

APPENDIX 4D

Earlypay Limited

ABN: 88 098 952 277

Interim Report

For the Half Year ended 31 December 2022

Current Reporting Period
Six months to 31 December 2022

Previous Corresponding Period
Six months to 31 December 2021

Appendix 4D

Half Year Report

Half Year ended 31 December 2022
(Previous corresponding period half year ended 31 December 2021)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

\$A'000s

Revenue from ordinary activities	Up	18%	to	31,865
Loss from ordinary activities after tax attributable to members	Down	178%	to	(5,425)
Loss after tax attributable to members	Down	178%	to	(5,425)
Adjusted Loss after tax attributable to members	Down	164%	to	(4,925)

DIVIDENDS

Consolidated Group

31 Dec 2022 31 Dec 2021
\$ 000's \$ 000's

Dividends paid or provided for during the period:

Final 2022 fully franked ordinary dividend of 1.80 cents (2021: 1.30 cents) per share franked at the tax rate of 30% (2021: 25%)

5,168 3,612

Dividends (distributions)	Amount per security	Franked amount per security	Record date	Payment date
Final dividend 30 June 2022 (previous year)	1.80 cents	100%	16 September 2022	7 October 2022

Dividends

There were no dividends declared during the current financial period.

Comments

Net profit after tax includes \$500,000 of non-cash item relating to amortisation of customer relationships from purchase of Classic Funding Group. On an adjusted profit after tax, Earlypay's Net loss after tax for the period is (\$4,925,000) down 164% on the corresponding period profit after tax last year (31 December 2021: \$7,704,000).

Directors' report

The directors of Earlypay Limited ("Earlypay" or "the Group") submit herewith the financial report of Group for the half year ended 31 December 2022. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors of the Group during or since the end of the half year are:

Geoff Sam OAM – Non-Executive Chairperson
 James Beeson – Executive Director
 Sue Healy – Non-Executive Director
 Ilkka Tales – Non-Executive Director
 Stephen White – Non-Executive Director
 Greg Riley – Non-Executive Chairperson (Resigned: 17 November 2022)
 Daniel Riley – Managing Director (Resigned: 18 January 2023)

Steve Shin - Company Secretary
 Mathew Watkins – Company Secretary (Appointed: 11 December 2022)

Principal activities

The Group's principal activities during the half year were that of financial services.

Review of operations

The first half of H1'23 can be categorised by continued strong organic growth in funds in use and associated interest income, which was offset by higher interest expense, driven by the full period impact of new debt facilities; increased general and specific provisioning; and a substantial specific provision relating to Earlypay's largest client (RevRoof).

Key features of Earlypay's Half Year 2023 result are as follows:

Consolidated Group

- Average funds in use of \$343m, up 40% on prior comparative period ("pcp")
- Revenue of \$31.9m, up 18% on pcp
- Net Revenue of \$22.3m, 3% lower on pcp
- Interest Income of \$18.7m, up 46% on pcp
- Interest Expense of \$9.5m, up 133% on pcp
- Expected Credit Loss ("ECL") provision of \$14.1m, materially higher than \$0.7m in 1H'22, reflecting:
 - \$9.6m RevRoof specific provision across Invoice and Trade Finance
 - \$3.1m other specific provisions: \$3.2m for Invoice and Trade Finance & (\$0.1m) for Equipment Finance
 - \$1.4m increase in general provisioning: \$1.0m for Invoice and Trade Finance & \$0.4m for Equipment Finance
- Profit (Loss) Before Tax of (\$7.5m)
- Net Profit (Loss) After Tax of (\$5.4m), (including a tax benefit due to 1H'23 loss)
- Interim dividend suspended; Board to review dividend at financial year end

Invoice Finance

- Strong organic growth shown by average funds in use of \$205m, up 41% on pcp
 - Driven by strong pipeline conversion and some larger clients
- Net Revenue of \$17.7m, up 4% on pcp
- Net interest revenue of \$6.2m, up 9% on pcp but reflecting margin compression as a result of:
 - Full period impact of a \$30m Trade warehouse facility (in 1H'22 the trade receivables were entirely funded by equity (i.e. no interest cost))
 - Larger clients at tighter margins
 - Delay in passing on higher funding costs to clients in Q1
- Admin and Other Fees of \$11.6m, up 2% on pcp due to larger clients paying modest administration fees
- ECL increased to \$4.2m (from \$0.5m in 1H'22), when excluding the specific RevRoof provision

Directors' report (continued)

Equipment Finance

- Average funds in use of \$138m, up 39% on pcp, largely driven by strong growth in Q1'23
- Net revenue of \$5.0m, unchanged on pcp reflecting:
 - More than 90% of the interest expense from the variable rate corporate bond is allocated to Equipment Finance
 - Small interest rate mismatch on an Equipment Finance facility (drawn funds c. \$13m) (i.e. fixed loans with variable funding costs)
 - Q1'23 originations were at tighter NIM than the existing book. NIM on new originations has since increased to greater than long term average

Balance Sheet

Net Client Receivables and Finance Lease Receivables

Net Client Receivables increased by 6% to \$171.4m and Finance Lease Receivables remained flat at \$130.7m.

New Lease

Earlypay entered a new 5-year lease for its North Sydney office in November 2022. The new lease expires on 31 October 2027 with rent payable monthly in advance. Rental provisions with the lease agreement require minimum lease payments to increase by 3.5% per annum.

Deferred tax assets

Deferred tax assets increased by \$4.4m due to losses driven by the increase in allowance for expected credit losses.

Borrowings

Borrowings have increased by \$35.9m to \$329.0m. Increased borrowing reflects the growth in Invoice Finance book and reduction of balance sheet funded Equipment finance book. Refer to note 8 in the financial statements for more details of the consolidated entities borrowings.

As at 31 December 2022, there was a surplus in net assets to net liabilities of \$75,734,000 (30 June 2022: \$85,095,000).

Risks

Earlypay recognises that risk is inherent in its business, particularly as an SME lender, and that effective risk management is a key component of sound corporate governance and is essential in delivering our business objectives within the Board's risk appetite.

Earlypay continues to strengthen its Risk Management Framework and below is the Board's and Management's view of the key Business Risks facing Earlypay. (Note that this not an exhaustive list of all of Earlypay's business risks)

Nature of Risk	How we manage the risk/Key areas of focus
Clients and debtors are unable to meet their financial obligations	<ul style="list-style-type: none"> • Continuously upgrading underwriting and operational policies and procedures and ensuring compliance. • Expanding the use of data analysis to identify heightened risk at an early stage. • Prompt and detailed reviews of credit and fraud incidents and promptly closing gaps in systems and processes.
Clients and debtors induce Earlypay to advance funds against false invoices	<ul style="list-style-type: none"> • Continuing to invest in tools and processes to mitigate fraud risk. • Maintaining a more diversified loan book to reduce concentration to single clients and debtors. • Ongoing improvement in the methods we use to verify the validity of invoices.
Insufficient capital and funding to fund the existing business and support growth	<ul style="list-style-type: none"> • Strategically look to restructure existing funding facilities to lower funding costs, release equity, simplify treasury and to create headroom for future growth. • Diligent adherence to portfolio requirements. • Comprehensive approach to cashflow and capital forecasting.

Directors' report (continued)

Margin compression	<ul style="list-style-type: none"> Actively look to optimise funding structures to lower the cost of funding. Pass on interest rate increases to clients where possible. Restructure funding structures to minimise interest rate mismatches and to benefit from natural interest rate hedges between interest income and interest expense. <p>Maintain an effective framework for risk-based client pricing.</p>
Inability to grow the loan book	<ul style="list-style-type: none"> Ongoing market research to identify market segments and opportunities that are aligned with our strengths. Focus on opportunities where we can differentiate our offering and our go-to-market strategy. Continue to expand broker penetration through the education of invoice financing. Sharp focus on client service to support retention. <p>Invest in the Earlypay platform to deliver a market leading broker and client servicing platform.</p>
Losses resulting from inadequate or failed internal processes and systems	<ul style="list-style-type: none"> Regularly review and upgrade of Credit Policy and Operational Policies and Procedures <p>Utilising technology where appropriate to streamline processes and reduce the risk of human error.</p>
Underinvestment or overinvestment in the Earlypay proprietary platform	<ul style="list-style-type: none"> Maintain a technology roadmap for development of the platform. Ensure that there is a well-defined path for the firm's various technology platforms integrate effectively. Continued staged retirement of legacy systems. <p>Ongoing investment in the infrastructure that supports the increased use of data for improved business decision making.</p>
Weak corporate governance undermines the ability for Earlypay to achieve its strategic objectives	<ul style="list-style-type: none"> Engagement of a specialist Company Secretary and Corporate Governance Adviser supporting a strong governance and compliance. <p>Reviewing and updating corporate governance framework.</p>

RevRoof Update & Outlook

RevRoof

The significant RevRoof loss in H1'23 was a major disappointment for the Group and we are actively addressing the shortcomings to mitigate against the risk of a loss of this size occurring again.

Thorough investigations have identified the root causes of the loss and changes have been implemented to our Corporate Risk Governance framework, underwriting processes and decision-making, and operational policies and procedures. It also reinforced the need to continue to invest in our proprietary software and data infrastructure and retire less sophisticated legacy platforms.

Importantly, the RevRoof exposure was outsized given the size of our aggregate loan portfolio and net assets. We have significantly reduced our maximum single borrower exposure limit, which now largely aligns with our next largest client exposures. The exposure limit will continue to be refined by the Board to be consistent with its risk appetite. This will lead to a more diversified portfolio of clients and debtor exposures mitigating the impact on the business of any single borrower failure in the future.

These improvements will strengthen our foundations for the future.

It's also important to note that although the RevRoof loss was significant, our capital base remains strong.

Growth

Rising inflation, higher interest rates, increased input costs and lower property prices continue to put pressure on the overall economy, including SMEs. There is also strong evidence to suggest that traditional lenders are becoming less willing to provide credit to SMEs and that business owners are more open to considering non-bank lending options.

Directors' report (continued)

Invoice Financing is well suited to difficult economic conditions as SMEs with a strong debtors can use their accounts receivable as security instead of real estate, which is typically what banks rely on. It is therefore expected that the use of Invoice Financing by SMEs will continue to expand and Earlypay is well placed to benefit from a larger addressable market.

Equipment Financing remains a key product for Earlypay and is currently used to provide Invoice Financing clients with additional capital. Trade Finance will be offered sparingly to high quality clients given our tighter risk appetite on this product.

Margins & Funding

Net Interest Margins and Net Revenue Margins have contracted in recent periods for several reasons that include:

- onboarding large clients at tighter margins;
- some Asset and Liability rate mismatch resulting from the \$20m variable rate corporate bond and the \$13m (drawn) variable rate Equipment Finance warehouse;
- a delay in fully passing on the increase in our funding costs to clients in Q1 as clients were recontracted to the Earlypay variable base rate; and
- most significantly, the impact of a full period of interest expense from the \$30m trade facility that commenced in April 2022 when there was no Trade Finance related interest expense in H1'22

To mitigate these drivers of tighter margins, we continue to focus on refinancing existing funding facilities to reduce interest expense, remove interest rate mismatches, release trapped equity and simplify treasury operations. Although progress is slower than planned due to RevRoof, the refinancing is now expected to be finalised in Q1'24 with the benefits being delivered for the majority of FY'24.

Outlook

H2'23 will be a period of transition as we move past RevRoof and focus on refinancing our funding structures, which will drive a material rebound in NIM.

Although funds in use is likely to contract by approximately \$30m in the short-term due to the loss of RevRoof, the sales pipeline remains strong and Company has a strong track record of organically generating new business which is expected to continue.

Additionally, the focus for H2'23 and beyond will be on building a more diversified portfolio of clients and debtors with less concentrated exposures. A shift to a lower average client size is expected to improve margins as larger clients typically come with lower margins.

Underpinning the above strategies will be improved lending and operational practices, ongoing investment in technology and a streamlined product offering, orientated around our core Invoice Financing product.

Dividends will be suspended this half to rebuild capital after the RevRoof loss the Board will reassess the Dividend outlook after FY'23 or at the time of the FY'23 results.

Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Corporations Instrument 2016/191. Accordingly, certain amounts in the financial statements and directors' report have been rounded where appropriate to the nearest \$1,000 unless otherwise specified.

Auditor's Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year is provided with this report.

This report is signed in accordance with a resolution of the Board of Directors.



James Beeson
Managing Director
24 February 2023

Pitcher Partners Sydney Partnership

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**Auditor's Independence Declaration
To the Directors of Earlypay Limited
ABN 88 098 952 277**

In relation to the independent auditor's review of Earlypay Limited and its Controlled Entities for the half-year ended 31 December 2022, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Earlypay Limited and the entities it controlled during the period.



Rod Shanley
Partner

Pitcher Partners
Sydney

24 February 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 31 December 2022

		Consolidated Group	
		31 Dec 2022	Restated*
		\$ 000's	31 Dec 2021
			\$ 000's
Note			
	3	18,464	12,820
Interest income			
Interest expense		(9,516)	(4,078)
Net interest income		8,948	8,742
Revenue and other income	3	13,401	14,296
Net revenue and other income		22,349	23,038
Expenditure			
Allowance for expected credit losses	6,7	(14,071)	(716)
Commissions		(1,625)	(1,375)
Depreciation and amortisation	4	(1,030)	(1,054)
Employee benefits expenses (direct employees)		(8,162)	(7,537)
Consultancy		(564)	(302)
Insurance		(921)	(917)
Legal expenses		(902)	(537)
Marketing		(278)	(313)
IT expenses		(634)	(660)
Trust expenses		(192)	(414)
Other expenses		(1,516)	(1,258)
Total expenditure		(29,895)	(15,083)
(Loss)/ Profit before Income Tax		(7,546)	7,955
Income tax benefit/(expense)		2,121	(1,001)
(Loss)/ Profit for the half year		(5,425)	6,954
(Loss)/ Profit attributable to members of the parent entity		(5,425)	6,954
Other comprehensive income		-	-
Total comprehensive (Loss)/ income for the period		(5,425)	6,954
Earnings per Share:			
Basic (loss)/ earnings per share (cents)	11	(1.88)	2.49
Diluted (loss)/ earnings per share (cents)	11	(1.88)	2.45

*Refer to Note 1(a) for more information

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2022

		Consolidated Group	
	Note	31 Dec 2022	Restated*
		\$000's	30 June 2022
			\$000's
CURRENT ASSETS			
Cash and cash equivalents	5	68,437	52,707
Trade receivables – debtor finance	6	281,139	269,864
Finance lease receivables	7	38,831	38,398
Other current assets		3,786	4,032
TOTAL CURRENT ASSETS		392,193	365,001
NON-CURRENT ASSETS			
Finance lease receivable	7	91,898	92,540
Plant and equipment		242	272
Right of use asset		1,586	530
Deferred tax assets		7,738	3,382
Intangible assets		30,738	31,105
TOTAL NON-CURRENT ASSETS		132,202	127,829
TOTAL ASSETS		524,395	492,830
CURRENT LIABILITIES			
Trade payables – debtor finance	6	109,735	108,300
Trade payables		4,011	2,649
Unearned Income		426	256
Other liabilities		58	96
Lease liability		455	452
Borrowings	8	165,935	142,474
Tax liabilities		2,467	1,331
Provisions – employees		1,086	1,251
TOTAL CURRENT LIABILITIES		284,173	256,809
NON-CURRENT LIABILITIES			
Borrowings	8	163,059	150,584
Provisions – employees		276	232
Lease liability		1,153	110
TOTAL NON-CURRENT LIABILITIES		164,488	150,926
TOTAL LIABILITIES		448,661	407,735
NET ASSETS		75,734	85,095
EQUITY			
Issued capital	9	74,702	73,470
Retained profits		348	10,941
General reserve		684	684
TOTAL EQUITY		75,734	85,095

*Refer to Note 1(a) for more information

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity For the Half Year Ended 31 December 2022

		Share Capital	Reserves	Accumulated Profit	Total Equity
		\$ 000's	\$ 000's	\$ 000's	\$ 000's
Balance at 1 July 2021		52,773	441	5,299	58,513
Profit/(loss) after income tax expense for the half-year		-	-	6,954	6,954
Other comprehensive income for the half year, net of tax		-	-	-	-
Transactions with owners:					
Dividend paid or provided for the period	13	-	-	(3,612)	(3,612)
Issue of Ordinary Shares (net)		18,899	-	-	18,899
Balance at 31 December 2021		<u>71,672</u>	<u>441</u>	<u>8,641</u>	<u>80,754</u>
 Balance at 1 July 2022		 73,470	 684	 10,941	 85,095
Profit/(loss) after income tax expense for the half-year		-	-	(5,425)	(5,425)
Other comprehensive income for the half year, net of tax		-	-	-	-
Transactions with owners:					
Dividend paid or provided for the period	13	-	-	(5,168)	(5,168)
Issue of Ordinary Shares (net)	9	1,232	-	-	1,232
Balance at 31 December 2022		<u>74,702</u>	<u>684</u>	<u>348</u>	<u>75,734</u>

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2022

		Consolidated Group	
	Note	31 Dec 2022	31 Dec 2021
		\$ 000's	\$ 000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		14,468	15,640
Interest received from customers		18,464	12,820
Payments to suppliers and employees		(15,768)	(13,809)
Interest received - other		213	11
Finance costs		(9,516)	(3,643)
Income tax paid		(1,096)	(1,801)
Net cash provided by operating activities		6,765	9,218
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(33)	(56)
Payments for IT development		(328)	(220)
Payments to client receivables		(22,911)	(40,962)
Proceeds from/(payment to) equipment lease receivables		512	(15,012)
Payment for subsidiary, net of cash acquired		-	(604)
Net cash used in investing activities		(22,760)	(56,854)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		35,935	74,529
Repayment of borrowings		-	(42,750)
Repayment of lease liability		(274)	(293)
Dividends paid, net of reinvestment		(3,936)	(3,612)
Net cash provided by financing activities		31,725	27,874
Net increase/(decrease) in cash held		15,730	(19,762)
Cash at the beginning of the half year		52,707	44,770
Cash at the end of the half year	5	68,437	25,008

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 1 Statement of Significant Accounting Policies

Basis of Preparation

These general purpose interim financial statements for the half year reporting period ended 31 December 2022 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard *AASB 134: Interim Financial Reporting*. Earlypay Limited is a for-profit entity for the purpose of preparing the financial statements.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Earlypay Limited and its controlled entities (referred to as “the consolidated group” or “the Group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this interim financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2022, together with any public announcements made during the half year.

The half-year financial report was authorised for issue by the directors on 24th February 2022.

Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group’s 2022 annual financial report for the financial year ended 30 June 2022.

Critical Accounting Estimates and Judgements

The critical estimates and judgements are consistent with those applied and disclosed in the 30 June 2022 annual report.

Rounding of Amounts

The Group has applied the relief available to it under ASIC Corporations Instrument 2016/191. Accordingly, certain amounts in the financial statements have been rounded off where appropriate to the nearest \$1,000, unless otherwise specified.

(a) Prior year comparative restatement

During the period, Earlypay has made the following prior period reclassification adjustments within the Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss and Other Comprehensive Income:

1. Consolidated Statement of Profit or Loss and Other Comprehensive Income - Reclassification of \$367,000 from Trust expense to Interest expense as these represent swap fees charged. Trust expenses were restated from \$781,000 to \$414,000 and Interest expense from \$3,711,000 to \$4,078,000.
2. Consolidated Statement of Profit or Loss and Other Comprehensive Income - Reclassification of \$302,000 from Other expense to Consultancy and \$84,000 from Legal expenses to Other expenses. Consultancy were restated from nil to \$302,000 and Legal expenses were restated from \$621,000 to \$537,000. Other expenses were restated from \$1,476,000 to \$1,258,000 accounting for the two changes in Legal expenses and Consultancy. Total expenses remain unchanged as at 31 December 2021.
3. Consolidated Statement of Financial Position - Reclassification of \$591,000 from Trade receivables – debtor finance to Goodwill and \$590,000 from Finance lease receivables to Goodwill in relation to acquisition of Classic Funding Group due to an error that has been identified during the reporting period. The errors pertained to the maintenance fees payable report and timing difference in the clearing account which were inadvertently recorded against Finance lease receivables and Trade receivables – debtor finance during the acquisition. Goodwill was therefore adjusted to reflect proper allocation.

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 2 Operating Segments

Identification of reportable segments

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and/or services provided by the segment;
- The type or class of customer for the products or services; and
- Any external regulatory requirements.

Types of products and services by segment

(i) Invoice Finance

Invoice Finance includes debtor finance and trade finance. Debtor finance provides an advance payment of up to 80% of a client's invoice to help their business overcome the cash pressure of delivering goods or services in advance of payment from the customer (often 30 to 60 days). This is a flexible line of credit that is utilised in line with sales volume. In conjunction with debtor finance, trade finance can be provided to eligible customers.

(ii) Equipment Finance

Refers to equipment finance for both new and old equipment. This includes sale-back of owned or partially owned equipment, private sales, and mid-term refinancing.

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief and operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

(b) Inter-segment transactions

There are no Inter-segment transactions.

(c) Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

(d) Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment.

(e) Unallocated items

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Income tax expense
- Deferred tax assets and liabilities

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 2 Operating Segments (continued)

(d) Segment information

	Invoice Finance	Equipment Finance	Unallocated/ Corporate	Total
Six months ended 31 December 2022	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Interest Income	11,178	7,286	213	18,677
Interest Expense	(5,027)	(4,333)	(156)	(9,516)
Net Interest Revenue	6,151	2,953	57	9,161
Admin and Other Fees	11,582	2,086	-	13,668
Net Revenue	17,733	5,039	57	22,829
Operating Expense	(9,952)	(2,943)	(1,433)	(14,328)
Allowance for ECL	(13,785)	(286)	-	(14,071)
Depreciation and amortisation	(433)	(72)	(26)	(531)
Amortisation – customer relationships	-	-	(500)	(500)
Net Adjusted Profit/(Loss) Before Tax	(6,437)	1,738	(1,902)	(6,601)
Assets	297,502	130,729	96,164	524,395
Liabilities	(109,735)	-	(338,926)	(448,661)
Net	187,767	130,729	(242,762)	75,734
	Invoice Finance	Equipment Finance	Unallocated/ Corporate	Total
Six months ended 31 December 2021	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Interest Income	7,211	5,609	11	12,831
Interest Expense	(1,582)	(2,763)	267	(4,078)
Net Interest Revenue	5,629	2,846	278	8,753
Admin and Other Fees	11,370	2,144	771	14,285
Net Revenue	16,999	4,990	1,049	23,038
Operating Expense	(9,142)	(3,216)	(954)	(13,312)
Allowance for ECL	(463)	(253)	-	(716)
Depreciation and amortisation	(291)	14	(27)	(304)
Amortisation – customer relationships	-	-	(750)	(750)
Net Adjusted Profit/(Loss) Before Tax	7,103	1,535	(682)	7,956
Assets	279,504	108,123	58,560	446,187
Liabilities	(116,618)	-	(248,815)	(365,433)
Net	162,886	108,123	(190,255)	80,754

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 2 Operating Segments (continued)

The Board assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and reclassifications. A reconciliation of adjusted profit before income tax to profit before income tax is provided as follows:

	31 Dec 2022	31 Dec 2021
	\$000's	\$000's
Net Adjusted (loss)/profit before income tax from continuing operations	(6,601)	7,955
Restructuring costs	(465)	-
Adjustment to Equipment Finance – Maintenance Fee	(480)	-
Profit before income tax from continuing operations	(7,546)	7,955

NOTE 3 Revenue and Other Income

	31 Dec 2022	31 Dec 2021
	\$000's	\$000's
Revenue from continuing operations		
Services		
Invoice Finance - Revenue from contracts with customers	11,234	11,039
Invoice Finance - Interest Income	11,178	7,211
Invoice Finance - Other	348	331
 Equipment Finance - Revenue from contracts with customers	 759	 1,223
Equipment Finance - Interest Income	7,286	5,609
Equipment Finance - Other	847	921
 Other income		
Foreign currency loss on translation	-	(5)
Rebate from funding facility	-	776
Interest received	213	11
Total revenue and other income	31,865	27,116

NOTE 4 Depreciation and Amortisation

	31 Dec 2022	31 Dec 2021
	\$000's	\$000's
Depreciation – property, plant and equipment	(259)	(63)
Amortisation – leases	(271)	(241)
Amortisation - customer relationships	(500)	(750)
Total	(1,030)	(1,054)

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 5 Cash and Cash Equivalents

	31 Dec 2022 \$ 000's	30 Jun 2022 \$ 000's
Cash at bank and on hand	61,559	45,563
Cash at bank – restricted cash*	6,878	7,144
Total	68,437	52,707

*Restricted cash relates to unavailable cash for operations as it is held on trust by the Trustee.

NOTE 6 Trade Receivables

	31 Dec 2022 \$ 000's	30 Jun 2022 \$ 000's
Trade receivables – debtor finance	297,502	272,567
Less: Allowance for expected credit losses	(16,363)	(2,703)
Total	281,139	269,864

Client Receivables

Trade receivables – debtor finance	297,502	272,567
Less: Trade payables – debtor finance	(109,735)	(108,300)
Client Receivables	187,767	164,267
Less: Allowance for expected credit losses	(16,363)	(2,703)
Net Client Receivables	171,404	161,564

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 6 Trade Receivables (continued)

Trade receivables – Debtor finance

The Group determines expected credit losses by applying probability of default (PD) x exposure at default (EAD) x loss given default (LGD) adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. Expected Credit Loss Rate is PD x LGD.

ECL has been prepared based on eligible invoices. Eligible invoices are invoices that are less than 90 days overdue and have no issues with the value of the invoice, collection of invoice and dispute with the invoice. The ECL calculation has been adjusted to exclude ineligible invoices from the ECL calculations. All invoices over 90 days overdue were ineligible invoices. Ineligible invoices are non-funded invoices and hence no ECL calculation is required under the ECL calculation methodology.

	Consolidated Group	
	31 Dec 2022	30 Jun 2022
	\$ 000's	\$ 000's
Opening balance	2,703	3,821
Increase from origination and changes in expected cash flows	13,785	106
Receivables written off during the period as uncollectable	(125)	(1,224)
Closing balance	16,363	2,703

The following table provides information about the risk profile of Trade receivables - debtor finance:

Credit risk profile of receivables from clients

31 December 2022	Expected credit loss rate	Carrying amount	Eligible Invoices	Allowance for ECL
	%	\$ 000's	\$ 000's	\$ 000's
Not overdue	0.3%	124,584	121,750	405
Less than 30 days overdue	0.5%	98,648	93,212	434
30 - 60 days overdue	1.6%	19,275	18,579	294
60 - 90 days overdue	9.8%	5,977	2,348	231
90 - 120 days overdue	-	2,991	-	-
Over 120 days overdue	-	7,620	-	-
Credit Impaired*	39.1%	38,408	-	14,999
		297,502	235,889	16,363

*Includes \$9.6m of RevRoof Pty Ltd refer to note 14

30 June 2022	Expected credit loss rate	Carrying amount	Eligible Invoices	Allowance for ECL
	%	\$ 000's	\$ 000's	\$ 000's
Not overdue	0.1%	132,970	128,206	107
Less than 30 days overdue	0.2%	86,625	81,646	129
30 - 60 days overdue	0.6%	17,296	16,497	104
60 - 90 days overdue	5.9%	7,131	2,446	145
90 - 120 days overdue	-	8,906	-	-
Over 120 days overdue	-	10,035	-	-
Credit Impaired	23.1%	9,604	-	2,218
		272,567	228,795	2,703

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 7 Finance Lease Receivables

	31 Dec 2022	30 Jun 2022
	\$000's	\$000's
Current:		
Finance lease receivables	49,471	49,080
Allowance for expected credit losses	(501)	(366)
Unamortised loan brokerage fees	981	827
Unamortised loan transaction fees	(747)	(858)
Unamortised interest receivable	(10,373)	(10,285)
Total Current	38,831	38,398
Non-Current:		
Finance lease receivables	108,572	110,414
Allowance for expected credit losses	(1,213)	(1,061)
Unamortised loan brokerage fees	2,729	2,413
Unamortised loan transaction fees	(3,466)	(3,250)
Unamortised interest receivable	(14,724)	(15,976)
Total Non-Current	91,898	92,540
Total	130,729	130,938

Impairment of finance lease receivables

	Consolidated Group	
	31 Dec 2022	30 Jun 2022
	\$ 000's	\$ 000's
Opening balance	1,427	1,490
Increase from origination and changes in expected cash flows	287	450
Receivables written off during the period as uncollectable	-	(513)
Closing balance	1,714	1,427

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 7 Finance Lease Receivables (continued)

The following table provides information about the risk profile of lease receivables:

Credit risk profile of receivables from customers

	Expected credit loss rate		Carrying amount		Allowance for ECL	
	31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022
	%	%	\$000's	\$000's	\$000's	\$000's
Not overdue	0.8%	0.5%	152,623	157,645	1,208	837
Less than 30 days overdue	1.4%	1.7%	71	57	1	1
30 - 60 days overdue	4.8%	9.3%	21	12	1	1
60 - 90 days overdue	9.1%	16.6%	11	4	1	1
Over 90 days overdue	18.2%	27.0%	44	34	8	9
Credit Impaired	9.4%	33.2%	5,273	1,742	495	578
			158,043	159,494	1,714	1,427

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 8 Borrowings

	Average interest rate %	Facility limit \$000's	Maturity	31 Dec 2022 \$000's	30 Jun 2022 \$000's
CURRENT					
Unsecured:					
Unsecured Loans – Insurance	1.59%	-	March 2023	511	1,534
Total				511	1,534
Secured:					
Securitised Debtor Finance warehouse facility – A note and Overdraft	-	-	-	-	(5)
Receivables Financing Facility – Bank	4.76%	200,000	April 2023	165,424	140,945
Total				165,424	140,940
Total current				165,935	142,474
NON-CURRENT					
Unsecured:					
Unsecured Corporate Bond no. 2	8.69%	-	December 2025	19,024	18,966
Total				19,024	18,966
Secured:					
Securitised Equipment Finance warehouse facility – A note	4.51%	120,000	June 2027	85,864	74,414
Securitised Equipment Finance warehouse facility – B note	5.80%	20,000	May 2029	19,638	19,506
Securitised Trade Finance warehouse facility – A note	8.64%	22,500	April 2026	21,959	19,124
Securitised Trade Finance warehouse facility – B note	10.64%	3,750	April 2026	3,413	2,642
Receivables Equipment Financing Facility – Non-Bank	8.13%	25,000	February 2027	13,161	15,932
Total				144,035	131,618
Total non-current				163,059	150,584

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 9 Contributed Equity

		Consolidated Group	
	Date	No.	\$ 000's
Balance at beginning of the period	1-Jan-22	281,467,836	71,672
<i>Shares issued or under issue during the year:</i>			
Exercise of options (i)	9-Feb-22	2,050,000	-
Share issue from Dividend Reinvestment Plan	7-Apr-22	561,102	248
Ordinary shares @ 42 cents from acquisition of Skippr invoice finance	14-Jun-22	3,052,196	1,550
Balance at end of the period	30-Jun-22	287,131,134	73,470
Balance at beginning of the period	1-Jul-22	287,131,134	73,470
<i>Shares issued or under issue during the year:</i>			
Share issue from Dividend Reinvestment Plan @ 44 cents	7-Oct-22	2,797,556	1,238
Less: share issue costs		-	(6)
Balance at end of the period	31-Dec-22	289,928,690	74,702

(i) Exercise of options - The exercised options of 1,800,000 on 2 December 2021 and 2,050,000 options on 9 February 2022 by Mr. Daniel Riley were issued for a consideration of \$1,135,750. At the same time, 6,150,000 options outstanding by Mr. Daniel Riley were bought back by the Company at market price less the exercise price. This buyback amounted to \$1,135,750.

NOTE 10 Control gained or lost over entities having material effect

The Group remained unchanged during the period.

NOTE 11 Earnings Per Share

	31 Dec 2022	31 Dec 2021
	\$000's	\$000's
(Loss)/Profit after income tax attributable to the owners of Earlypay	(5,425)	6,954
	Cents	Cents
Basic (loss)/earnings per share	(1.88)	2.49
Diluted (loss)/earnings per share*	(1.88)	2.45
Weighted average number of ordinary shares in calculating basic earnings per share	288,423	278,727
Adjustments for calculations of diluted earnings per share:		
Options and Rights over ordinary shares	5,182	5,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	293,605	283,727

*As at 31 December 2022, there were no Options and Rights on issue over ordinary shares included in the calculation in determining diluted earnings per share due to the loss. Therefore, basic and diluted earnings per share are equal.

Notes to the Financial Statements for the year ended 31 December 2022

NOTE 12 Net Tangible Asset Backing

	31 Dec 2022	30 Jun 2022
Net tangible asset backing per ordinary security (cents)	12.85	18.04
The net tangible assets exclude intangible assets and deferred tax assets but includes right-of-use assets		

NOTE 13 Dividends

	31 Dec 2022 \$ 000's	31 Dec 2021 \$ 000's
Dividends paid or provided for during the period:		
Final 2022 fully franked ordinary dividend of 1.80 cents (2021: 1.30 cents) per share franked at the tax rate of 30% (2021: 25%)	5,168	3,612

NOTE 14 Events Subsequent to Reporting Date

Earlypay appointed Grant Thornton as Receiver and Manager of the assets of RevRoof Pty Ltd on 23 December 2022, and its related entity Painted Steel Technologies Pty Ltd (together referred as "RevRoof") that are secured for c.\$29m owed by RevRoof to Earlypay. On 20 February 2023, Grant Thornton entered into a sale agreement for the assets of RevRoof. Earlypay has provided \$9.6m as expected credit loss from RevRoof and expects to incur approximately \$2m in related costs for its recovery activities.

Except as disclosed above, there has been no other matter or circumstance, which has arisen since 31 December 2022 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 31 December 2022, of the Group, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 31 December 2022, of the Group.

NOTE 15 Details of Associate or Joint Ventures Entities

The Group has no associate or joint venture entities.

NOTE 16 Fair Value

There are no assets or liabilities measured at fair value. The carrying amounts of cash and cash equivalents, trade and other receivables, other current assets, trade other payables and current borrowings approximates their fair values due to their short-term nature. The carrying value of non-current borrowings from securitised debtor finance warehouse facility and receivables financing facility approximates the fair value as it has variable interest rates that are at market rates.

Directors' Declaration

In accordance with a resolution of the directors of Earlypay, the directors of the Company declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:

- a) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- b) giving a true and fair view of the Group financial position as at 31 December 2022 and of its performance for the half year ended on that date.

2. In the directors' opinion there are reasonable grounds, at the date of this declaration, to believe that Earlypay will be able to pay its debts as and when they become due and payable.

A handwritten signature in black ink that reads 'James Beeson'.

James Beeson
Managing Director

24th February 2023
Sydney

Pitcher Partners Sydney Partnership

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**Independent Auditor's Review Report
To the Members of Earlypay Limited
ABN 88 098 952 277****Report on the Half-Year Financial Report****Conclusion**

We have reviewed the half-year financial report of Earlypay Limited ("the Company") and its Controlled Entities ("the Group") which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (a) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- (b) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ("the Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the Directors for the Financial Report

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

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



Rod Shanley
Partner



Pitcher Partners
Sydney

24 February 2023