusivity. Zebit has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (4th Edition) to the extent appropriate for the size of the Company and its operations. The 2020 Corporate Governance Statement as well as the Board Charters and all Corporate Policies can be found on Zebit's website at https://shareholders.zebit.com/investor-centre/

The Board is responsible for monitoring and reviewing the ongoing performance and compliance of the Company's corporate governance practices, policies, and procedures. All Company Charters and Policies are reviewed at least annually to ensure the Company remains compliant with current requirements.

Risk Management

Risk management is an integral part of standard business practice and is the responsibility of everyone, from the Board to the individual employee. Zebit understands the importance of risk management and its relation to the protection of the Company's capital and earnings as well as to the successful execution of its business strategy. Zebit's risk management framework takes into account the Company's major financial, regulatory, and cybersecurity risk exposures and processes in place to monitor and control such exposures. The Company's policies and strategy for risk management are appropriate for the Company's profile and operations. The Board executes its oversight responsibility directly and through its Audit and Risk Committee, which regularly reports to the Board.

Board of Directors

Jim Feuille

Jim Feuille has 37 years of experience in the equity capital markets including the past 18 years as a highly accomplished principal investor inventure capital at Crosslink Capital. Jim's investment focus areas at Crosslink have included enterprise software/SaaS, internet digital media and consumer services, analytics, advertising technologies, and financial technology. Jim has led Crosslink's investments in six companies which achieved billion dollar plus market cap exits or now carry billion dollar plus valuations—Omniture (NASDAQ: OMTR, IPO 2006, acquired by Adobe 2009 for $1.8B), Ancestry.com (NASDAQ: ACOM, IPO 2009, acquired by Permira 2012 for $1.6B), Pandora (NYSE: P, IPO 2011, average market cap at fund exit $5.5B), Coupa (NASDAQ: COUP, IPO 2016, current market cap $20B), Personal Capital (acquired by Empower Retirement in 2020 for $1B), and Chime ($5.75B valuation in December 2019 Series E financing). Jim's current board seats for Crosslink include Bank Novo, Chime, Reltio, DevonWay, Gain Credit, Zebit, and Devon Way. In addition, Jim is Crosslink's board observer for SilkRoad Technology. Jim also serves on the board of Claro on behalf of private investors in the company. Since 2018, Jim has also served as the Executive Director of the Center for Private Equity and Venture Capital at the Tuck School of Business at Dartmouth College, where he is responsible for developing and managing the school's co-curricular educational opportunities for MBA students interested in private equity and venture capital. Prior to joining Crosslink, Jim's professional experience included positions as Global Head of Technology investment banking at UBS, Chief Operating Officer at Volpe Brown Whelan & Company, and Head of Technology Investment Banking at Robertson Stephens & Company. Jim received an A.B. in Chemistry from Dartmouth College, a J.D. from the Stanford University Law School, and an M.B.A. from the Stanford University Graduate School of Business.

Marc Schneider

Marc is co-founder, President and CEO of Zebit. Marc is an entrepreneur and seasoned operator with over 30 years of experience in start-ups, turnarounds, and scaling businesses across a variety of different industries. Marc began his career working for the World Bank and Inter-American Development Bank. After graduating with his MBA from the University of Chicago, he was a management consultant who worked hands-on with his clients to reduce costs, streamline operations, and launch new ventures in the U.S. and abroad. After 5 years in consulting, Marc led strategic planning for RR Donnelley and Sons in the catalog, magazine, and retail inserts businesses.He then transitioned to Mexico City where he worked for Milestone Merchants Partners as a General Manager of private equity. Marc moved back to the U.S. with his family and led operations for a former SEC Chairman, Richard Breeden who was accountable to manage the victim trust funds of WorldCom, Adelphia, and Enron. In 2006, Marc joined Provide Commerce and spent over 4 years managing customer service operations and led M&A integration for the company. In 2010, Marc joined Zulily, a private sales eCommerce sales site where he was COO and grew revenues to over $150 million run rate during his tenure. After moving back to San Diego from Seattle, Marc was the SVP of Operations for Global Analytic Holdings and ran a $100 million lending platform in the UK with operations in India. In 2015, Marc co-founded Zebit and built the company from the ground up, including its technology, risk, and operational processes. Marc has a B.S. in economics and accounting from The Wharton School at the University of Pennsylvania and his M.B.A. in marketing and statistics from the University of Chicago's Graduate School of Business.

Sylvia Falzon

Sylvia Falzon has over 35 years of experience across a range of regulated and customer facing industries including financial services, health, aged care and retail. Sylvia has significant business transformation, initial public offering, mergers and acquisitions, divestments and funds management experience. Sylvia is currently a director of Suncorp Group Limited (ASX: SUN), Premier Investments (ASX: PMV), Regis Healthcare (ASX: REG) and Chairman of Cabrini Australia. Prior to joining the Board of Zebit, Sylvia had previously held board positions on Perpetual Limited (ASX: PPT), SAI Global (ASX: SAI) and the Museum's Board of Victoria and senior executive positions at Aviva Investors Australia, Alpha Investment Management and National Mutual Funds Management/AXA in Australia and Globally). Sylvia has received a Bachelor of Business from the University of Western Sydney, Graduate Diploma in Applied Finance and Investment from FINSIA and a Masters of Industrial Relations and Human Resource Management (Honours) (Thesis on Retirement Incomes Policy) from the University of Sydney. She has also been awarded a Senior Fellowship from FINSIA and a Fellow of the Australian Institute of Company Directors.

Miriam Rivera

Miriam Rivera is co-founder and managing director of Ulu Ventures, an early seed stage venture fund. She is dedicated to increasing diversity in both the entrepreneurial and investment communities. Prior to Ulu Ventures, Miriam was vice president/deputy general counsel at Google, which she joined in 2001 as the second attorney. There she helped build and lead an award-winning global legal department. Her work to re-design and simplify contracts helped Google scale from $85M to $10B in revenues in five years. Before Google, Miriam worked for Ariba as counsel, after having co-founded angel and then venture-backed Outcome Software. Previously, she worked as a strategy consultant for Accenture and as an associate at the law firm of Brobeck, Phleger & Harrison. Miriam is the co-founder, former co-president and on the board of Stanford Angels & Entrepreneurs an "open source network" of Stanford alumni investors and entrepreneurs. She is a board member of the Kauffman Foundation, a national endowment dedicated to increasing opportunity for Americans through education and entrepreneurship. Miriam is a Kauffman Fellow in venture capital. She also serves on the Investment Committee of Acumen Fund America, an impact investment fund serving the needs of low-income Americans. As a first-generation college student and scholarship recipient, Miriam graduated from Stanford University, where she earned the AB, AM and JD/MBA degrees. She has been honored with the Stanford Medal, awarded to fewer than 1 percent of alumni.

Larry Rosenberger

Larry is a pioneer in the field of predictive, decision, learning and behavioural analytics. He has a strong background in using data and analytics to invent solutions that positively impact people in the credit, insurance, retailing, health/wellness, safety and education spaces. In 1974, Rosenberger joined FICO as its VP of R&D Division, where he led the technical development, production, and marketing of the company's most advanced products, including the FICO Score, as well as advances in predictive analytics methodology. Rosenberger is currently a Research Fellow at FICO, having previously held the roles of VP of Research and President & CEO. In his eight-year tenure as CEO, Rosenberger led the company in creating world-class analytics solutions and increasing annual revenue from $31 million to $276 million. Rosenberger graduated from Massachusetts Institute of Technology (MIT) with a BS in Physics, and earned a Masters in Physics and two Masters in Operations Research from the University of California Berkeley.

Scott Thompson

Scott is the CEO of Tuition.io which focuses on reducing student loan debt. He joined Tuition.io from ShopRunner where he served as CEO and led the company's rapid retail and member network expansion over four years. Prior to ShopRunner, Thompson was CEO of Yahoo. Before that, he served as President of PayPal during its most rapid growth period. During his tenure, he helped grow revenues from $1 billion to $4.4 billion and established PayPal as the leading global online payment service. Previously, Thompson held executive positions with Inovant (a subsidiary of Visa), Barclays Global Investors, and Coopers & Lybrand. Scott hold a bachelor's degree in accounting from Stonehill College.

Financial Report (audit)

Contents

Directors' Report

The Directors present their report on the Zebit Inc. (ASX: ZBT) (Zebit or Company) for the year ended 31 December 2020.

All amounts are stated in U.S. dollars unless otherwise stated

Directors

The following persons were Directors of Zebit, Inc. during the whole of the financial year and up to the date of this report, unless otherwise stated:

Jim Feuille	Chairman and Non-Executive Director
Marc Schneider	President and CEO, Executive Director
Sylvia Falzon	Non-Executive Director (Appointed 12 August 2020)
Miriam Rivera	Non-Executive Director (Appointed 23 October 2020)
Larry Rosenberger	Non-Executive Director
Scott Thompson	Non-Executive Director

Principal activities

Zebit is a technology-driven eCommerce company that is dedicated to making a fundamental change in the lives of over 120 million U.S. credit-challenged customers by giving them access to a broad set of products and the ability to pay for those products in instalments over six months. Zebit operates in both retail eCommerce and credit solutions. Zebit sells products as an eCommerce merchant and provides the financing to customers (via an in-house and proprietary BNPL solution) for those products over time.

Review of operations

Revenue for the financial year ended 31 December 2020 increased 2.5% to $87.7 million from $85.5 million in 2019. The loss for the Company after providing for tax decreased by 40.2% to $7.4 million from $12.4 million in 2019.

Total operating cost and expenses for the year decreased by 17.9% to $27.2 million from $33.2 million in 2019.

COVID-19

In mid-March FY20, COVID-19 began causing disruptions in the U.S. and Australia which resulted in uncertainty in capital markets and, as a result, Zebit did not have a clear path to an IPO or an alternative near-term capital raise.

Given the global uncertainty in the early stages of the COVID-19 pandemic, Zebit prudently reduced operations and growth from Q2 through Q3 FY20. While growth was impacted over this period, loss after tax decreased by 40.2% to $7.4 million. This improved loss position was due to a significant reduction in bad debts expense driven by the Company's actions to limit credit loss and manage cash.

The results of Zebit's actions to improve the quality and selectivity of registered users and the orders it decided to approve, lowering its operating costs, and focusing on increased gross margin products was instrumental and necessary to keep the business operational while global capital markets remained challenging.

Post Listing

Leading up to and after the IPO, Zebit significantly increased its marketing spend to generate growth through the 4th quarter and into 2021. Of the total marketing spend that the Company used in FY20, more than 68% was spent in the 4th quarter as the Company received capital from the IPO. While total FY20 revenue growth vs prior corresponding period ("pcp") accounted for 2.5% or $2.2m, revenue growth for the fourth quarter of FY20 was up 34.2% or $11.3m vs pcp. With the current cash on balance of $22.4m, Zebit expects to continue its focus on revenue growth and maintaining contribution margin strength.

Financial position

The Company reported sales revenue of $87.7 million (2019: $85.5 million) for the financial year ended 31 December 2020. The Company continues to invest in its technology platform and at 31 December 2020 had cash and term deposits of $22.4 million as working capital to fund the activities of the Company.

In September 2020 Zebit entered into a credit facility with Bastion Consumer Funding II LLC. The initial facility provides up to $15.0 million in principal borrowings and was amended on 16 February 2021 to increase the facility to $35.0 million subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. The facility can be drawn upon until the day before the date that is 30 months following the closing date, or through 15 March 2023, or earlier upon an event of default or early amortization event, as defined in the agreement. All principal amounts borrowed are due 36 months from the closing date, or 15 September 2023.

Significant changes in the state of affairs

On 26 October 2020, the Company successfully listed its CHESS Depositary Interests ('CDIs') over Shares of common stock (Shares) on the ASX following the issue of 22,151,899 CDIs over Shares at an issue price of A$1.58 to raise A$35.0 million. Each CDI represents one Share.

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

Dividends

The company has not declared, and does not propose to pay, any dividends for the year ended 31 December 2020. There are no dividend or dividend reinvestment plans in operation.

Jurisdiction of Incorporation

The Company is incorporated in the State of Delaware, United States of America and is a registered foreign entity in Australia. As a foreign company registered in Australia, the Company is subject to different reporting and regulatory regimes than Australian companies.

Delaware law, Certificate of Incorporation and Amended and Restated Bylaws

As a foreign company registered in Australia, the Company is not subject to Chapter 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of Shares (including substantial shareholdings and takeovers).

Under the provisions of Delaware General Corporation Law ("DGCL"), Shares are freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's Certificate of Incorporation or Amended and Restated Bylaws, or by an agreement signed with the holders of the Shares at issuance. The Company's Amended and Restated Certificate of Incorporation and Bylaws do not impose any specific restrictions on transfer. However, provisions of the DGCL, the Company's Certificate of Incorporation and the Company's Amended and Restated Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover, a proxy contest or otherwise, or to remove incumbent offices and Directors of the Company. These provisions could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board.

Matters subsequent to the end of the financial year

In September 2020 Zebit entered into a credit facility with Bastion Consumer Funding II LLC. The initial facility provides up to $15.0 million in principal borrowings and was amended on 16 February 2021 to increase the facility to $35.0 million.

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

Likely developments and expected results of operations

Any other information on likely developments in the operations of the Company and its prospective future have not been included in this report because the Directors believe it to be commercial-in-confidence and as a result likely to result in unreasonable prejudice to the Company.

Environmental regulation

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

Ecommerce and Consumer Financial Protection

The regulatory framework for eCommerce companies, including Zebit, is developing and evolving, and it is possible that new laws and regulations will be adopted in the U.S., or existing laws and regulations may be interpreted in new ways, that could affect the operation of Zebit and the way in which it interacts with its registered users and active customers.

Regulators, including the Consumer Financial Protection Bureau and the Federal Trade Commission, other Federal agencies, and State executive agencies have broad discretion with respect to the interpretation, implementation and enforcement of the laws and regulations that apply to Zebit, including through enforcement actions that could subject Zebit to civil money penalties, customer remediation, increased compliance costs, and limits or prohibitions on its ability to offer certain products and services or to engage in certain activities.

Information on Directors

Name:	Jim Feuille
Title:	Chairman and Non-Executive Director
Qualifications:	Jim received an A.B. in Chemistry from Dartmouth College, a J.D. from the Stanford University Law School, and an MBA from the Stanford University Graduate School of Business.
Experience and expertise:	Jim Feuille has 38 years of experience in the equity capital markets including the past 19 years as a highly accomplished principal investor in venture capital at Crosslink Capital. Jim's investment focus areas at Crosslink have included enterprise software/SaaS, internet digital media and consumer services, analytics, advertising technologies, and financial technology. Jim has led Crosslink's investments in six companies which achieved billion dollar plus market cap exits or now carry billion dollar plus valuations – Omniture (NASDAQ: OMTR, IPO 2006, acquired by Adobe 2009 for $1.8B), Ancestry.com (NASDAQ: ACOM, IPO 2009, acquired by Permira 2012 for $1.6B), Pandora (NYSE: P, IPO 2011, average market cap at fund exit $5.5B), Coupa (NASDAQ: COUP, IPO 2016, average market cap at fund exit $5.1B), Personal Capital (acquired by Empower Retirement in 2020 for $1B), and Chime ($14.5B valuation in September 2020 Series F financing). Jim's experience relevant to Zebit includes his investment in the Series A Preferred Stock round for Sezzle (ASX: SZL), a leading company in the BNPL sector, which investment has increased 47X in value as of the date of this filing. In addition to his role at Crosslink Capital, Jim has also served as the Executive Director of the Center for Private Equity and Venture Capital at the Tuck School of Business at Dartmouth College since August 2018.
Other current directorships:	None
Former directorships (last 3 years):	None
Committee:	Member of Audit and Risk Committee, Member of Credit Committee
Interests in Shares:	22,172,085 Shares* (equivalent to 22,172,085 CDIs)
Contractual rights to Shares:	154,300** Warrants

* *Shares held through as per detail below:*

- *360,578 held through Crosslink Bayview V, LLC.*
- *4,377,835 held through Crosslink Crossover Fund VI, L.P.*
- *6,708,209 held through Crosslink Crossover Fund VII, L.P.*
- *9,549,273 held through Crosslink Ventures V, L.P.*
- *818,303 held through Alternative Fund Services (Cayman) Limited Trustee Offshore Crosslink Ventures V Unit Trust dated 26 October 2005.*
- *358,157 held through USB Fund SVC (Cayman) Ltd TTEE Offshore Crosslink Ventures V Unit TR U/A 17 June 2005.*

** *Warrants held through entities as per detail below:*

- *2,509 held through Crosslink Bayview V, LLC.*
- *39,931 held through Crosslink Crossover Fund VI, L.P.*
- *37,219 held through Crosslink Crossover Fund VII, L.P.*
- *66,456 held through Crosslink Ventures V, L.P.*
- *8,185 held through USB Fund SVC (Cayman) Ltd TTEE Offshore Crosslink Ventures V Unit TR U/A 17 June 2005.*

Directors' Report (Continued)

Name:	Marc Schneider
Title:	CEO and Executive Director
Qualifications:	Marc has a B.S. in economics and accounting from The Wharton School at the University of Pennsylvania and his M.B.A. in marketing and statistics from the University of Chicago's Graduate School of Business.
Experience and expertise:	Marc is an entrepreneur and seasoned operator with over 30 years of experience in start-ups, turnarounds, and scaling businesses across a variety of different industries. Marc began his career working for the World Bank and Inter-American Development Bank. After graduating with his MBA from the University of Chicago, he was a management consultant who worked hands-on with his clients to reduce costs, streamline operations, and launch new ventures in the U.S. and abroad. After 5 years in consulting, Marc led strategic planning for RR Donnelley and Sons in the catalogue, magazine, and retail inserts businesses. He then transitioned to Mexico City where he worked for Milestone Merchants Partners as a General Manager of private equity. Marc moved back to the U.S. with his family and led operations for a former SEC Chairman, Richard Breeden who was accountable to manage the victim trust funds of WorldCom, Adelphia, and Enron. In 2006, Marc joined Provide Commerce and spent over 4 years managing customer service operations and led M&A integration for the company. In 2010, Marc joined Zulily, a private sales eCommerce sales site where he was COO and grew revenues to over $150 million run rate during his tenure. After moving back to San Diego from Seattle, Marc was the SVP of Operations for Global Analytic Holdings and ran a $100 million lending platform in the UK with operations in India. In 2015, Marc co-founded Zebit and built the Company from the ground up, including its technology, risk, and operational processes.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in Shares:	105,490 Shares (equivalent to 105,490 CDIs)
Interests in options:	7,083,926 Options

Name:	Sylvia Falzon
Title:	Non-Executive Director (Appointed 12 August 2020)
Qualifications:	Sylvia has received a Masters of Industrial Relations and Human Resource Management (Honours) (Thesis on Retirement Incomes Policy) from the University of Sydney and a Bachelor of Business from the University of Western Sydney. She graduated with a Diploma in Applied Finance and Investment from FINSIA. She has been awarded a Senior Fellowship from FINSIA and a Fellow of the Australian Institute of Company Directors.
Experience and expertise:	Sylvia has over 35 years of experience across a range of regulated and customer facing industries including financial services, health, aged care and retail. Sylvia has significant business transformation, initial public offering, mergers and acquisitions, divestments and funds management experience. Prior to commencing her non-executive director career, Sylvia held senior roles at Aviva Investors Australia, Alpha Investment Management and National Mutual Funds Management/AXA in Australia and Globally).
Other current directorships:	Sylvia is currently a director of Suncorp Group Limited (ASX: SUN), Premier Investments (ASX: PMV), Regis Healthcare (ASX: REG) and Chairman of Cabrini Australia.
Former directorships (last 3 years):	Prior to joining the Board of Zebit, Sylvia had previously held a board position with Perpetual Limited (ASX: PPT).
Committee:	Chair of Nomination and Remuneration Committee
Interests in Shares:	126,852 Shares (equivalent to 126,852 CDIs)
Interests in options:	200,000 Options*

* *Issued under nil consideration under the Zebit, Inc 2020 Equity incentive Plan to Sylvia Falzon which will comprise her remuneration for her services for the 12 month ending 11 August 2021.*

Name:	Miriam Rivera
Title:	Non-Executive Director (Appointed 23 October 2020)
Qualifications:	As a first-generation college student and scholarship recipient, Miriam graduated from Stanford University, where she earned the AB, AM and JD/MBA degrees. She has been honoured with the Stanford Medal, awarded to fewer than 1 percent of alumni.
Experience and expertise:	Miriam Rivera is co-founder and managing director of Ulu Ventures, an early seed stage venture fund. Ulu has six investments that have achieved billion dollar plus market cap exits or now carry billion dollar plus valuations – Palantir (NASDAQ: PLTR IPO $46B), SoFi (going public via SPAC with an $8.65B valuation), Proterra (going public via SPAC with an $1.5B valuation), Figure Technologies ($1.2B in December 2019 Series C), Krux acquired by Salesforce for $1B+ October 2016, and Guild Education ($1B+ in November 2019 Series D). She is dedicated to increasing diversity in both the entrepreneurial and investment communities. Prior to Ulu Ventures, Miriam was vice president/deputy general counsel at Google, which she joined in 2001 as the second attorney. There she helped build and lead an award-winning global legal department. Her work to re-design and simplify contracts helped Google scale from $85M to $10B in revenues in five years.
Other current directorships:	None
Former directorships (last 3 years):	None
Committee:	Member of Nomination and Remuneration Committee, Member of Credit Committee
Interests in Shares:	6,094,133 Shares* (equivalent to 6,094,133 CDIs)
Interests in options:	Nil
Contractual rights to Shares:	75,000 Warrants*

* *Shares and Warrants held through Ulu Ventures Fund II, L.P.*

Directors' Report (Continued)

Name:	Larry Rosenberger
Title:	Non-Executive Director
Qualifications:	Rosenberger graduated from Massachusetts Institute of Technology (MIT) with a BS in Physics, and earned a Masters in Physics and two Masters in Operations Research from the University of California Berkeley.
Experience and expertise:	Larry is a pioneer in the field of predictive, decision, learning and behavioural analytics. He has a strong background in using data and analytics to invent solutions that positively impact people in the credit, insurance, retailing, health/wellness, safety and education spaces.
Other current directorships:	None
Former directorships (last 3 years):	None
Committee:	Chair of Credit Committee, Member of Audit and Risk Committee
Interests in Shares:	1,183,825 Shares (equivalent to 1,183,825 number of CDIs)
Interests in options:	200,000

Name:	Scott Thompson
Title:	Non-Executive Director
Qualifications:	Scott hold a bachelor's degree in accounting from Stonehill College.
Experience and expertise:	Scott is the CEO of Tuition.io which focuses on reducing student loan debt. He joined Tuition.io from ShopRunner where he served as CEO and led the company's rapid retail and member network expansion over four years. Prior to ShopRunner, Thompson was CEO of Yahoo. Before that, he served as President of PayPal during its most rapid growth period. During his tenure, he helped grow revenues from $1 billion to $4.4 billion and established PayPal as the leading global online payment service. Previously, Thompson held executive positions with Inovant (a subsidiary of Visa), Barclays Global Investors, and Coopers & Lybrand.
Other current directorships:	Coupa (NASDAQ: COUP, IPO 2016)
Former directorships (last 3 years):	None
Committee:	Chair of Audit and Risk Committee, Member of Nomination and Remuneration Committee
Interests in Shares:	116,859 Shares (equivalent to 116,859 CDIs)
Interests in options:	260,000

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Kim Bradley-Ware.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') held since the listing date on 26 October 2020 through the year ended 31 December 2020, and the number of meetings attended by each Director were:

	Full Board		Nomination and Remuneration Committee [1]		Audit and Risk Committee [2]		Credit Committee [3]	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Jim Feuille [2,3]	–	–	–	–	1	1	1	1
Marc Schneider	–	–	–	–	1	–	1	–
Sylvia Falzon [1]	–	–	–	–	–	–	–	–
Miriam Rivera [1,3]	–	–	–	–	–	–	1	1
Larry Rosenberger [2,3]	–	–	–	–	–	1	1	1
Scott Thompson [1,2]	–	–	–	–	1	1	–	–

Held: represents the number of meetings held during the time the Director held office.

1. *Denotes a board member who is a committee member on the Nomination and Remuneration Committee.*
2. *Denotes a board member who is a committee member on the Audit and Risk Committee.*
3. *Denotes a board member who is a committee member on the Credit Committee.*

Remuneration Report

Zebit Inc. is a Delaware incorporated company that is listed on the Australian Securities Exchange. This remuneration report forms part of the Directors' Report and has been prepared using the requirements of section 300A of the Australian *Corporations Act 2001* (Cth) as a proxy to determine the contents that the Board has chosen to report.

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Zebit Inc. Key Management Personnel for the financial year ended 31 December 2020. The term Key Management Personnel ('KMP') refers to those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based remuneration
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive remuneration
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for Zebit's directors and executives. The performance of the Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive Director and executive Director remuneration is separate.

Non-executive Directors remuneration

Under the By-laws, the Directors decide the total amount paid to Directors as remuneration for their services as a Director of Zebit, but the maximum aggregate remuneration permitted for all Non-Executive Directors for their service as a member of the Board of Directors is $1,000,000 per annum.

However, under the ASX Listing Rules, the total amount of fees paid to all Non-Executive Directors must not exceed the aggregate amount of Non-Executive Directors fees approved by Shareholders in a general meeting of Zebit. This amount has been fixed at $300,000 per annum. Any increase to the aggregate amount will require Shareholder approval. This aggregate annual sum does not include any special remuneration which the Board may grant to the Directors for special exertions or additional services performed by a Director for or at the request of Zebit, which may be made in addition to or in substitution for the Directors' fees.

Executive remuneration

The Company aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has two components:

- base pay and non-monetary benefits
- stock options

All employee stock options have a 1/48th vesting schedule each month and typically also include a one-year cliff. The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Company and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Company and provides additional value to the executive.

Details of remuneration

Details of the remuneration of KMP of the Company are set out in the following tables.

The KMP of the Company consisted of the following directors of Zebit, Inc as noted in the table below:

Amounts of remuneration

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2020	Cash salary and fees[1] $	Cash bonus $	Non – monetary $	Superannuation $	Long service leave $	Equity – Settled[2] $	Total $
Non-Executive Directors:							
Jim Feuille	–	–	–	–	–	–	–
Miriam Rivera	–	–	–	–	–	–	–
Sylvia Falzon	–	–	–	–	–	4,529	4,529
Larry Rosenberger	–	–	–	–	–	43,876	43,876
Scott Thompson	–	–	–	–	–	44,617	44,617
Executive Directors:							
Marc Schneider	251,378	–	–	–	–	410,505	661,883
Other Key Management Personnel:							
Steve Lapin	242,608	–	–	–	–	117,513	360,121
Eric VonDohlen	279,070	17,500	–	–	–	201,660	498,230
Total Remuneration	**773,056**	**17,500**	**–**	**–**	**–**	**822,700**	**1,613,256**

1. *Cash salary and fees includes company benefits such as healthcare and 401k match.*
2. *Stock compensation expense is a non-cash item and utilizes a Black-Scholes option calculation to determine expected value, which is amortized over the vested period.*

Service agreements

Name:	Marc Schneider
Title:	Executive Director, President and CEO
Base Salary:	$350,000, less applicable withholdings
Benefits:	Health insurance, business travel expenses, and other customary employee benefits.
Termination:	Marc's employment may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by Zebit immediately and without prior notice for "cause"; (iii) immediately upon death or disability; (iv) by Zebit other than for "cause" and with advance written notice of at least 6 months; (v) by Marc, other than due to death, with advanced written notice of at least 6 months; or (vi) by Marc for good reason with advanced written notice to Zebit and opportunity to cure and, if not cured, resignation shall be effective no later than 6 months following the initial occurrence of the event triggering good reason. The executive employment agreement provides that if Zebit terminates Marc's employment without "cause" or Marc terminates his employment for "good reason", he will be entitled to receive, subject to his timely execution and non-revocation of a release of claims: (i) continuing severance payments equal to his then-current base salary less applicable withholdings for a period of twelve months; (ii) a lump sum severance payment equal to the unpaid bonus that he would have earned under Zebit's bonus plan for any performance period completed prior to the termination date; (iii) accelerated vesting as to the portion of the option awards that would have vested during the severance period; and (iv) reimbursements for his health insurance premiums for up to 12 months. The executive employment agreement also provides that if Zebit or a successor corporation terminates Marc without "cause" or Marc terminates his employment for "good reason" within 12 months following a change of control, subject to his timely execution and non-revocation of a release of claims, Marc will be entitled to the same severance described above, except that Marc would receive accelerated vesting as to 100% of his option awards.
Incentives:	Marc is eligible to participate in the Company's 2020 Stock Plan and currently holds 7,083,926 Options over Shares.

Directors' Report (Continued)

Other KMP remuneration is shown as follows

Name:	Steve Lapin
Title:	Chief Financial Officer and Treasurer
Base Salary:	$300,000, less applicable withholdings.
Benefits:	Health insurance, business travel expenses, and other customary employee benefits.
Termination:	Steve's employment may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by Zebit immediately and without prior notice for "cause"; (iii) immediately upon death or disability; (iv) by Zebit other than for "cause" and with advance written notice of at least 6 months; (v) by Steve, other than due to death, with advanced written notice of at least 6 months; or (vi) by Steve for good reason with advanced written notice to Zebit and opportunity to cure and, if not cured, resignation shall be effective no later than 6 months following the initial occurrence of the event triggering good reason. The executive employment agreement provides that if Zebit terminates Steve's employment without "cause" or Steve terminates his employment for "good reason", Steve will be entitled to a receive, subject to his timely execution and non-revocation of a release of claims: (i) continuing severance payments equal to Steve's then-current base salary less applicable withholdings for a period of nine months; (ii) a lump sum severance payment equal to the unpaid bonus that Steve would have earned under Zebit's bonus plan for any performance period completed prior to the termination date; (iii) accelerated vesting as to the portion of the option awards that would have vested during the severance period; and (iv) reimbursements for Steve's health insurance premium for up to 9 months. The executive employment agreement also provides that if Zebit or a successor corporation terminates Steve without "cause" or Steve terminates his employment for "good reason" within 12 months following a change of control, subject to his timely execution and non-revocation of a release of claims, Steve will be entitled to the same severance described above, except that Mr. Lapin would receive accelerated vesting as to 100% of his option awards.
Incentives:	Steve is eligible to participate in the Company's 2020 Stock Plan and currently holds 1,510,841 Options over Shares.

Name:	Eric VonDohlen
Title:	Chief Credit Officer
Base Salary:	$300,000, less applicable withholdings.
Benefits:	Health insurance, business travel expenses, and other expenses consistent with the Company's expense policy.
Termination:	Eric's employment may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by Zebit immediately and without prior notice for "cause"; (iii) immediately upon death or disability; (iv) by Zebit other than for "cause" and with advance written notice of at least 6 months; (v) by Eric, other than due to death, with advanced written notice of at least 6 months; or (vi) by Eric for good reason with advanced written notice to Zebit and opportunity to cure and, if not cured, resignation shall be effective no later than 6 months following the initial occurrence of the event triggering good reason. The executive employment agreement provides that if Zebit terminates Eric's employment without "cause" or Eric terminates his employment for "good reason", Eric will be entitled to a receive, subject to his timely execution and non-revocation of a release of claims: (i) continuing severance payments equal to Eric's then-current base salary less applicable withholdings for a period of three months; (ii) a lump sum severance payment equal to the unpaid bonus that Eric would have earned under Zebit's bonus plan for any performance period completed prior to the termination date; (iii) accelerated vesting as to the portion of the option awards that would have vested during the severance period; and (iv) reimbursements for Eric's health insurance premiums for up to 3 months. The executive employment agreement also provides that if Zebit or a successor corporation terminates Eric without "cause" or Eric terminates his employment for "good reason" within 12 months following a change of control, subject to his timely execution and non-revocation of a release of claims, Eric will be entitled to the same severance described above, except that Eric would receive accelerated vesting as to 100% of his option awards.
Incentives:	Eric is eligible to participate in the Company's 2020 Stock Plan and currently holds 780,000 Options over Shares.

Share-based remuneration

Issue of Shares

No Shares were issued to Directors and other key management personnel as part of remuneration during the year ended 31 December 2020.

Options

The terms and conditions of each grant of options over Shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Expiry date	Exercise price
Marc Schneider	1,178,615	4 February 2020	4 February 2030	US$0.19
Marc Schneider	1,200,000	26 October 2020	26 October 2030	US$0.74
Sylvia Falzon***	200,000	26 October 2020	26 October 2030	US$0.74
Larry Rosenberger**	200,000	4 February 2020	4 February 2030	US$0.19
Scott Thompson*	200,000	4 February 2020	4 February 2030	US$0.19
Steve Lapin	403,841	4 February 2020	4 February 2030	US$0.19
Steve Lapin	250,000	26 October 2020	26 October 2030	US$0.74
Eric VonDohlen	780,000	4 February 2020	4 February 2030	US$0.19

* *Options granted will comprise his remuneration for his services for the year ending 31 December 2020. 1/48th of the Options granted to Scott Thompson will vest each month after a 1-year cliff is achieved and provided that Scott remains a Non-Executive Director of the Company as at the applicable date. The Company does not intend to pay any cash director's fees or grant any additional Options to Scott Thompson for the six month period ending 30 June 2021.*

** *These options granted will comprise his remuneration for his services for the year ending 31 December 2020. 1/48th of the Options granted to Larry will vest each month after a 1-year cliff is achieved and provided that Larry remains a Non-Executive Director of the Company as at the applicable date. The Company does not intend to pay any cash director's fees or grant any additional Options to Larry Rosenberger for the six month period ending 30 June 2021.*

*** *These options granted will comprise her remuneration for her services for the 12 month period ending 11 August 2021. 1/48th of the Options granted to Sylvia will vest each month after a 1-year cliff is achieved and provided that Sylvia remains a Non-Executive Director of the Company as at the applicable date.*

Options granted carry no dividend or voting rights.

Warrants

The terms and conditions of each grant of warrants over Shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date[1]	Expiry date	Exercise price
Jim Feuille (held through Crosslink)	154,300	22 October 2020	31 December 2021	US$1.00
Miriam Rivera (held through Ulu)	75,000	22 October 2020	31 December 2021	US$1.00
	229,300			

1. *Preferred warrants were issued in 2016 and converted to Common warrants upon listing.*

There were no warrants over Shares granted to or vested by directors and other key management personnel as part of remuneration during the year ended 31 December 2020.

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions ****	Other *****	Balance at the end of the year
2020					
Jim Feuille ***	19,823,856	–	–	2,348,229	22,172,085
Marc Schneider	105,490	–	–	–	105,490
Sylvia Falzon (Appointed 12 August 2020)	–	–	126,582	–	126,582
Miriam Rivera ** (Appointed 23 October 2020)	5,860,415	–	–	233,718	6,094,133
Larry Rosenberger *	834,919	–	–	348,906	1,183,825
Scott Thompson	–	–	–	116,859	116,859
	26,624,680	**–**	**126,582**	**3,047,712**	**29,798,974**

* *Held through Rosenberger Revocable Trust.*

** *Held through Ulu Ventures Fund II, L.P.*

*** *360,578 held through Crosslink Bayview V, LLC.*
4,377,835 held through Crosslink Crossover Fund VI, L.P.
6,708,209 held through Crosslink Crossover Fund VII, L.P.
9,549,273 held through Crosslink Ventures V, L.P.
818,303 held through MUFG Alternative Fund Services (Cayman) Limited Trustee Offshore Crosslink Ventures V Unit Trust dated 26/10/05.
358,157 held through USB Fund SVC (Cayman) Ltd TTEE Offshore Crosslink Ventures V Unit TR U/A 17/06/05.

**** *Additions represent subscription from initial public offer.*

***** *Other represents conversion from convertible notes.*

Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2020 – Options over Shares					
Marc Schneider	4,705,311	2,378,615	–	–	7,083,926
Sylvia Falzon	–	200,000	–	–	200,000
Larry Rosenberger	–	200,000	–	–	200,000
Scott Thompson	60,000	200,000	–	–	260,000
Steve Lapin	857,000	653,841	–	–	1,510,841
Eric VonDohlen	–	780,000	–	–	780,000
	5,622,311	**4,412,456**	**–**	**–**	**10,034,767**

Warrant holding

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

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Warrant over Shares					
Jim Feuille (held through Crosslink)	154,300	–	–	–	154,300
Miriam Rivera (held through Ulu)	75,000	–	–	–	75,000
	229,300	**–**	**–**	**–**	**229,300**

Shares under options

Unissued Shares of Zebit, Inc. under option at the date of this report are as follows:

Type of Security	Number under option	Exercise Price	Expiry date
2015 Stock Plan	2,077,392	US$0.40	10 years from grant date
2015 Stock Plan	1,683,500	US$0.39	10 years from grant date
2015 Stock Plan	7,098,922	US$0.19	10 years from grant date
2020 Stock Plan	2,386,000	US$0.74	10 years from grant date
	13,245,814		

Shares under warrants

As at the date of this report, there were 568,935 unissued Shares of Zebit, Inc. under warrants. These warrants were issued on 22 October 2020 with an exercise price of US$1.00.

Indemnity and insurance of officers

The Company's Certificate of Incorporation and Bylaws provide for the indemnification of its Directors and Officers to the maximum extent permitted by the DGCL. The Company has entered into indemnification agreements with each Officer, Director and proposed Director.

Under these indemnification agreements, the Company has agreed to indemnify, to the maximum extent and in the manner permitted by Delaware law, each officer, Director and proposed Director in respect of certain liabilities which such person may incur arising by reason of the fact that such person was an agent of Zebit. These liabilities include losses or liabilities actually and reasonably incurred by the Director or proposed Director by reason of the fact that the indemnified is or was an agent of Zebit, or by reason of anything done or not done by the indemnified in any such capacity, including legal expenses to the extent such losses or liabilities relate to action taken in good faith by the Director and in a manner the Director reasonably believed to be in, or not opposed to, the best interests of the Company and in the case of criminal proceedings where the Director had no reasonable cause to believe that the conduct was unlawful. To the extent that the Company maintains a Directors' and Officers' policy of insurance, it must ensure that the Directors are covered for the period that they are Directors.

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.

This concludes the remuneration report.

This report is made in accordance with The Directors Report

On behalf of the Directors

Marc Schneider
Co-Founder, President and CEO

February 2021

Independent Auditor's Report

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3570 Carmel Mountain Road
Suite 400
San Diego, CA 92130

Independent Auditor's Report

Board of Directors
Zebit, Inc.
San Diego, California

Opinion

We have audited the consolidated financial statements of Zebit, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ BDO USA, LLP

San Diego, California
February 25, 2021

Consolidated Balance Sheets

(in thousands, except share and per share amounts)

December 31	2020 $	2019 $
Assets		
Current assets		
Cash and cash equivalents	**22,437**	6,515
Receivables, net of allowance for doubtful accounts of $6,385 and $7,722 as of December 31, 2020 and December 31, 2019, respectively	**28,568**	21,117
Inventories	**501**	496
Prepaids and other current assets	**2,053**	1,165
Total current assets	**53,559**	29,293
Property and equipment, net	**40**	60
Operating lease right-of-use assets, net	**554**	921
Intangibles, net	**697**	1,170
Restricted cash	**150**	390
Other non-current assets	**333**	160
Total assets	**55,333**	31,994
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	**7,423**	5,082
Accrued liabilities	**3,055**	3,062
Operating lease liabilities, current portion	**463**	372
Current portion of long-term debt, net of discount	**768**	259
Convertible notes	**–**	4,121
Total current liabilities	**11,709**	12,896
Operating lease liabilities, net of current portion	**259**	638
Debt, net current portion and discount	**15,380**	11,995
Warrant liabilities	**–**	23
Total liabilities	**27,348**	25,552
Commitments and contingencies (Note 14)		
Stockholders' equity		
Convertible preferred stock, $0.0001 par value; no shares authorized, issued, or outstanding as of December 31, 2020; 69,394,759 authorized and 49,761,755 issued and outstanding at December 31, 2019 (aggregate liquidation preferences of $49,762)	**–**	5
Common stock, $0.0001 par value; 250,000,000 and 84,188,640 shares authorized as of December 31, 2020 and December 31, 2019, respectively; 94,443,190 and 16,029,022 issued and outstanding at December 31, 2020 and December 31, 2019, respectively	**9**	2
Additional paid-in capital	**93,394**	64,439
Accumulated deficit	**(65,418)**	(58,004)
Total stockholders' equity	**27,985**	6,442
Total liabilities and stockholders' equity	**55,333**	31,994

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations

(in thousands)

Year ended December 31,	2020 $	2019 $
Revenue	87,651	85,485
Cost of revenue	64,639	63,459
Gross Profit	23,012	22,026
Operating expenses:		
Provision for uncollectible accounts	9,194	14,878
General and administrative	14,309	14,637
Sales and marketing	3,739	3,669
Total operating expenses	27,242	33,184
Loss from operations	(4,230)	(11,158)
Interest and amortization of debt discount expense	(1,503)	(1,545)
Interest income	17	70
Change in fair value of warrant liabilities	(146)	34
Change in fair value of debt instrument	(1,540)	(6)
Other income	10	225
Loss before income taxes	(7,392)	(12,380)
Income tax provision	22	17
Net loss	(7,414)	(12,397)
Net loss per share, basic and diluted	(0.24)	(0.77)
Weighted-average shares of common stock outstanding, basic and diluted	31,245	16,029

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(in thousands, except share and par amounts)

	Series Seed		Series A		
	Shares $	Par Amount $	Shares $	Par Amount $	Shares $
Balance at December 31, 2018	3,022,527	302	12,278,336	1,228	–
Stock–based compensation expense	–	–	–	–	–
Warrants exercised	–	–	–	–	–
Issuance of Series B upon conversion of notes	–	–	–	–	–
Issuance of Series B, net of issuance costs of $146	–	–	–	–	–
Net loss	–	–	–	–	–
Balance at December 31, 2019	3,022,527	302	12,278,336	1,228	–
Stock–based compensation expense	–	–	–	–	–
Exercise of stock options	–	–	–	–	–
Conversion of preferred to common stock	(3,022,527)	(302)	(12,278,336)	(1,228)	–
Conversion of convertible notes to common stock	–	–	–	–	–
Reclassification of warrants from liabilities to equity	–	–	–	–	–
Issuance of common stock in IPO, net of issuance costs $3,750	–	–	–	–	–
Warrant Exercise	–	–	–	–	–
Net loss	–	–	–	–	–
Balance at December 31, 2020	–	–	–	–	–

See accompanying notes to the consolidated financial statements.

Convertible Preferred Stock							
Series A-1	Series B		Common Stock				
Par Amount $	Shares $	Par Amount $	Shares $	Par Amount $	Additional Paid-In Capital $	Accumulated Deficit $	Total Stockholders' Equity $
–	**24,349,337**	**2,435**	**1,891,223**	**189**	**54,046**	**(45,607)**	**8,443**
–	–	–	–	–	288	–	288
–	–	–	14,137,799	1,414	140	–	141
–	5,060,268	506	–	–	5,059	–	5,060
–	5,051,287	505	–	–	4,906	–	4,907
–	–	–	–	–	–	(12,397)	(12,397)
–	**34,460,892**	**3,446**	**16,029,022**	**1,603**	**64,439**	**(58,004)**	**6,442**
–	–	–	–	–	870	–	870
–	–	–	240,298	24	63	–	63
–	(34,460,892)	(3,446)	49,761,755	4,976	–	–	–
–	–	–	6,260,206	626	6,923	–	6,924
–	–	–	–	–	169	–	169
–	–	–	22,151,899	2,215	20,930	–	20,931
–	–	–	10	–	–	–	–
–	–	–	–	–	–	(7,414)	(7,414)
–	**–**	**–**	**94,443,190**	**9,444**	**93,394**	**(65,418)**	**27,985**

Consolidated Statements of Cash Flows

(in thousands)

Year Ended December 31,	2020 $	2019 $
Operating activities		
Net loss	(7,414)	(12,397)
Adjustments to reconcile net loss to net cash used in operating activities		
Allowance for doubtful accounts	9,194	14,878
Stock-based compensation expense	870	288
Gain on disposal of property and equipment	–	(9)
Non-cash lease expense	367	329
Non-cash interest expense	8	68
Amortization of debt issuance	301	153
Change in fair value of warrant liabilities measured at fair value	146	(34)
Change in fair value of IPO convertible notes measured at fair value	1,540	6
Depreciation and amortization	528	353
Changes in operating assets and liabilities		
Accounts receivable	(16,645)	(22,917)
Inventories	(5)	(230)
Prepaid expenses and other current assets	(642)	(797)
Other assets	(173)	–
Accounts payable	2,341	(83)
Accrued liabilities	(8)	2,030
Operating lease liability	(288)	(314)
Net cash used in operating activities	(9,880)	(18,676)
Investing activities		
Purchase of property and equipment	(13)	(7)
Purchase or development of intangible assets	(267)	(1,119)
Net cash used in investing activities	(280)	(1,126)
Financing activities		
Principal payments on debt	(12,555)	(933)
Proceeds from PPP loan	1,140	–
Proceeds from other debt and credit facilities, net of issuance costs	15,000	4,383
Proceeds for issuance of convertible notes, net of issuance cost	1,263	9,085
Proceeds from exercise of stock options	63	–
Proceeds from initial public offering, net of issuance costs	20,931	
Proceeds from exercise of warrants	–	141
Proceeds from sale of preferred stock, net of issuance cost	–	4,905
Net cash provided by financing activities	25,842	17,581
Net increase (decrease) in cash, cash equivalents and restricted cash	15,682	(2,221)
Cash, cash equivalents and restricted cash at beginning of period	6,905	9,126
Cash, cash equivalents and restricted cash at end of period	22,587	6,905
Supplemental disclosures of cash flows information		
Cash paid for income taxes	16	1
Cash paid for interest	1,020	1,363
Supplemental disclosure of non-cash investing and financing activities		
Conversion of convertible notes and accrued interest to preferred stock	–	5,060
Conversion of convertible notes and accrued interest to common stock	6,924	–
Conversion of preferred stock to common stock	49,762	–
Reclassification of stock warrant liabilities to equity	169	–

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Organization and Significant Accounting Policies

Description of Business

Zebit, Inc. ("Company") is an e-commerce company incorporated in 2015 in the state of Delaware. The Company's headquarters is in San Diego County, California. Zebit is built to disrupt the way credit-challenged consumers shop and access products by offering a wide assortment of products that can be financed over six months with no interest, late fees, or other penalties.

The Company's common stock began trading on the Australian Securities Exchange (ASX) in October 2020 under the symbol "ZBT".

Initial Public Offering

In October 2020, the Company completed its initial public offering (the "IPO") on the ASX, in which it sold an aggregate of 22,151,899 shares of the Company's common stock at a public offering price of AUD 1.58 (USD 1.11) per share. The Company received gross cash proceeds of $24.7 million before deducting offering costs of $3.8 million, resulting in net proceeds of $20.9 million.

In addition, each of the following occurred in connection with the completion of the IPO:

- The conversion of all outstanding shares of convertible preferred stock into an aggregate 49,761,755 shares of common stock;
- The conversion, of all outstanding preferred stock warrants into common stock warrants; the fair value on date of conversion of the preferred stock warrant liability of $168,734 was reclassified as additional paid-in-capital; and,
- The conversion of an aggregate of $5.5 million of outstanding convertible notes and accrued interest into an aggregate of 6,260,206 shares of common stock.

COVID-19 Pandemic

In March 2020, the World Health Organization announced the novel coronavirus COVID-19 as a global pandemic. COVID-19 began causing disruptions in the U.S. and Australia, causing significant volatility in capital markets around the world. COVID-19 continues to spread in the United States and globally and as a result the Company is subject to additional risks and uncertainties. To comply with laws and regulations, the Company and its suppliers have temporarily reduced on-site business operations to comply with social distancing requirements. The degree to which the Company's business will continue to be affected by the COVID-19 pandemic is uncertain. While the Company expects the disruption to be temporary, the duration of the disruption is uncertain at this time. Further, there may be long-term negative effects of the COVID-19 pandemic. The negative effects of COVID-19 could have a material adverse impact on the Company's financial results in the future. As an effort to mitigate potential impacts from COVID-19, the Company took cost saving measures including but not limited to (i) eliminated all Company retirement plan (401(k)) matching contributions, which is still in place as of December 31, 2020, (ii) a reduction in force consisting of 20 employees, (iii) temporarily reduced all employees' salaries from 100% to a range of 85-90% of base salary, with a return to regular salaries phased over June to November 2020, (iv) executed a 6 month interest-only amendment to the previously-outstanding Silicon Valley Bank ("SVB") Term Loan, (v) negotiated a two-month payment deferral on the Company's office space for July and August 2020, (vi) entered into an agreement to sublease all of the square footage of the Company's primary office space, effective beginning February 2021, and in November, management moved the Company to a much smaller and lower cost office space while COVID-19 restrictions continue to make working from an office challenging, and (vii) took on additional borrowings in the form of a $1.1M Paycheck Protection Program Loan ("the PPP") as part of the United States Government stimulus or Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was fully forgiven in January 2021.

Financial Statement Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company's consolidated financial statements are prepared on a consolidated basis and include the accounts of the Zebit Be Free, 2020-1 Statutory Trust ("Zebit Be Free") for which the Company is the sole beneficial owner, and responsible for the organizational expenses of the trust. Zebit Be Free was established in 2020 in connection with the Company's credit facility discussed in Note 6. Prior to this, the Company consolidated the Zebit Be Free, 2018-1 Statutory Trust, which had been established in 2018 in connection with the Company's previous credit facility, and for which the Company was also the sole beneficial owner. Upon termination of the previous credit facility in October 2020, Zebit Be Free, 2018-1 was made dormant and is in the process of dissolution. All transactions between Zebit, Inc. and Zebit Be Free, and Zebit, Inc. and Zebit Be Free, 2018-1, have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, management evaluates its estimates, including those related to the accounts receivable allowance, useful lives and impairment of intangible assets and property and equipment, the fair value of a convertible debt instrument for which the fair value option has been elected, the fair value of common stock and expense for stock-based compensation awards, the fair value of certain stock warrants classified as liabilities, and income taxes, among others. The convertible debt instrument and the liability-classified stock warrants were previously recorded at fair value, until their conversion to common stock and common stock warrants, respectively, upon the October 2020 IPO. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

The Company considers highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The Company maintains its cash in depository accounts that may exceed the Federal Deposit Insurance Corporation limits.

Restricted Cash

As of December 31, 2020, restricted cash is composed of a restricted cash account under the control of a trustee related to the Company's obligation to indemnify certain parties pursuant to the Zebit Be Free, 2020-1 trust agreement. As of December 31, 2019, restricted cash is composed of a restricted cash account under the control of a trustee related to the Company's obligation to indemnify certain parties pursuant to the Zebit Be Free, 2018-1 trust agreement and a cash reserve account required under the Company's previous credit facility, which was subject to the control of the lender's collateral agent. Upon termination of the previous credit facility in October 2020, Zebit Be Free, 2018-1 is currently dormant and in the process of dissolution.

Inventories

Inventories consist of inventory in-transit from our vendors to our customers as the Company takes ownership of inventory at the point of shipment from the vendor's location until delivered to our customers. All inventory in-transit is recorded at cost on the balance sheet. No substantial losses on inventory were incurred during the years ended December 31, 2020 or 2019. The Company does not estimate that any losses will be incurred on inventories and therefore had no allowance for losses on inventories as of December 31, 2020 or 2019.

Accounts Receivable, Net

Accounts receivable consist of trade receivables that are generated in the normal course of business. The Company records accounts receivable at the amount invoiced to the customer, less the down payment made by the customer at the time of order. The Company records an allowance for estimated uncollectible amounts against accounts receivable. In determining the amount of the allowance, the Company makes estimates based on historical collection experience and current economic trends. The Company's business primarily serves underserved customers with limited access to credit, and as such the Company can experience significant credit losses on accounts receivable.

Property and Equipment, Net

Property and equipment, net is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the following asset categories:

Asset Category	Estimated Useful Life in Years
Computer equipment	3
Furniture and fixtures	5
Leasehold improvements	Lesser of remaining lease term or 5 years

Internal-Use Software

The Company capitalizes costs related to purchased and developed internal use software, which are included in intangible assets in the balance sheet. In accordance with authoritative guidance, capitalization of costs for the development of internal-use software begins when the application development stage is reached and ends when the post implementation stage is reached. Amortization of software is recorded using the straight-line method over the estimated useful life of the developed software, which is three years.

Operating Lease

The Company recognizes right-of use assets and leases liabilities for all lease agreements, or agreements containing a lease component, in accordance with ASC Topic 842, Leases ("ASC 842"). At inception of a lease, the Company determines the classification of the lease as either an operating lease or a finance lease. The lease liability is amortized on a straight-line basis for operating leases and is amortized using the effective interest method for finance leases. Refer to Note 14 for further information.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). Revenue recognition is determined using the five-step process provided in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Refer to Note 2 for further information.

Cost of Revenues

Cost of revenues consists of the purchase price of goods sold to customers, outbound shipping costs, and dropship processing fees. Dropship processing fees represent vendor charges for fulfilling orders, including receiving, inspecting, picking, packaging and preparing goods for shipment. Shipping costs for the years ended December 31, 2020 and 2019 were $2.8 million and $2.8 million, respectively.

Selling and Marketing Expenses

Selling and marketing expenses are expensed as incurred and consist primarily of sales and marketing employee compensation, targeted online marketing costs, such as display advertising, keyword search campaigns and social media advertising, as well as offline marketing costs such as email and radio, and broker commissions. Broker commissions are paid to partners for each prospective customer referred by the broker and underwritten and approved by Zebit. Advertising costs for the years ended December 31, 2020 and 2019 were $3.4 million and $3.3 million, respectively.

Stock-Based Compensation

The Company has an equity incentive plan under which it has historically only granted stock options to purchase shares of the Company's common stock. The Company recognizes stock-based compensation expense based on the estimated fair value of the award on the date of grant determined using the Black-Scholes option pricing model. Stock-based compensation expense is amortized on a straight-line basis over the requisite service period of the award, generally four years. Forfeitures are accounted for as they occur.

Fair Value Election

Prior to the conversion to common stock, the Company accounted for 2019 IPO convertible notes issued in December 2019 at fair value, pursuant ASC 825, *Financial Instruments*. The Company determined to elect the fair value option due to complexity associated with various potential settlement outcomes per the terms of the notes. Upon the completion of the IPO, the convertibles notes and accrued interest were converted into common stock.

Fair Value Measurements

Prior to the conversion to common stock, the Company used fair value measurements for the 2019 IPO convertible notes issued in December 2019 for which the Company had elected the fair value option pursuant to ASC 825. In addition, prior to their conversion to common stock warrants, the Company used fair value measurements for certain liability-classified stock warrants. Upon the completion of the IPO, the convertibles notes (and accrued interest) were converted into common stock, and the warrants were converted into common stock warrants and were no longer liability-classified and subject to fair value measurement.

ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The standard establishes a fair value hierarchy which distinguishes between inputs that are observable in the marketplace, and therefore more objective, and those that are unobservable and therefore more subjective. Companies are required to use observable inputs when available. Additional disclosures are required for unobservable inputs.

The three levels of inputs that may be used to measure fair value are defined as follows:

Level 1 – Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuations based on unobservable inputs to the valuation methodology and including data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

Income Taxes

The Company is a C-corporation and is subject to federal and state income taxes. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and is subject to examination by U.S. federal tax authorities for returns filed for the prior three years and by state tax authorities for returns filed for the prior four years. In addition, during an audit, tax authorities may redetermine the correct taxable loss for a closed year to determine the correct amount of the loss carryforward deduction for the year under audit.

The Company uses the asset and liability method of accounting for income taxes in accordance with FASB ASC Topic 740, Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with ASC 740, the Company provides a valuation allowance against its deferred tax assets when circumstances indicate that it is more likely than not that its deferred tax assets will not be realized.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. The result of the CARES Act on the business was the receipt of a $1.1 million PPP Loan, received in May 2020 and forgiven by the U.S. Small Business Administration ("the SBA") in January 2021.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the same period. Diluted net loss per share is computed by dividing net loss by the weighted average number of common and common equivalent shares outstanding during the same period. The Company excludes common stock equivalents from the calculation of diluted net loss per share when the effect is anti-dilutive.

For purposes of the diluted net loss per share calculation, the convertible preferred stock, convertible notes, stock warrants, and stock options are considered to be dilutive securities. Basic and diluted net loss attributable to common stockholders per share is presented in conformity with the two class method required for participating securities as the convertible preferred stock is considered a participating security. The Company's participating securities do not have a contractual obligation to share in the Company's losses. As such, the net loss was attributed entirely to common stockholders. Accordingly, for the years ended December 31, 2020 and 2019, there is no difference in the number of shares used to calculate basic and diluted shares outstanding.

The following securities that could potentially decrease net loss per share in the future were not included in the determination of diluted loss per share as their effect is anti-dilutive:

December 31	2020	2019
Shares issuable upon conversion of convertible preferred stock	–	49,761,755
Outstanding stock options	**13,245,814**	8,440,309
Convertible notes [1]	–	4,657,490
Warrants to purchase common stock	**568,935**	568,945
	13,814,749	63,428,499

1. *The conversion of the convertible notes into common stock assumes a conversion price of $0.88 per share and includes the conversion of the principal balance and all accrued interest as of the stated date (see Note 6).*

Operating Segment

Management has determined that the Company operates as one operating segment. The chief executive officer, who is the Company's chief operating decision maker, reviews financial information on an aggregate basis for purposes of allocating resources and evaluating the financial performance of the Company. The Company's revenues have been entirely sourced in the United States and all long-lived assets are maintained in the United States.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("the FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments — Credit Losses* (Topic 326). The new guidance requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The standard update eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity's current estimate of all expected credit losses over the contractual term of its financial assets. The standard update broadens the information that an entity can consider when measuring credit losses to include forward-looking information. Further, in May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses* (Topic 326): *Targeted Transition Relief*, which provides transition relief in the application of Topic 326 by permitting companies within the scope of Subtopic 326-20 (financial instruments measured at amortized cost) with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments, upon adoption of Topic 326. These ASUs are effective for the Company beginning January 1, 2023, with early application permitted. The standard updates will be applicable to the Company's trade accounts receivable balances. The Company has not yet evaluated the impact that the standard updates could have on its financial statements.

2. Revenue

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"). Revenue recognition is determined using the five-step process provided in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and, (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company sells goods to customers on its eCommerce website, including physical products as well as e-certificates. An e-certificate allows the customer to redeem the e-certificate value for the purchase of merchandise from a merchant store. The Company has determined that its performance obligations under its sales contracts with customers are to deliver the purchased goods. Accordingly, revenue is recognized at the point in time when the delivery obligation is satisfied, which is consistent with the time in which the customer obtains control of the goods. For physical products, delivery occurs when the product is physically delivered to the customer's location. For e-certificates, delivery occurs when the e-certificate is delivered to the customer's designated email address. The Company recognizes revenue as the amount of consideration the Company expects to receive in exchange for transferring the goods, which is the fixed contract price for the purchased goods.

Customer payment terms provide for payment of the contract price up to a six-month period following the sale. In determining whether revenue recognition is appropriate at the time of sale, the Company assesses collectability of the contractual price it expects to be entitled to and will only recognize revenue for sales in which it has estimated that collection is probable. Based upon the Company's standards for customer creditworthiness, the Company has historically only entered into contracts with customers for which it believed collection was probable at the time of sale. The Company records an estimate of bad debt expense at the time revenue is recognized. The Company does not offer any significant rebates, coupons or other forms of concession to customers.

The Company collects a down payment upon the customer's completion of the order. The amount that the Company collects from customers prior to the delivery of goods and the recognition of revenue is recorded as a customer deposit in accrued liabilities until the goods are delivered. As of December 31, 2020, and December 31, 2019, the liability for customer deposits was not material.

In the sale of goods, the Company has determined that it is the principal in satisfying the performance obligations to customers, primarily because the Company has full latitude to source the goods from any vendor and full discretion to establish customer pricing, and the Company's vendors, who are resellers of the goods, are not visible to customers and have no contractual obligations to customers. For e-certificates, the Company is purchasing these from vendors who have purchased and carry inventory stock of e-certificates, and the Company has a non-cancellable right during the terms of the contracts with these vendors to purchase and resell the e-certificates. As the principal in satisfying the performance obligations to customers, the Company recognizes revenue at the gross amount of consideration it is entitled to collect from customers.

The Company also sells product warranties to customers, although such sales have not been material to date. For these sales, the Company arranges for the warranties to be provided to customers by the warrantor and is an agent in satisfying the performance obligations for these sales. Accordingly, revenue is recognized for the amount of consideration expected to be collected from the customer, net of the amount paid or due to the warrantor for purchase of the warranties by the Company.

The Company has elected the following practical expedients permitted in the application of ASC 606.

- As the Company expects at the inception of all contracts with customers that the transaction price will be paid by the customer within twelve months of delivery of the product, the Company elects not to adjust the promised amount of consideration for the effects of any significant financing component in determining the transaction price.
- The Company elects to exclude sales and other similar taxes collected from customers from the transaction price.

The Company's revenues have been entirely sourced in the United States. The following tables shows the Company's revenues for each of the years ended December 31, 2020 and 2019 by significant product type (in thousands):

	2020 $	2019 $
E-certificates	**45,253**	44,174
Electronics	**27,413**	27,127
All other	**14,985**	14,184
Total revenue	87,651	85,485

3. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

December 31	2020 $	2019 $
Computer equipment	**113**	100
Furniture and fixtures	**51**	51
Leasehold improvements	**5**	5
Property and equipment, gross	**169**	156
Less accumulated depreciation	**(129)**	(96)
Total property and equipment, net	**40**	60

Depreciation expense was $33,165 and $34,966 for the years ended December 31, 2020 and 2019, respectively.

4. Intangible Assets, Net

Intangible assets consisted of the following (in thousands):

December 31	2020 $	2019 $
Patents and trademarks	**18**	18
Software (purchased or developed)	**1,580**	1,397
Software under development	**–**	201
Intangible, gross	**1,598**	1,616
Less accumulated amortization	**(901)**	(446)
Total intangibles, net	**697**	1,170

Amortization expense was $495,136 and $317,558 for the years ended December 31, 2020 and 2019, respectively. The net carrying value of intangible assets as of December 31, 2020 is expected to be recognized over a weighted average amortization period of 1.9 years. As of December 31, 2020, future amortization expense for intangible assets is $391,986 in 2021, $253,957 in 2022 and $47,817 in 2023.

5. Fair Value Measurement

Prior to their conversion to common stock, the Company used fair value measurements for convertible notes issued in December 2019 ("2019 IPO Notes") for which the Company had elected the fair value option pursuant to ASC 825. In addition, prior to their conversion to common stock warrants, the Company used fair value measurements for certain liability-classified stock warrants. These liabilities were subject to recurring measurement and measured using Level 3 inputs per the fair value hierarchy established in ASC 820. Refer to Note 6 regarding the 2019 IPO Notes, and Note 9 regarding the stock warrants. Upon the completion of the IPO, the convertibles notes (and accrued interest) were converted into common stock, and the warrants were converted into common stock warrants, at which time both of these instruments were no longer liability-classified and subject to fair value measurement, and were reclassified to equity.

The fair values of these instruments as of December 31, 2019 were as follows (in thousands):

December 31, 2019	Fair Value $	Level 1 $	Level 2 $	Level 3 $
Liabilities				
2019 IPO notes	4,121	–	–	4,121
Warrant liabilities	23	–	–	23
Total liabilities measured at fair value	4,144	–	–	4,144

The Company did not transfer any assets or liabilities measured at fair value on a recurring basis to or from Level 3 for the years ended December 31, 2020 and December 31, 2019.

The changes in the fair values of these instruments for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	2019 IPO Notes $	Stock Warrants $
Fair value as of December 31, 2018	–	57
Issuance	4,115	–
Change in fair value	6	(34)
Fair value as of December 31, 2019	4,121	23
Issuance	1,263	–
Change in fair value	1,540	146
Conversion to common stock/common stock warrants	(6,924)	(169)
Fair value as of December 31, 2020	**–**	**–**

The fair value of the 2019 IPO Notes was determined to be equal to the transaction price of the notes at initial recognition. As of December 31, 2019, the Company concluded that there was no change in the fair value of the notes since initial recognition, as there were no changes in conditions that would have impacted the fair value of the notes between the issuance date of December 17, 2019 and the balance sheet measurement date of December 31, 2019, other than for interest at the annual coupon rate of 4%, which was $6,497. Reference to the initial transaction price to determine the fair value as of December 31, 2019 is a considered a Level 3 (unobservable) input. Until their conversion to common stock upon the IPO in October 2020, the fair value of the notes was determined by assessing the discounted probability-weighted expected return which are considered Level 3 inputs. The fair value of the 2019 IPO notes immediately prior to their conversion was estimated based on the number of share of common stock into which the notes would convert upon an IPO, using the IPO offering price of $1.11, with a 100% probability assigned to the outcome that the notes would convert to common stock on the date of the IPO.

The fair value of stock warrants was estimated using the Black-Scholes option pricing model. The expected term is the estimated probability weighted-average time to exit that accounts for different exit, financing, or dissolution scenarios, which is a Level 3 (unobservable) input.

The carrying amounts of the Company's other current financial assets and liabilities are considered to be representative of their respective fair values because of the short-term nature of these instruments.

6. Debt and Credit Facilities

Bastion Credit Facility

In September 2020, the Company entered into a credit facility with Bastion Consumer Funding II LLC. The initial facility provides up to $15.0 million in principal borrowings, subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. In February 2021 the facility was amended to increase the principal borrowing amount to $35.0 million. The facility can be drawn upon until the day before the date that is 30 months following the closing date, or through 15 March 2023, or earlier upon an event of default or early amortization event, as defined in the agreement. All principal amounts borrowed are due 36 months from the closing date, or 15 September 2023, unless due earlier as a result of the borrowing base limitation or an event of default.

Borrowings are collateralized by all of the Company's personal property, including eligible receivables which are required to be held in a separate, wholly-owned legal entity, the Zebit Be Free 2020-1 Statutory Trust ("Zebit Be Free"). Zebit Be Free is the debtor under the credit facility and the Company is the servicer responsible for servicing the eligible receivables. An eligible customer receivable is one that meets the eligibility criteria of the agreement. Customer payments on eligible receivables are required to be remitted into a lockbox account and the payments deposited into the lockbox account are transferred to a collections account (subject to a deposit account control agreement) whereby such available collections are distributed to make the interest payment and any required principal payment with the excess amount funded to the parent company, Zebit, Inc., as beneficial owner of the trust certificate. Outstanding borrowings bear interest, payable monthly, at a rate of 3-month LIBOR (subject to a 1% LIBOR floor) plus 12%, unless outstanding loan amounts exceed $20.0 million in which such rate shall be 3-month LIBOR plus 10.5%.

The Company must adhere to certain covenants during the term of the agreement. Failure to meet financial covenants, which are measured monthly, constitutes an event of default. Upon the occurrence of an event of default, the lender may immediately terminate any remaining commitment and declare all outstanding principal and interest due and payable. Also, pursuant to the agreement, the Company will be prohibited from issuing any other additional senior debt and will be prohibited from making any other distributions or paying any dividends except that the Company will be permitted to make tax distributions and other distributions to its members once cumulative retained earnings are positive, but at such time distributions will be limited to 50% of current year earnings. As of December 31, 2020, the Company was in compliance with the covenants.

The Company incurred $290,600 in costs related to entry into the credit facility, which were recorded as deferred financings costs in other assets and are being amortized on a straight-line basis over the term of the credit facility.

As of December 31, 2020, the principal balance outstanding was $15.0 million and the interest rate applicable to the principal balance outstanding was 13.0%. As of December 31, 2020, the aggregate receivables held by Zebit Be Free pursuant to the terms of the credit facility agreement was $33.4 million.

Paycheck Protection Program

In May 2020, the Company received loan proceeds of $1.1 million (the "PPP Loan") pursuant to the Paycheck Protection Program ("the PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the SBA.

The PPP Loan was originally scheduled to mature in April 2022 and bore a stated interest rate of 1.00% per annum. Under the terms of the CARES Act, recipients of loans under the PPP can apply for and be granted forgiveness for all or a portion of such loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and certain other eligible costs. In December 2020, the Company applied for forgiveness of the PPP loan, and in January 2021, the Company received notice that the entire principal balance and accrued interest were forgiven. No payments of principal or interest were required or made prior to forgiveness.

In order to apply for the PPP Loan, the Company was required to certify, among other things, that the current economic uncertainty made the PPP Loan necessary to support the Company's ongoing operations. This certification further required the Company to take into account the maintenance of its workforce, the Company's need for additional funding to continue operations, and the Company's ability to access alternative forms of funding to support its ongoing business operations.

As of December 31, 2020, the short-term and long-term principal balances outstanding for the PPP Loan were $760,041 and $380,020 respectively.

Silicon Valley Bank Term Debt

In December 2015, the Company entered into a Loan and Security Agreement with Silicon Valley Bank ("SVB") which, as amended, provided for term loans in an aggregate amount up to $3,000,000.

The Company used IPO proceeds to repay all amounts due to SVB in October 2020.

Route 66 Credit Facility

In August 2018, the Company entered into a credit facility with Route 66 HF Holdings, LLC. The facility initially provided up to $10,000,000 in principal borrowings (increased to $12.0 million in September 2019 and $14.0 million in December 2019), subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. Borrowings were collateralized by all of the Company's personal property, including eligible receivables which were required to be held in a separate, wholly owned legal entity, Zebit Be-Free 2018-1.

As of December 31, 2019, the Company was not in compliance with the minimum liquidity ratio. The Company worked with RT66 on an amendment to the definition in February 2020 and in September 2020, the Company refinanced Route 66 with the new Bastion facility, discussed above. All principal and interest outstanding under the Route 66 credit facility was repaid and the facility was terminated.

June 2019 Convertible Notes

In June 2019, the Company issued subordinated convertible promissory notes ("2019 Notes") to certain investors, including certain existing beneficial owners, whereby the Company sold, and the investors agreed to purchase, convertible notes in the aggregate principal amount $5,000,003. The 2019 Notes bore an interest rate of 5% per annum calculated on the basis of a 365 day year, and all unpaid accrued interest and principal was due upon the earlier of (i) one year from the initial closing, (ii) the consummation of a sale of the Company, or (iii) the occurrence of an event of default and, if applicable, the note being called due and payable by the holder. The outstanding principal of the 2019 Notes and all accrued interest would convert into shares of the Company's equity securities as follows: (i) upon a qualified financing, automatically into the same shares sold in the qualified financing, at a conversion price of the price per share at which shares were sold in the qualified financing, or a lower percentage of such price per share the later the qualified financing occurs (ii) upon a non-qualified financing, automatically if at least $5 million was sold, and by the consent of the individual holder or a majority of the holders if less than $5 million was sold, into shares of Series B preferred stock, at a conversion price of $1.00 per share (iii) upon an "other" financing event and the consent of the individual holder or a majority of the holders, at a conversion price of $1.00 if Series B preferred shares are elected by the holder or a majority of the holders, and at a conversion price of the price per share at which shares are sold in the "other" financing event if the same shares sold in the financing were elected by the holder or a majority holders. In addition, upon a sale the Company, the 2019 Notes were convertible into shares of Series B preferred stock at the election of the individual holder at a conversion price of $1.00 per share. In the 2019 Notes, a qualified financing was defined as subsequent equity financing led by a new investor yielding proceeds of at least $20 million, a non-qualified financing was defined as subsequent equity financing led by then-current stockholders yielding proceeds of at least $5 million or such lesser amount as approved by a majority of the board of directors, and an "other" financing event was defined as a subsequent equity financing other than a qualified financing or non-qualified financing. 2019 Notes were entered into with existing beneficial owners of the Company, on the same terms as all other purchases of the 2019 Notes.

In September 2019, the Company completed a non-qualified financing, and the principal amount of the notes and $60,265 of accrued interest automatically converted into 5,060,268 shares of Series B preferred stock, at the conversion price of $1.00 per share.

December 2019 IPO Convertible Notes

In December 2019, the Company issued subordinated convertible promissory notes ("2019 IPO Notes") to certain accredited investors, whereby the Company agreed to sell, and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount $4,114,450. During the year ended December 31, 2020, the Company issued additional notes in the aggregate principal amount of $1,262,500 (net of the note repurchase, discussed below). The 2019 IPO Notes bore an interest rate of 4% per annum calculated on the basis of a 365-day year. The outstanding principal, together with unpaid accrued interest (the "Outstanding Amount"), plus an amount equal to 20% of the outstanding principal was due upon the earlier of (i) December 31, 2020 or (ii) the occurrence of an event of default. The Outstanding Amount would automatically convert into common stock upon a qualified IPO, at a conversion price per share equal to the lesser of 80% of the price per share at which shares are sold in the qualified IPO, or $1.00. The 2019 IPO Notes were entered into with existing beneficial owners of the Company, on the same terms as all other purchases of the 2019 IPO Notes.

In June 2020, the Company repurchased a $900,000 IPO Note from an investor that was originally issued in March 2020. The repurchase price was equal to the original transaction price of $900,000, and the investor agreed to waive all interest accrued on the note. In a related transaction in June 2020, the Company issued a new $900,000 IPO Note to a secondary investor. The Company, the original note investor and the secondary investor are all related parties. The repurchase and the issuance of the new note were approved by the Company's board of directors, and the holders of 2019 IPO Notes who were required to approve the transactions.

The Company elected to account for the 2019 IPO Notes at fair value pursuant to ASC 825, Financial Instruments. Refer to Note 1. As of December 31, 2019, the principal balance outstanding was $4,114,450, and the fair value carrying amount was $4,120,947.

In October 2020, the Company completed a qualified IPO, as defined in the 2019 IPO Notes, and the outstanding principal amount of the notes of $5,376,950 and $162,092 of accrued interest automatically converted into 6,260,206 shares of common stock, at a conversion price of $0.8848 per share.

7. Convertible Preferred Stock

As of December 31, 2019 outstanding preferred stock was as follows:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Value Per Share $	Liquidation Value (in thousands) $
Series Seed	3,571,472	3,022,527	1.00	3,023
Series A	15,275,880	12,278,336	1.00	12,278
Series B	50,547,407	34,460,892	1.00	34,461
Total	**69,394,759**	**49,761,755**		**49,762**

Conversion Ratio

Each share of preferred stock is convertible, at the option of the holder, into shares of common stock as is determined by dividing the original issue price by the conversion price of $1.00.

Dividends

The holders of shares of preferred stock are entitled to receive dividends on a pari passu basis, out of any assets legally available therefore, prior and in preference to any declaration or payment of any dividends (payable other than in common stock or other securities and rights convertible into or entitling the holder thereby to receive, direct or indirectly, additional shares of common stock) on common stock, at the rate of $0.08 per share (appropriately adjusted for any stock split, dividend, combination or other recapitalization with respect to such shares) per annum on each outstanding share of preferred stock, payable only when, as and if declared by the Company's board of directors. Such dividends shall not be cumulative. The Company has not declared or paid any dividends in its history.

The Company cannot declare, pay or set aside any dividends on shares of common stock (other than dividends on shares of common stock payable in shares of common stock) unless the holders of the Company's preferred stock first receive, in addition to the $0.08 dividend per annum, a dividend at least equal to the dividend per share as if the preferred share had been converted into common stock.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, or a deemed liquidation event (as defined in the Company's Certificate of Incorporation), the holders of shares of preferred stock, with Series B preferred stock having preference over Series A preferred stock and Series A preferred stock having preference over Series Seed preferred stock, then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to holders of common stock by reason of their ownership thereof, an amount per share equal to the greater of (i) the original issue price of $1.00 per share, plus any dividends declared but unpaid thereon, or (ii) such amount per share as would have been payable had all shares of preferred stock been converted into common stock prior to such liquidation, dissolution or deemed liquidation event.

If upon any liquidation, dissolution, or winding up of the Company, or a deemed liquidation event, the assets of the Company available for distribution to its stockholders are insufficient to pay the holders of preferred stock the full amount to which they would otherwise be entitled, the holders of shares of preferred stock shall share ratably in any distribution in proportion to the amount they would otherwise be entitled to receive.

Voting

On any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company, the holders of common stock are entitled to one vote for each share of common stock held and the holders of preferred stock are entitled to one vote for each share of common stock into which the shares of the preferred stock are convertible. There shall be no cumulative voting.

The preferred stockholders voting as a separate class are entitled to elect four members of the board of directors, the common stockholders voting as a separate class are entitled to elect one member, and the preferred and common stockholders voting as a single class are entitled to elect the remaining directors.

Conversion Rights

Shares of preferred stock are convertible into common stock at the option of the holder, at any time. The initial conversion ratio is one share of common stock for each share of preferred stock converted, and is subject to adjustment in certain circumstances, including upon certain dilutive issuances, stock splits or combinations, or dividends or distributions on common stock.

Shares of preferred stock will automatically convert into common stock upon: (i) the closing of the sale of shares of common stock to the public at a price of at least $3.00 per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of gross proceeds to the Company or (ii) an event specified by vote or written consent of the holders of a majority of the then-outstanding shares of preferred stock, voting together as a class on an as-converted basis.

Redemption Rights

The preferred stock is not mandatorily redeemable.

Upon the IPO in October 2020, the preferred stockholders, pursuant to the election available in the then-effective certificate of incorporation, as amended, consented to the conversion of preferred stock to common stock. All outstanding preferred stock was converted to common stock.

In September and October 2019, the Company completed an extension of its Series B preferred stock offering whereby the Company issued an additional 5,051,287 shares of Series B preferred stock for a cash price of $1.00 per share. No warrants were issued. The Company also issued 5,060,268 shares of Series B preferred stock upon the conversion of outstanding June 2019 Convertible Notes triggered by the extended Series B equity financing.

8. Common Stock

As of December 31, 2020, and December 31, 2019, the Company was authorized to issue up to 250,000,000 and 84,188,640 respectively, of $0.0001 par value common stock. As of December 31, 2020, and December 31, 2019, 94,443,190 and 16,029,022 shares, respectively, were issued and outstanding. Each holder of common stock is entitled to one vote for each share of common stock held. The holders of common stock are entitled to receive dividends when, as and if declared by the board of directors.

From October through November 2019, 14,137,799 shares of the Company's common stock were issued upon the exercise of all of the warrants that had been issued in connection with the Series B equity financing in May 2018 for total proceeds of $141,378.

In October 2020, the Company completed its IPO, in which it sold an aggregate of 22,151,899 shares of the Company's common stock at a public offering price of AUD 1.58 (USD 1.11) per share. The Company received gross cash proceeds of $24.7 million, before deducting offering costs of $3.8 million.

In addition, each of the following occurred in connection with the completion of the IPO:

- The conversion of all outstanding shares of convertible preferred stock into an aggregate 49,761,755 shares of common stock; and
- The conversion of an aggregate of $5.5 million of the outstanding 2019 IPO Notes and accrued interest into an aggregate of 6,260,206 shares of common stock.

Registration Rights Agreement

In October 2020, the Company entered into a registration rights agreement with certain holders of its common stock, including certain members of, and affiliates of, the Company's directors, and its chief executive officer, which provides the holders of common stock with certain registration rights, including the rights to demand that the Company file a registration statement or request that their shares be covered by a registration statement that the Company is otherwise filing. The rights to demand that the Company file a registration statement are effective after the earlier of (i) five (5) years after the date of this Agreement or (ii) one hundred eighty (180) days after the effective date of the registration statement for the Company's first underwritten public offering of its Common Stock under the U.S. Securities Act of 1933 (the "Securities Act"). If the Company receives a request from holders of at least thirty percent (30%) of the registrable securities then outstanding that the Company file a registration statement, and if net offering proceeds would exceed $15 million, then the Company shall give notice to all other holders, and in any event within thirty 30 days of such request, file a registration statement under the Securities Act covering all securities requested to be registered.

9. Stock Warrants

Prior to completion of the IPO in October 2020, the Company's preferred shares that may have been issuable upon the exercise of warrants contained a contingent redemption feature, which would have required the Company to transfer cash and/or other assets to the holders upon the occurrence of certain events, such as a deemed liquidation event (as defined in the Company's then-current certificate of incorporation). Accordingly, the Company accounted for these warrants as liabilities at their estimated fair values, which were subject to re-measurement at each balance sheet date. Changes in fair value of the stock warrant liabilities were recognized in the statement of operations. Upon the IPO, all outstanding preferred stock warrants were converted into common stock warrants. At that time, the warrant liabilities were adjusted to their fair value at the date of conversion, with changes to the fair value recorded in the statements of operations and the final fair value of $168,734 was then reclassified to additional paid-in capital.

The warrants issued in the Series B preferred stock offering were issued for a nominal exercise price of $0.01 per share and had the characteristics of a prepaid forward sale of equity. The warrants were recorded as additional paid in capital at their relative fair value at issuance and were not subsequently remeasured. The relative fair value of the warrants was determined by allocating the transaction proceeds between the Series B preferred shares issued and the warrants issued, based on the relative fair values of the Series B preferred shares without the warrants and the warrants themselves at the time of issuance, as reflected in the statement of changes in stockholders' equity. From October through November 2019, all of the Series B warrants were exercised.

As of December 31, 2020 and 2019 there were 568,935 and 568,945 warrants to purchase common stock outstanding, respectively, with an exercise price of $1.00 per share. The warrants are exercisable any time prior to their expiration. Of the 568,935 warrants outstanding, 508,935 expire upon the earlier of December 31, 2021, the closing of an IPO pursuant to the Securities Act of 1933, or a sale of the Company; 40,000 expire ten years from their issuance date of December 18, 2015; and, 20,000 expire ten years from their issuance date of September 30, 2017.

10. Equity Incentive Plan

The Company's board of directors adopted the 2020 Equity Incentive Plan on August 12, 2020 (the "Plan"). The Plan allows the Company to grant restricted stock, restricted stock units, stock appreciation rights and stock option awards, all issuable in shares of common stock of the Company, to directors, employees and consultants of the Company. To date, no awards have been issued pursuant to restricted stock, restricted stock unit, or stock appreciation rights agreements. The Plan is administered by the Company's board of directors who determines the vesting provisions, exercise price and other terms for each award, provided that the exercise price of a stock option may not be less than the fair market value of a share of stock on the effective date of grant. As of December 31, 2020, up to 17,493,140 shares of common stock were authorized for issuance under the Plan and 3,845,805 shares remained available for future issuance. Incentive Plan contains an "evergreen" provision that allows annual increases in the number of shares available for issuance on the first day of each calendar year in an amount equal to the lesser of: (i) 5% of the total number of shares of common stock outstanding as of December 31 of the preceding calendar year, or (ii) such lesser number of shares as determined by the Board. Restricted stock unit awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more performance goals.

Currently, all employees are eligible to receive stock option awards. Option grants require the approval of the Company's board of directors and generally vest over a four-year service period, with 25% of the shares subject to an option vesting on the one-year anniversary of the grant date and the remainder vesting in equal monthly instalments over the subsequent 36-month period.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The Company recognizes the estimated fair value of option awards as stock-based compensation expense using the straight-line method over the requisite service period. The Company accounts for forfeitures when they occur.

The following is a description of the significant assumptions used in the Black-Scholes option pricing model:

- **Fair value of common stock** – Subsequent to the IPO completed in October 2020, the fair of the shares of common stock underlying stock options is determined based on the closing trading price of the Company's common stock on the effective date of the grant. Prior to the IPO, the fair value of the shares of common stock underlying stock options was determined by the board of directors. Because there was no public market for the Company's common stock prior to the IPO in October 2020, the fair value was estimated at the time of grant using a number of variables including the common stock value of comparable, public companies, sales of the Company's preferred stock, the Company's historical and projected financial performance, general and industry-specific economic outlook, and a marketability adjustment to reflect the lack of liquidity for the Company's common stock, amongst other factors.
- **Expected term** – The expected term is the period that options are expected to be outstanding. As the Company does not have significant historical exercise behaviour, it determines the expected life assumption using the simplified method, which is an average of the contractual option term and its vesting period.
- **Expected volatility** – Since the Company's stock was not traded in an active market until October 2020, the Company calculates volatility by using the stock price volatility of similar public companies for a historical period the same as the expected term of the Company's options, and averaging the volatilities of these companies.

Notes to Consolidated Financial Statements (Continued)

- **Risk-free interest rate** – The Company bases the risk-free interest rate on the market yield in effect at the time of option grant provided from the Federal Reserve Board's statistical releases and historical publications from the U.S. Department of Treasury constant maturities rates for terms equivalent to the expected term of the option.
- **Dividends** – The Company has not, and does not expect to pay dividends over the expected term of options. Therefore, the Company uses an expected dividend yield of zero.

The following weighted-average assumptions were used to estimate the fair value of options granted for the years ended December 31, 2020 and 2019:

	2020	2019
Common stock price	**$0.97**	$0.19
Risk free interest rate	**1.01%**	2.51%
Expected term (years)	**6.0**	6.0
Expected volatility	**56%**	52%
Dividend rate	**0%**	0%
Weighted average grant date fair value	**$0.73**	$0.10

Following is a summary of the Company's stock option activity for the years ended December 31, 2020 and 2019:

	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2018	8,441,538	$0.29	8.11	–
Granted	77,000	$0.20		–
Exercised	–	–		–
Forfeited	(78,229)	$0.29		–
Outstanding at December 31, 2019	8,440,309	$0.29	7.12	–
Granted	5,568,831	$0.43		–
Exercised	240,298	$0.26		–
Forfeited and Expired	(523,028)	$0.23		–
Outstanding at December 31, 2020	13,245,814	$0.35	7.51	5,264
Exercisable at December 31, 2020	6,631,179	$0.30	6.11	2,942
Vested and expected to vest at December 31, 2020	12,562,087	$0.34	7.42	5,064

Options granted during the years ended December 31, 2020 and 2019 had a weighted average grant date fair value of $0.73 and $0.10, respectively. Options vested during the years ended December 31, 2020 and 2019 had an aggregate fair value of $744,458 and $236,706, respectively.

The intrinsic value of an option is the difference between the option exercise price and fair value of the common stock. As of December 31, 2020, the intrinsic value of outstanding stock options was $5.3 million. As of December 31, 2019, the exercise prices of outstanding stock options exceeded the fair value of the common stock, therefore the intrinsic value of outstanding options was zero.

The Company recognized stock-based compensation expense for the years ended December 31, 2020 and 2019 as follows in the statements of operations (in thousands):

	2020 $	2019 $
General and administrative	828	277
Sales and marketing	42	11
Total stock-based compensation	870	**288**

As of December 31, 2020, there was $2,960,472 of unrecognised stock-based expense to be recognized over a weighted-average remaining service period of 2.79 years.

11. CARES Act

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to refundable payroll tax credits, deferment of employer's social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP). As to net operating loss utilization and carry back periods, net operating losses generated in tax years 2018, 2019, and 2020 can be carried back five years, allowing corporate taxpayers to amend earlier tax returns and potentially obtain a tax refund. In addition, losses generated and utilized prior to January 1, 2021 are not subject to the 80 percent limitation that was previously applied to losses generated after December 31, 2017 under the Tax Cuts and Jobs Act of 2017. The tax provisions of the CARES Act had no material impact on the Company's income tax provision for the year ended December 31, 2020. The Company continues to evaluate the impact of the CARES Act on its financial position, results of operations and cash flows. The CARES Act also established The Paycheck Protection Program under which financing options were made available to small businesses. The Company applied for and was granted a loan of $1.1 million under the Paycheck Protection Program, which was fully forgiven in January 2021.

12. Income Taxes

For the years ended December 31, 2020 and 2019, income tax expense was $21,918 and $17,386, respectively, and consisted of the following components (in thousands):

	2020 $	2019 $
Current		
Federal	–	–
State	22	17
Deferred		
Federal	(929)	(2,537)
State	(206)	(220)
Valuation allowance	1,135	2,757
Net provision	22	17

Notes to Consolidated Financial Statements (Continued)

Significant components of the Company's net deferred tax assets were as follows (in thousands):

As of December 31	2020 $	2019 $
Net operating loss carryforward	**9,166**	8,097
Reserves and allowances	**1,429**	1,767
R&D and other tax credit carryforwards	**78**	99
Disallowed interest	**279**	–
Accrued liabilities	**(56)**	(54)
Other	**178**	35
Net deferred tax assets before valuation allowance	**11,074**	9,944
Valuation allowance	**(11,074)**	(9,944)
Net deferred tax assets	**–**	–

The Company has established a full valuation allowance against its net deferred tax assets due to significant uncertainty surrounding the realization of such assets considering the cumulative operating losses incurred by the Company through December 31, 2020.

As of December 31, 2020 and 2019, the Company does not have any unrecognised tax benefits. The Company has not recorded any material interest or penalties in its historical financial statements. Any interest or penalties incurred in future periods will be recorded as a component of income tax expense (provision).

At December 31, 2020, the Company had federal and state net operating loss carryforwards of approximately $40.2 million and $12.5 million, respectively. Federal net operating losses originating after 2017 have no expiration date, however utilization of these net operating loss carryforwards to offset future taxable income is limited to 80% of taxable income each year beginning after December 31, 2020. The total amount of federal operating loss carryforwards originating prior to 2018, and state operating loss carryforwards, will begin to expire in 2035. Pursuant to Internal Revenue Code Sections 382 and 383, use of the Company's federal net operating loss and credit carryforwards may be limited upon a cumulative change in ownership of more than 50% within a three-year period. The Company has not performed an analysis to determine if an ownership change has occurred.

The Company's income tax returns may be subject to examination by federal and state taxing authorities for the years 2017 – 2020. Because application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed later upon final determination by taxing authorities. Management believes that the Company has no uncertain tax positions that could materially affect its financial statements.

13. Vendor Concentration

During 2020 the company had 3 vendors that accounted for approximately $45.6 million or 74.2% of the company's total cost of products. At December 31, 2020 the amount payable to these vendors was $6.1 million. During 2019 the company had 3 vendors that accounted for approximately $40.6 million or 67.3% of the company's total cost of products. At December 31, 2019 the amount payable to these vendors was $3.0 million.

14. Commitments and Contingencies

Operating Lease

The Company recognizes right-of-use assets and lease liabilities for all lease agreements, or agreements containing a lease component, in accordance with ASC Topic 842, Leases ("ASC 842"). At inception of a lease, the Company determines the classification of the lease as either an operating lease or a finance lease. The lease liability is amortized on a straight-line basis for operating leases and is amortized using the effective interest method for finance leases.

The Company has made the following policy elections in its ongoing application of ASC 842:

- For all asset classes, the Company has elected to not recognize right-of-use assets and lease liabilities for leases with a term of twelve months or less; and
- For the office space lease asset class, the Company has elected not to separate non-lease components from lease components to which they relate.

The Company currently has one lease arrangement which is for its 17,306-square foot corporate office location. The lease term is approximately four years ending in July 2022 with no renewal options. In December 2020, and effective February 2021, the Company entered into an agreement to sublease all of the square footage of its corporate office location to a third party beginning in February 2021 for a term ending contemporaneously with the term of the Company's lease agreement for the lease of the office location. The monthly sublease rate is approximately 90% of the monthly rate the Company pays to lease the location, a result of the suppressed commercial real estate market driven by COVID-19. The loss upon exit of the lease facility was not material.

The Company's corporate office lease is classified as an operating lease. The Company applied a discount rate of 6.25% to the minimum lease payments to determine the value of the right-of-use asset and lease liability. Unless the rate implicit in a lease is determinable, ASC 842 requires the use of the rate of interest that a lessee would pay to borrow on a collateralized basis over a similar term for a similar amount to the lease payments in a similar economic environment. The Company noted that the implicit rate in the corporate office lease was not determinable and therefore determined its incremental borrowing rate based on the Company's borrowing rate on existing collateralized debt for a similar borrowing period and amount.

Operating lease expense for the years ended December 31, 2020 and 2019, was $434,633 and $399,334, respectively.

In July 2018, the Company terminated the lease for its previous corporate office location and entered into the four-year lease agreement for its current corporate office location. After signing the new lease, the Company entered into a sublease agreement to sublet 7,407 square feet for an 18-month period ended December 31, 2019. The monthly rental income on a straight-line basis was $11,150 and was recorded as other income, not an offset to lease expense, in the statement of operations.

As of December 31, 2020, future annual minimum lease payments for the corporate office lease were as follows (in thousands):

Years ending December 31	$
2021	491
2022	263
Total lease payments	754
Less: imputed interest	(32)
Lease liability as of December 31, 2020	722

Employee Benefit Plan

The Company had a defined contribution 401(k) benefit plan (the "401(k) Plan") for all eligible employees, which was terminated in June 2020. The 401(k) Plan permitted participants to contribute up to the amount allowable under federal limits of annual pre-tax compensation to the 401(k) Plan. The Company matched 100% of the first 4% of the employee's contribution, which fully vested upon contribution. The Company contributed $62,300 and $165,732 to the 401(k) Plan for the years ended December 31, 2020 and 2019.

Litigation

In the normal course of business, the Company is at times subject to pending and threatened legal actions. In management's opinion, any potential losses resulting from the resolution of these matters will not have a material effect on the results of operations, financial position or cash flows of the Company.

15. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date, before the financial statements are issued. The Company recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date, and before the financial statements were issued.

The Company evaluated subsequent events through February 25, 2021, the date the financial statements were issued.

Additional Security Exchange Information

1. CHESS Depositary Interests (CDIs)

The Company is incorporated in the Delaware, United States. The Company has CHESS Depositary Interests (CDIs) quoted on the Australian Securities Exchange (ASX) trading under the ASX code ZBT. Each CDI represents an interest in one share of common stock of the Company (Share). Legal title to the shares underlying the CDIs is held by CHESS Depository Nominees Pty Ltd (CDN), a wholly owned subsidiary of ASX. The main difference between holding CDIs and Shares is that CDI holders hold the beneficial ownership in the Shares instead of legal title. Pursuant to the ASX Settlement Operating Rules, CDI holders receive all of the economic benefits of actual ownership of the underlying Shares.

The Company's securities are not quoted on any other exchange.

All information provided below is current as at 1 March 2021 except as otherwise stated. To avoid double-counting, the presentation of the information below has been prepared on the basis that all Shares are held as CDIs, unless otherwise stated.

2. Distribution of CDIs

Analysis of number of CDIs holders and of Options over Shares by size of holding:

	CDIs		Options over Shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	493	0.37	3	0.01
1,001 to 5,000	727	2.02	17	0.38
5,001 to 10,000	236	1.97	9	0.54
10,001 to 100,000	344	10.31	26	8.55
100,001 and over	59	85.33	12	90.52
	1,859	**100.00**	**67**	**100.00**

The number of CDI Holders holding less than a marketable parcel of CDIs (being A$500) is 79 based on the Company's closing CDI price of A$1.11 on 1 March 2021.

Additional Security Exchange Information (Continued)

3. CDI holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	CDIs	
	Number held	% of total CDIs issued
CROSSLINK VENTURES V LP	9,549,273	10.11
WILDCAT TECHNOLOGY PARTNERS 2015 LP	9,310,693	9.85
CROSSLINK CROSSOVER FUND VII LP	6,708,209	7.10
LEAPFROG VENTURES II LP	6,530,755	6.91
ULU VENTURES FUND II LP	6,094,133	6.45
MARK STROME TR MARK E STROME LIVING TRUST	5,144,901	5.45
GAIN CREDIT INC	4,730,000	5.01
CROSSLINK CROSSOVER FUND VI LP	4,377,835	4.63
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,699,007	2.86
CORRELATION VENTURES LP	2,494,255	2.64
NATIONAL NOMINEES LIMITED	2,431,162	2.57
STROME INVESTMENT MANAGEMENT LP	2,113,424	2.24
HARRY HOPPER	1,475,600	1.56
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	1,424,051	1.51
LARRY ROSENBERGER TR ROSENBERGER REVOCABLE TRUST UA 7/31/03	1,183,825	1.25
THE K FUND II LP	1,160,024	1.23
CLOUDSTONE VENTURE FUND LP	1,082,184	1.15
STROME MEZZANINE FUND LP	1,000,000	1.06
MUFG ALTERNATIVE FUND SERVICES (CAYMAN) LIMITED TR OFFSHORE CROSSLINK	818,033	0.87
CAVALIER INVESTMENT COMPANY INC	786,806	0.83
	71,114,170	**75.26**

Unquoted equity securities

	Number on issue	Number of holders
Options over Shares issued	13,684,645	67
Warrants over Shares issued	568,935	17

All Options have been issued under an employee incentive scheme.

Crosslink Capital through their various entities owns approximately 27% of the outstanding warrants issued.

4. Substantial holders

Substantial holders in the Company are set out below:

	CDIs	
	Number held	% of total CDIs issued
CROSSLINK VENTURES V LP	9,549,273	10.11
WILDCAT TECHNOLOGY PARTNERS 2015 LP	9,310,693	9.85
CROSSLINK CROSSOVER FUND VII LP	6,708,209	7.10
LEAPFROG VENTURES II LP	6,530,755	6.91
ULU VENTURES FUND II LP	6,094,133	6.45
MARK STROME TR MARK E STROME LIVING TRUST	5,144,901	5.45
GAIN CREDIT INC	4,730,000	5.01

5. Voting rights

Common stock

The voting rights attached to shares of common stock are such that each stockholder shall be entitled to one vote for each share of common stock held by such stockholder.

CDIs

CDI Holders may attend and vote at Zebit's general meetings. The Company must allow CDI Holders to attend any meeting of Shareholders unless relevant law at the time of a meeting prevents CDI Holders from attending that meeting.

In order to vote at such meetings, CDI Holders may:

- instruct CDN, as the legal owner, to vote the Shares underlying their CDIs in a particular manner. A voting instruction form will be sent to CDI Holders with the notice of meeting or proxy statement for the meeting and this must be completed and returned to the Registry before the meeting;
- inform Zebit that they wish to nominate themselves or another person to be appointed as CDN's proxy for the purposes of attending and voting at the general meeting, or
- convert their CDIs into a holding of Shares and vote these at the meeting. Afterwards, if the former CDI Holder wishes to sell their investment on the ASX it would need to convert the Shares back to CDIs. In order to vote in person, the conversion from CDIs to Shares must be completed before the record date for the meeting.

As CDI Holders will not appear on the Company's share register as the legal holders of the Shares, one of the above steps must be undertaken before CDI Holders can vote at Shareholder meetings.

CDI voting instruction forms and details of these alternatives will be included in each notice of meeting or proxy statement sent to CDI Holders by Zebit.

Options and Warrants do not confer any voting rights.

6. Company Secretary

The Company has engaged Company Matters Pty Ltd to act as its ASX Representative under Listing Rule 12.6, Kim Bradley-Ware has been appointed as the Company's ASX Listing Rule 12.6 Representative responsible for communication with the ASX in relation to listing rule matters.

7. Company address

The Company's principal place of business is:

1902 Wright Place Cornerstone Corporate Center 2nd Floor, Office 207, Carlsbad California T: 92008-6583

The Company's registered Australian office is:

Company Matters Pty Ltd Level 12, 680 George Street, Sydney NSW 2000 T: +61 (02) 8280 7355

8. Address of share registry

The Company's Australian share registry is:

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067 T: +61 3 9415 4000

The Company's US share registry is:

Computershare
462 South 4th Street, Suite 1600, Louisville KY 40202 T: +1-866-595-6048

9. The Company's Securities are not traded on any other exchange other than the ASX.

10. The number and class of restricted securities or securities subject to voluntary escrow that are on issue and the date that the escrow period ends is set out as follows:

Class	Number of Securities as of 1 March 2021	Escrow Period
Restricted CDIs	1,465,099	12 month (26/10/21)
Restricted CDIs	5,090,351	18 month (26/4/22)
Restricted CDIs	64,086,706	24 month (26/10/22)
Unquoted Restricted Options	3,585,635	12 month (26/10/21)
Unquoted Restricted Options	4,207,669	18 month (26/4/22)
Unquoted Restricted Options	5,017,384	24 month (26/10/22)
Unquoted Restricted Options	873,957	No Escrow Period

11. On market buy-back

During the reporting period no securities were purchased on-market under or for an employee incentive scheme and there is no current on-market buy-back.

12. Statement regarding use of cash and assets

During the period between listing on 26 Oct 2020 and 31 Dec 2020, the Company has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in the Prospectus.

13. Corporate Governance

The Board of Directors is responsible for the corporate governance of Zebit. The Board guides and monitors the business affairs of the Company on behalf of stakeholders and its activities are governed by the Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws.

The Company's Corporate Governance Statement is founded on the ASX Corporate Governance Council's principles and recommendations. The statement is periodically reviewed and, if necessary, revised to reflect the changing nature of the industry.

The responsibilities of the Board of Directors and those functions reserved to the Board, together with the responsibilities of the Chief Executive Officer are set out in our Board Charter.

For copies of policies and charters notes in this section please check the corporate governance statement announced by the Company in the ASX web page on March 2021.

The Company's corporate governance statement and corporate governance policies can be accessed here: https://shareholders.zebit.com/investor-centre/

14. Other

Zebit is not subject to Chapters 6, 6A, 6B and 6C of the *Corporations Act 2001* (Cth) which deals with the acquisition of shares (including substantial shareholdings and takeovers).

Zebit's CDIs are issued in reliance on the exemption from registration contained in Regulation S of the U.S. Securities Act of 1933 (Securities Act) for offers of securities which are made outside of the U.S. Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the U.S. As a result of relying on the Regulation S exception, the CDIs are 'restricted securities' under Rule 144 of the Securities Act. This means that CDI holders are unable to sell the CDIs into the U.S. or to a U.S. person who is not a QIB for the foreseeable future except in very limited circumstances after the end of the restricted period, unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. To enforce the above transfer restrictions, all CDIs issued bear a FOR Financial Product designation on the ASX. This designation restricts any CDIs from being sold on ASX to U.S. persons excluding QIBs. However, you are still able to freely transfer your CDIs on ASX to any person other than a U.S. person who is not a QIB. In addition, hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.

Additional Security Exchange Information (Continued)

Anti-takeover provisions of Delaware Law. Certificate of Incorporation and Bylaws

Provisions of the Delaware General Corporation Law, the Company's Certificate of Incorporation and the Company's Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover), a proxy contest or otherwise, or to remove incumbent officers and Directors of the Company. These provisions (summarized below) could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board. The Company believes that the benefits of increased protection of its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

The Company's bylaws do not contain any limitations on the acquisition of securities, except that clause 9 of Article XI, Section 11.1. of the bylaws provides as follows:

"The Corporation may refuse to acknowledge or register any transfer of shares of the Corporation's capital stock (including shares in the form of CDIs) held or acquired by a stockholder (including shares of the Corporation's capital stock that may be acquired upon exercise of a stock option, warrant or other right) or shares of the Corporation's capital stock which attach to or arise from such shares which are not made."

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