

1. Company details

Name of entity:	Earlypay Ltd
ABN:	88 098 952 277
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	13.6% to	61,096
Loss from ordinary activities after tax attributable to the owners of Earlypay Ltd	down	(158.6%) to	(7,744)
Net loss for the year attributable to the owners of Earlypay Ltd	down	(158.6%) to	(7,744)
Adjusted loss after tax attributable to the owners of Earlypay Ltd	down	(131.0%) to	(4,619)

Comments

The loss for the Group after providing for income tax amounted to \$7,744,000 (30 June 2022: profit of \$13,223,000).

The statutory NPAT loss of \$7.744m includes allowance for expected credit loss expenses of \$17.329m (30 June 2022: \$0.557m).

Adjustments to the statutory NPAT loss to arrive at an adjusted loss of \$4.619m, include:

- \$0.500m of non-cash items relating to amortisation of customer relationships from purchase of Classic Funding Group;
- \$0.497m in restructuring and one-off personnel costs; and
- \$2.128m in relation to the impairment of trademarks.

3. Net tangible assets

	Reporting period Cents	Previous period Restated Cents
Net tangible assets per ordinary security	13.34	17.63

The net tangible assets exclude intangible assets and deferred tax assets but include right-of-use assets.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

No dividends have been declared for the year ended 30 June 2023

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2022	1.80	1.80
Interim dividend for the year ended 30 June 2022	1.40	1.40

7. Dividend reinvestment plans ('DRP')

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report (if any):

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements are in the process of being audited.

11. Attachments

Details of attachments (if any):

The Appendix 4E Preliminary Final Report of Earlypay Ltd for the year ended 30 June 2023 is attached.

12. Signed

Signed 

James Beeson
Managing Director
Sydney

Date: 24 August 2023

Earlypay Ltd

ABN 88 098 952 277

Appendix 4E Preliminary Final Report - 30 June 2023



Corporate directory	2
Consolidated statement of profit or loss and other comprehensive income	3
Consolidated statement of financial position	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements	7

Directors	Geoffrey Sam James Beeson Sue Healy Ilkka Tales Stephen White
Company secretaries	Paul Murray Mathew Watkins
Registered office	Level 5, 201 Miller Street, North Sydney NSW 2060 Telephone: 1300 666 177 Facsimile: (02) 9267 4222
Share register	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 2000 Telephone: 1300 787 272
Auditor	Pitcher Partners Level 16, Tower 2 Darling Park 201 Sussex Street Sydney NSW 2000
Solicitors	Allen & Overy Level 25 85 Castlereagh Street Sydney NSW 2000
Bankers	NAB Bank 255 George Street, Sydney NSW 2000 ANZ Bank 242 Pitt Street, Sydney NSW 2000
Stock exchange listing	Earlypay Ltd shares are listed on the Australian Securities Exchange (ASX code: EPY)
Website	www.earlypay.com.au
Corporate Governance Statement	www.earlypay.com.au/investors/

	Note	Consolidated 2023 \$'000	2022 Restated* \$'000
Income			
Interest income	6	35,384	27,231
Interest expense	7	(19,267)	(9,742)
Net interest income		16,117	17,489
Other income	6	25,712	26,570
Net income		41,829	44,059
Expenses			
Credit impairment expense	8	(17,329)	(557)
Commissions expense		(2,938)	(2,878)
Consultancy expense		(1,286)	(743)
Depreciation and amortisation expense	9	(1,711)	(2,291)
Intangible impairment expense		(2,128)	-
Employee benefits expense		(14,415)	(14,508)
Insurance expense		(1,684)	(1,849)
IT expense		(1,253)	(1,248)
Legal expense		(6,122)	(1,017)
Marketing expense		(467)	(506)
Trust expense		(414)	(904)
Other expenses		(2,525)	(2,268)
Total expenses		(52,272)	(28,769)
(Loss)/profit before income tax benefit/(expense)		(10,443)	15,290
Income tax benefit/(expense)	10	2,699	(2,067)
(Loss)/profit after income tax benefit/(expense) for the year attributable to the owners of Earlypay Ltd		(7,744)	13,223
Other comprehensive income for the year, net of tax		-	-
Total comprehensive (loss) income for the year attributable to the owners of Earlypay Ltd		(7,744)	13,223
		Cents	Cents
Basic (loss) earnings per share	11	(2.68)	4.70
Diluted (loss) earnings per share	11	(2.68)	4.66

* Refer to note 4 for detailed information on reclassification of comparatives.

	Note	Consolidated 2023 \$'000	Consolidated 2022 Restated* \$'000
Assets			
Current assets			
Cash and cash equivalents	12	52,986	52,707
Net trade receivables (invoice finance)	13	154,865	161,564
Equipment finance receivables	14	38,458	38,398
Income tax receivable	10	3,016	-
Other assets	15	3,607	4,032
Total current assets		<u>252,932</u>	<u>256,701</u>
Non-current assets			
Equipment finance receivables	14	71,037	92,540
Property, plant and equipment	16	206	272
Right-of-use assets	17	1,318	530
Intangibles assets	18	28,784	31,105
Deferred tax asset	10	6,022	3,382
Total non-current assets		<u>107,367</u>	<u>127,829</u>
Total assets		<u>360,299</u>	<u>384,530</u>
Liabilities			
Current liabilities			
Trade and other payables	19	4,251	2,649
Borrowings	20	137,346	142,474
Lease liabilities	21	363	452
Income tax payable	10	-	1,331
Employee benefits	22	1,043	1,251
Other liabilities		882	352
Total current liabilities		<u>143,885</u>	<u>148,509</u>
Non-current liabilities			
Borrowings	20	141,643	150,584
Lease liabilities	21	1,006	110
Employee benefits	22	281	232
Total non-current liabilities		<u>142,930</u>	<u>150,926</u>
Total liabilities		<u>286,815</u>	<u>299,435</u>
Net assets		<u>73,484</u>	<u>85,095</u>
Equity			
Issued capital	23	74,702	73,470
Reserves	24	753	684
Retained profits		(1,971)	10,941
Total equity		<u>73,484</u>	<u>85,095</u>

* Refer to note 4 for detailed information on reclassification of comparatives.

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	52,773	441	5,299	58,513
Profit after income tax expense for the year	-	-	13,223	13,223
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	13,223	13,223
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 23)	20,697	-	-	20,697
Share-based payments (note 36)	-	243	-	243
Dividends paid or provided for (note 25)	-	-	(7,581)	(7,581)
Balance at 30 June 2022	73,470	684	10,941	85,095
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2022	73,470	684	10,941	85,095
Loss after income tax benefit for the year	-	-	(7,744)	(7,744)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(7,744)	(7,744)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares, net of transaction costs (note 23)	1,232	-	-	1,232
Share-based payments (note 36)	-	69	-	69
Dividends paid or provided for (note 25)	-	-	(5,168)	(5,168)
Balance at 30 June 2023	74,702	753	(1,971)	73,484

	Note	Consolidated 2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from customers		28,714	28,813
Interest received from customers		34,283	27,199
Payments to suppliers and employees		(30,786)	(30,162)
Interest received - other		554	35
Finance costs paid		(19,267)	(9,620)
Income taxes paid		(4,288)	(3,589)
Net cash from operating activities	26	9,210	12,676
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired		-	(2,462)
Payments for property, plant and equipment	16	(43)	(129)
Payments for intangibles assets	18	(870)	(602)
Net payments for client receivables		(8,909)	(42,933)
Net receipts/(payments) for equipment lease receivables		21,542	(38,101)
Net cash from/(used in) investing activities		11,720	(84,227)
Cash flows from financing activities			
Proceeds/(Payments) from issue of shares (net of transaction costs)	23	1,232	(40)
Proceeds from borrowings		2,321	134,614
Dividends paid, net of reinvestment	25	(5,168)	(6,562)
Repayment of borrowings		(18,515)	(47,943)
Repayment of lease liabilities		(521)	(581)
Net cash (used in)/from financing activities		(20,651)	79,488
Net increase in cash and cash equivalents		279	7,937
Cash and cash equivalents at the beginning of the financial year		52,707	44,770
Cash and cash equivalents at the end of the financial year	12	52,986	52,707

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

Note 1. General information

The financial statements cover Earlypay Ltd (the 'Company' or 'parent entity') as a consolidated entity consisting of Earlypay Ltd and the entities it controlled (collectively referred to as the 'Group') at the end of, or during, the financial year. The financial statements are presented in Australian dollars, which is Earlypay Ltd's functional and presentation currency.

Earlypay Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5 Miller Street,
North Sydney NSW 2060
Telephone: 1300 666 177
Facsimile: (02) 9267 4222
Internet: <https://www.earlypay.com.au/>

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The preliminary financial statements were authorised for issue, in accordance with a resolution of Directors, on 23 August 2023.

Note 2. Significant accounting policies

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

Basis of preparation

This Preliminary Final Report, including the Appendix 4E, does not include all the Notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2022 and any public announcements made by the Group during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

These financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries as at 30 June 2023 and the results of all subsidiaries for the year then ended. Earlypay Ltd and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Note 2. Significant accounting policies (continued)

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

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss. A list of controlled entities is contained in note 34 to the financial statement.

Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2023. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

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

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. The assumptions underlying the Group's expected credit loss model include, but are not limited to, probability of default, loss given default and exposure at default estimates for invoice finance and equipment finance receivables as well as forward-looking macro-economic conditions. Actual credit losses in future years may be higher or lower than estimated. Refer to note 27 for further information.

Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Refer to note 18 for further information.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. There is a degree of judgement required as to determine whether a trigger exists. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions. Refer to note 18 for further information.

Recovery of deferred tax assets

Deferred tax assets are recognised for temporary deductible differences and unused tax losses only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The Group assesses the extent to which deferred tax assets will be recoverable in the short term by comparing forecast taxable profits to existing deferred tax assets and unused tax losses.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to note 36 for further information.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Swap arrangement

In accounting for borrowings associated interest rate swaps, management have made a key accounting judgement in determining that the swap arrangement is closely related to the host instrument and therefore accounted for these together and not separately as required by Australian Accounting Standards.

Note 4. Restatement of comparatives

(i) Reclassification

During the year, the Group has made the following prior year reclassifications within the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income:

- Consolidated statement of profit or loss and other comprehensive income - Reclassification of \$89,000 from other expense to consultancy expenses and \$654,000 from legal expenses to consultancy expenses. Consultancy were restated from \$nil to \$743,000 and legal expenses were restated from \$1,671,000 to \$1,017,000. Other expenses were restated from \$2,357,000 to \$2,268,000 accounting for the two changes in legal expenses and consultancy. Total expenses remain unchanged as at 30 June 2022.
- Consolidated statement of financial position – Reclassification of \$591,000 from trade receivables (invoice finance) to goodwill and \$590,000 from equipment finance receivables to goodwill in relation to acquisition of Classic Funding Group due to an error that has been identified during the reporting year. The errors pertained to the maintenance fees payable report and timing difference in the clearing account which were inadvertently recorded against equipment finance receivables and trade receivables (invoice finance) during the acquisition. Goodwill was therefore adjusted to reflect proper allocation.

As a result of the reclassification and correction error each of the affected financial statement line items for the prior period are restated as follows:

Note 4. Restatement of comparatives (continued)

Statement of profit or loss and other comprehensive income

Extract	Consolidated		
	2022 \$'000 Reported	\$'000 Adjustment	2022 \$'000 Restated
Expenses			
Consultancy expense	-	(743)	(743)
Legal expense	(1,671)	654	(1,017)
Other expenses	(2,357)	89	(2,268)
Profit before income tax expense	15,290	-	15,290
Income tax expense	(2,067)	-	(2,067)
Profit after income tax benefit/(expense) for the year attributable to the owners of Earlypay Ltd	13,223	-	13,223
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year attributable to the owners of Earlypay Ltd	13,223	-	13,223
	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	4.70	-	4.70
Diluted earnings per share	4.66	-	4.66

Statement of financial position at the end of the earliest comparative period

Extract	Consolidated		
	2022 \$'000 Reported	\$'000 Adjustment	2022 \$'000 Restated
Assets			
Current assets			
Gross trade receivables (invoice finance)	270,455	(591)	269,864
Total current assets	365,592	(591)	365,001
Non-current assets			
Equipment finance receivables	93,130	(590)	92,540
Intangibles assets	29,924	1,181	31,105
Total non-current assets	127,238	591	127,829
Total assets	492,830	-	492,830
Net assets	85,095	-	85,095

Note 4. Restatement of comparatives (continued)

(ii) Presentation

The Group has previously presented trade receivables associated with its debtor finance activities on a gross basis. Specifically, it recognised (a) a trade receivable for the total receivable balance that had been assigned to it and that it would collect on (including both eligible and ineligible invoices); and (b) a trade payable reflecting the residual amount owing to the client. The Group has determined that a net presentation of trade receivables and payables, which represents the amount advanced and owing by its clients, is more appropriate. This presentation better reflects the economic and contractual nature of the lending activity, notwithstanding that the Group collects gross cash receipts on behalf of its clients. The Group will continue to disclose the gross components in the notes to the accounts.

Statement of financial position at the end of the earliest comparative period

	2022 \$'000 Reported*	Consolidated \$'000 Adjustment	2022 \$'000 Restated
Extract			
Assets			
Current assets			
Trade receivables – debtor finance	269,864	(108,300)	161,564
Total current assets	365,001	(108,300)	256,701
Total assets	492,830	(108,300)	384,530
Current liabilities			
Trade payables – debtor finance	108,300	(108,300)	-
Total current liabilities	256,809	(108,300)	148,509
Total liabilities	407,735	(108,300)	299,435
Net assets	85,095	-	85,095

* After application of the restatement in (i) above

Note 5. Operating segments

Identification of reportable operating 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 (typically up to 80%) against a client's invoices to help their business overcome the cash pressure of delivering goods or services in advance of payment from the debtor (typically 30 – 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.

Note 5. Operating segments (continued)

Intersegment transactions

There are no intersegment transactions.

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.

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.

Unallocated items

The following items 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.

Major customers

During the year ended 30 June 2023 approximately 2.68% (2022: 2.23%) of the Group's external revenue was derived from sales to the most significant client. The next most significant client accounts for 2.35% (2022: 1.50%) of external revenue. All revenue attributable to external customers was generated in Australia.

Operating segment information

	Invoice finance \$'000	Equipment finance \$'000	Unallocated / Corporate \$'000	Total \$'000
Consolidated - 2023				
Income				
Interest income	21,497	13,331	556	35,384
Interest expense	(11,080)	(7,889)	(298)	(19,267)
Net interest income	10,417	5,442	258	16,117
Admin and other fees	22,176	3,537	-	25,712
Net Income	32,593	8,979	258	41,829
Net Income	32,592	8,979	258	41,829
Operating expenses	(22,967)	(4,937)	(3,200)	(31,104)
Allowance for expected credit losses	(16,401)	(928)	-	(17,329)
Depreciation and amortisation expenses	(1,036)	(123)	(553)	(1,711)
Intangible impairment expense	-	-	(2,128)	(2,128)
Loss before income tax benefit	(7,812)	2,991	(5,623)	(10,443)
Income tax benefit				2,699
Loss after income tax benefit				(7,744)
Assets				
Segment assets	154,865	109,495	95,939	360,299
Total assets				360,299
Liabilities				
Segment liabilities	169,304	108,214	9,297	286,815
Total liabilities				286,815

Note 5. Operating segments (continued)

	Invoice finance \$'000	Equipment finance \$'000	Unallocated / Corporate \$'000	Total \$'000
Consolidated - 2022 - Restated*				
Income				
Interest Income	15,750	11,446	35	27,231
Interest expense	(4,328)	(4,912)	(502)	(9,742)
Net interest income	11,422	6,534	(467)	17,489
Admin and other fees	21,603	4,191	776	26,570
Net income	33,025	10,725	309	44,059
Net income	33,025	10,725	309	44,059
Operating expenses	(17,347)	(6,996)	(1,578)	(25,921)
Allowance for expected credit losses	(68)	(489)	-	(557)
Depreciation and amortisation expenses	(690)	(47)	(1,554)	(2,291)
(Loss)/profit before income tax expense	14,920	3,193	(2,823)	15,290
Income tax expense				(2,067)
Profit after income tax expense				13,223
Assets				
Segment assets	164,858	131,528	88,144	384,530
Total assets				384,530
Liabilities				
Segment liabilities	-	-	299,435	299,435
Total liabilities				299,435

* The Group has updated the comparative period segment format to align with the current period presentation
Refer to note 4 for detailed information on reclassification of comparatives

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 6. Revenue

	Consolidated 2022 Restated \$'000	2023 \$'000
Services		
Invoice finance – interest income	15,750	21,497
Invoice finance – origination fees and costs	673	703
Invoice finance – revenue from contracts with customers	20,930	21,473
	37,353	43,673
Equipment finance – interest income	11,446	13,331
Equipment finance – origination fees and costs	1,889	1,504
Equipment finance – revenue from contracts with customers	2,302	2,032
	15,637	16,867
Rebate from funding facility	776	-
Other – interest income	35	556
	811	556
Total revenue	53,801	61,096
Interest income	27,231	35,384
Other income	26,570	25,712
Total revenue	53,801	61,096

Accounting policy for revenue

The Group derives both interest income and fee income from its invoice finance and equipment finance activities. The Group recognises revenue from contracts with customers in accordance with AASB 15, except for revenue arising from financial instruments, which is recognised in accordance with AASB 9.

Revenue is recognised for key items as follows

(i) Interest income

Interest income is recognised using the effective interest method in accordance with AASB 9 Financial Instruments, based on estimated future cash receipts over the expected life of the financial asset. This method calculates the amortised cost of a financial asset and allocates the interest income over the relevant period using the effective interest rate.

The effective interest rate calculation does not consider expected credit losses.

Interest income for receivables that have objective evidence of credit impairment (i.e., stage 3 - see note 27) is recognised on a net basis.

(ii) Establishment fees and transaction costs

Fees that are an integral part of the loan (e.g., establishment fees) are included in the calculation of the effective interest rate and recognised using the effective interest method.

Transaction costs that are directly attributable to the origination of receivables (e.g., broker commissions) are also included in the calculation of the effective interest rate and recognised using the effective interest method.

(iii) Revenue from contracts with customers

Fee income (e.g., administration fees, drawdown fees etc) is recognised at the point in time when the performance obligation has been satisfied. It is recognised at the fee rate or transaction price specified in the facility agreement or at a price that the Group expects to be entitled, in exchange for providing the service to the customer.

Note 6. Revenue (continued)

In accordance with AASB 15, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised. Variable consideration (if any) will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur.

Fee income for receivables that have objective evidence of impairment, (i.e., stage 3 - see note 27), is not recognised as it is not probable that the Group will collect the consideration to which it is entitled.

Note 7. Interest expense

	Consolidated	
	2023	2022
	\$'000	\$'000
Interest expense	19,202	9,705
Interest expense on lease liabilities	65	37
	<u>19,267</u>	<u>9,742</u>

Accounting policy for interest expense

The Group's activities are funded by a combination of securitisation trust warehouse facilities, term facilities and cash held on the balance sheet. Interest expense is recognised as it accrues using the effective interest rate method.

Transaction costs directly attributable to the establishment of warehouse facilities and term facilities are initially capitalised and then recognised in interest expense over the expected life of the relevant facility.

Interest on lease liabilities is recognised in accordance with AASB 16 Leases.

Note 8. Credit impairment expense

	Consolidated	
	2023	2022
	\$'000	\$'000
Receivables written-off during the year as bad debts	12,021	1,737
Net movement in expected credit loss provision	5,308	(1,180)
	<u>17,329</u>	<u>557</u>

Refer to note 27 for additional information on the movement of the expected credit loss provision

Note 9. Expenses

	Consolidated	
	2023	2022
	\$'000	\$'000
(Loss)/profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Property, plant and equipment	109	52
Right-of-use assets	539	514
	<u>648</u>	<u>566</u>
<i>Amortisation</i>		
Intangibles	1,063	1,725
	<u>1,711</u>	<u>2,291</u>
Total depreciation and amortisation expenses		
	<u>1,711</u>	<u>2,291</u>
<i>Net foreign exchange (gain)/loss</i>		
Net foreign exchange (gain)/loss	(6)	8
<i>Net profit on disposal</i>		
Net profit on disposal of property, plant and equipment	-	(11)
<i>Leases</i>		
Short-term lease payments	520	581
<i>Superannuation expense</i>		
Employee superannuation expense	1,072	947
<i>Share-based payments expense</i>		
Share-based payments expense	69	243

Note 10. Income tax

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Income tax (benefit)/expense</i>		
Current tax	(59)	3,168
Deferred tax – origination and reversal of temporary differences	(2,640)	(1,101)
	<u>(2,699)</u>	<u>2,067</u>
Aggregate income tax (benefit)/expense		
	<u>(2,699)</u>	<u>2,067</u>
Deferred tax included in income tax expense/(benefit) comprises:		
Increase in deferred tax assets	(2,640)	(1,101)

Note 10. Income tax (continued)

	Consolidated 2023 \$'000	2022 \$'000
<i>Numerical reconciliation of income tax (benefit)/expense and tax at the statutory rate</i>		
(Loss)/profit before income tax benefit/(expense)	(10,443)	15,290
Tax at the statutory tax rate of 30%	(3,132)	4,587
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Sundry items	943	(397)
Tax losses	(318)	(894)
Adjustment recognised for prior periods	(192)	(1,229)
Income tax (benefit)/expense	<u>(2,699)</u>	<u>2,067</u>
Weighted average tax rate	25.84%	13.52%

	Consolidated 2023 \$'000	2022 \$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	2,004	894
Allowance for expected credit losses	2,831	1,239
Employee benefits	486	539
Accrued expenses	475	204
Other	180	506
Deferred tax asset	<u>6,022</u>	<u>3,382</u>
Movements:		
Opening balance	3,382	2,281
Credited to profit or loss	2,640	1,101
Closing balance	<u>6,022</u>	<u>3,382</u>

	Consolidated 2023 \$'000	2022 \$'000
<i>Income tax receivable</i>		
Income tax receivable	<u>3,016</u>	<u>-</u>

	Consolidated 2023 \$'000	2022 \$'000
<i>Provision for income tax</i>		
Provision for income tax	<u>-</u>	<u>1,331</u>

Note 10. Income tax (continued)

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

An income tax benefit will arise for the financial year where an income tax loss is incurred and, where permitted to do so, is carried-back against a qualifying prior period's tax payable to generate a refundable tax offset.

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

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

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

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

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

Note 11. Earnings per share

	Consolidated	
	2023	2022
	\$'000	\$'000
(Loss)/profit after income tax attributable to the owners of Earlypay Ltd	<u>(7,744)</u>	<u>13,223</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	289,169,901	281,141,241
Adjustments for calculation of diluted earnings per share:		
Performance rights on issue	<u>-</u>	<u>2,722,613</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>289,169,901</u>	<u>283,863,854</u>
	Cents	Cents
Basic earnings per share	(2.68)	4.70
Diluted earnings per share	(2.68)	4.66

At 30 June 2023, options and performance rights over ordinary shares were excluded from the calculation of the weighted average number of ordinary shares used in calculating diluted earnings per share due to being anti-dilutive, as the Group reported loss for the period.

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Note 12. Cash and cash equivalents

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank and in hand	45,240	45,563
Cash at bank – restricted cash*	<u>7,746</u>	<u>7,144</u>
	<u>52,986</u>	<u>52,707</u>

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

Accounting policy for cash and cash equivalents

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

Note 13. Trade receivables (invoice finance)

	Consolidated 2023 \$'000	Consolidated 2022 *Restated \$'000
<i>Client receivables</i>		
Trade receivables (invoice finance)	272,136	272,567
Less: Trade payables (invoice finance)	(109,707)	(108,300)
Net trade receivables (invoice finance)	162,429	164,267
Less: Allowance for expected credit losses (note 27)	(7,564)	(2,703)
Net client receivables	154,865	161,564

* Refer to note 4 for detailed information on restatement of comparatives.

Accounting policy for trade receivables (invoice finance)

The Group has recognised trade receivables in connection with its invoice finance activities, including debtor finance. Debtor finance involves lending to clients against eligible invoices from a client's debtors ledger. As part of the security for these facilities, the entire debtors ledger (both eligible and ineligible invoices) is typically assigned to, and collected by, the Group. Debtor finance receivables are stated as the net amount of funds to be received from collections and amounts payable to the client. This represents the amount advanced and owing by its debtor finance clients.

Trade receivables (invoice finance) are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. The initial fair value of receivables includes capitalised origination fees, net of capitalised transaction costs.

Note 14. Equipment finance receivables

	Consolidated 2023 \$'000	Consolidated 2022 *Restated \$'000
<i>Current assets</i>		
Equipment finance receivables	44,248	49,080
Less: Allowance for expected credit losses (note 27)	(684)	(366)
Add: Unamortised loan brokerage fees	965	827
Less: Unamortised loan transaction fees	(438)	(858)
Less: Unamortised interest receivable	(5,633)	(10,285)
	38,458	38,398
<i>Non-current assets</i>		
Equipment finance receivables	87,162	110,414
Less: Allowance for expected credit losses (note 27)	(1,190)	(1,061)
Add: Unamortised loan brokerage fees	2,348	2,413
Less: Unamortised loan transaction fees	(3,173)	(3,250)
Less: Unamortised interest receivable	(14,110)	(15,976)
	71,037	92,540
	109,495	130,938

Note 14. Equipment finance receivables (continued)

* Refer to note 4 for detailed information on reclassification of comparatives.

Accounting policy for equipment finance receivables

The Group has recognised loans secured against equipment (previously referred to as finance leases). Loans are typically structured as chattel mortgages.

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

Note 15. Other assets

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Current assets</i>		
Prepayments	2,694	2,705
Accrued revenue	496	819
Deposits	401	402
Advances	16	106
	<u>3,607</u>	<u>4,032</u>

Note 16. Property, plant and equipment

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	563	553
Less: Accumulated depreciation	(535)	(522)
	<u>28</u>	<u>31</u>
Motor vehicles	56	76
Less: Accumulated depreciation	(16)	(8)
	<u>40</u>	<u>68</u>
Software and office equipment	2,432	2,385
Less: Accumulated depreciation	(2,296)	(2,216)
	<u>136</u>	<u>169</u>
Low-value pool	20	21
Less: Accumulated depreciation	(18)	(17)
	<u>2</u>	<u>4</u>
	<u>206</u>	<u>272</u>

Note 16. Property, plant and equipment (continued)

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Motor vehicles \$'000	Software and office equipment \$'000	Low-value pool \$'000	Total \$'000
Balance at 1 July 2021	40	24	144	5	213
Additions	15	76	46	1	138
Disposals	-	(27)	-	-	(27)
Depreciation expense	(24)	(5)	(21)	(2)	(52)
Balance at 30 June 2022	31	68	169	4	272
Additions	10	-	47	-	57
Disposals	-	(14)	-	-	(14)
Depreciation expense	(13)	(14)	(80)	(2)	(109)
Balance at 30 June 2023	28	40	136	2	206

Accounting policy for property, plant and equipment

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

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

Leasehold improvements	20% - 40% (Straight-line)
Motor vehicles under lease	20% - 25% (Straight-line)
Software and office equipment	30% - 40% (Straight-line and diminishing value)
Low-value pool	18.75% - 37.5% (Diminishing value)

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

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

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

Note 17. Right-of-use assets

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	1,974	2,717
Less: Accumulated depreciation	(656)	(2,187)
	<u>1,318</u>	<u>530</u>

Additions to the right-of-use assets during the year were \$1,375,000 (2022: \$718,000) and depreciation during the year was \$539,000 (2022: \$514,000).

The Group leases land and buildings for its offices under agreements of between four to six years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The Group leases office equipment under agreements of less than 1 year. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

For other AASB 16 and lease related disclosures refer to the following:

- note 7 for interest on lease liabilities and note 9 for other lease payments;
- note 27 for maturity analysis of lease liabilities; and
- consolidated statement of cash flow for repayment of lease liabilities.

Accounting policy for right-of-use assets

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

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

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

Note 18. Intangibles

	Consolidated 2023 \$'000	2022 *Restated \$'000
<i>Non-current assets</i>		
Goodwill - at cost	27,775	27,775
Customer relationships - at cost	8,550	8,550
Less: Accumulated amortisation	(8,550)	(8,050)
	-	500
Software - at cost	3,226	2,356
Less: Accumulated amortisation	(2,217)	(1,654)
	1,009	702
Trademark - at cost	2,128	2,128
Less: Accumulated impairment	(2,128)	-
	28,784	31,105

* Refer to note 4 for detailed information on reclassification of comparatives.

Reconciliations

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

Consolidated	Goodwill \$'000	Customer relationships \$'000	Software \$'000	Trademark \$'000	Total \$'000
Balance at 1 July 2021	27,775*	2,000	325	2,128	32,228*
Capitalised during the year	-	-	602	-	602
Amortisation expense	-	(1,500)	(225)	-	(1,725)
Balance at 30 June 2022	27,775*	500	702	2,128	31,105
Additions	-	-	870	-	870
Amortisation expense	-	(500)	(563)	-	(1,063)
Intangible impairment expense	-	-	-	(2,128)	(2,128)
Balance at 30 June 2023	27,775	-	1,009	-	28,784

* Restated - refer to note 4 for detailed information on reclassification of comparatives.

Note 18. Intangibles (continued)

Impairment testing

(a) Impairment tests for goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units:

	2023 \$'000	Consolidated 2022 Restated* \$'000
Invoice finance	19,443	20,932
Equipment finance	8,332	8,971
	<u>27,775</u>	<u>29,903</u>

* Restated - refer to note 4 for detailed information on reclassification of comparatives.

Trademarks were previously allocated to these cash-generating units. Trademarks have been considered separately for impairment as at the 30 June 2023 (refer below).

The recoverable amount of the Group's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 1-year projection period approved by management and extrapolated for a further 4 years using a steady rate, together with a terminal value. Perpetual growth method is used to calculate a terminal value, which assumes the final year growth rate will continue indefinitely.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for all divisions:

- 12.0% (2022: 10.0%) discount rate;
- 2.5% (2022: 2.5%) per annum projected operating profit growth rate; and
- 2.5% (2022: 2.5%) per annum terminal operating profit growth rate.

The discount rate of 12.0% reflects management's estimate of the time value of money and the Group's weighted average cost of capital adjusted for the Group, the risk-free rate, and the volatility of the share price relative to market movements.

(b) Impairment charge

Intangible assets with indefinite lives have been tested for impairment at 30 June 2023. Trademarks in relation to Cashflow Finance Australia and Skippr have been assessed as having no recoverable value as the brands and trademarks are no longer being utilised by the Group.

No indicators of impairment were identified for finite life intangible assets.

(c) Impact of possible changes in key assumptions

If there was no budgeted growth rate, the Group still would not have recognised an impairment of goodwill. If the estimated cost of capital used in determining the discount rate for goodwill had been 20%, the Group still would not have recognised an impairment of goodwill.

Note 18. Intangibles (continued)

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Trademarks

Trademarks recognised by the Group have an indefinite useful life and are not amortised.

Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in this note.

Customer relationships

Customer relationships is carried at fair value at the date of acquisition less accumulated amortisation. The directors believe the useful life of customer relationships acquired for Cashflow Advantage, 180 Group, 1stCash were 2 years and Classic Funding Group was 3 years.

Software

Software in relation to IT development is carried at cost less accumulated amortisation.

Software in relation to IT development is reported at cost value less GST and is amortised over its estimated useful economic life. The useful life of software varies depending on what the assets are and ranges from 18 months, being 66.67% amortisation, through to 5 years, being 20% amortisation.

Note 19. Trade and other payables

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables - other	4,251	2,649
	<u>4,251</u>	<u>2,649</u>

Accounting policy for trade and other payables

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

Note 20. Borrowings

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Current liabilities</i>		
Receivables financing facility – bank	135,874	140,945
Insurance premium funding	1,474	1,534
Securitised debtor finance warehouse facility – A note and overdraft*	(2)	(5)
	<u>137,346</u>	<u>142,474</u>
<i>Non-current liabilities</i>		
Securitised equipment finance warehouse facility - A note	71,365	74,414
Securitised equipment finance warehouse facility - B note	19,769	19,506
Securitised trade finance warehouse facility - A note	18,439	19,124
Securitised trade finance warehouse facility - B note	3,328	2,642
Receivables equipment financing - non-bank	9,660	15,932
Corporate bond no. 2	19,082	18,966
	<u>141,643</u>	<u>150,584</u>
	<u>278,989</u>	<u>293,058</u>

Refer to note 27 for further information on financial instruments.

* The Securitised debtor finance warehouse facility is a legacy facility that is in the process of being terminated and the associated SPV wound up.

Note 20. Borrowings (continued)

Financing arrangements

Terms and access available at the reporting date:

Facility	Average interest rate %	Maturity	Total facility \$'000	2023 (used) \$'000	2023 (unused) \$'000	2022 (used) \$'000	2022 (unused) \$'000
<i>Secured</i>							
Securitised equipment finance warehouse facility – A note	5.21%	June 2027	120,000	71,365	48,636	74,414	45,586
Securitised equipment finance warehouse facility – B note	5.80%	May 2029	20,000	19,769	231	19,506	494
Securitised trade finance warehouse facility – A note	9.23%	April 2026	22,500	18,439	4,061	19,124	3,376
Securitised trade finance warehouse facility – B note	11.23%	April 2026	3,750	3,328	422	2,642	1,108
Receivables equipment financing facility – non-bank	8.42%	August 2027	25,000	9,660	15,340	15,932	9,068
Receivables financing facility – bank	5.38%	April 2024	200,000	135,874	64,125	140,945	59,055
Securitised debtor finance warehouse facility – A and overdraft	-		-	(2)	-	(5)	-
Total secured			391,250	258,433	132,815	272,558	118,687
<i>Unsecured</i>							
Insurance premium funding	2.05%	March 2024	-	1,474	-	1,534	-
Corporate bond no. 2	10.81%	December 2025	-	19,082	-	18,966	-
Total unsecured			-	20,556	-	20,500	-
Total borrowings			391,250	278,989	132,815	293,058	118,687

Accounting policy for borrowings

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

Note 21. Lease liabilities

	Consolidated 2023 \$'000	Consolidated 2022 \$'000
<i>Current liabilities</i>		
Lease liability	363	452
<i>Non-current liabilities</i>		
Lease liability	1,006	110
	<u>1,369</u>	<u>562</u>

Refer to note 27 for maturity analysis of lease liabilities.

Non-cancellable leases

The lease liabilities comprise of the following leases:

The property lease at Brisbane expires on 31 October 2023. It is a 5 year lease plus 2 year extension with rent payable monthly in advance. Rental provisions with the lease agreement requires the minimum lease payments to increase by 3.5% per annum.

The property lease at North Sydney expires on 31 October 2027. It is a 5 year lease with rent payable monthly in advance. Rental provisions with the lease agreement requires the minimum lease payments to increase by 3.5% per annum.

The property lease at Melbourne expires on 29 April 2024. It is a 3 year lease with rent repayable monthly in advance. Rental provisions with the lease agreement requires the minimum lease payments to increase by 3.0% per annum.

Accounting policy for lease liabilities

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

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

Note 22. Employee benefits

	Consolidated 2023 \$'000	Consolidated 2022 \$'000
<i>Current liabilities</i>		
Employee benefits	1,043	1,251
<i>Non-current liabilities</i>		
Employee benefits	281	232
	<u>1,324</u>	<u>1,483</u>

Note 22. Employee benefits (continued)

Accounting policy for employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

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

Note 23. Issued capital

	2023 Shares	Consolidated 2022 Shares	2023 \$'000	2022 \$'000
Ordinary shares - fully paid	289,928,690	287,131,134	74,702	73,470

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2021	232,948,505		52,773
Ordinary shares from placement	1 July 2021	44,897,846	\$0.420	18,856
Share issue from dividend reinvestment plan	7 October 2021	1,821,485	\$0.423	770
Exercise of options*	2 December 2021	1,800,000	\$0.000	-
Exercise of options*	9 February 2022	2,050,000	\$0.000	-
Share issue from dividend reinvestment plan	7 April 2022	561,102	\$0.444	249
Ordinary shares from acquisition of Skippr invoice finance	14 June 2022	3,052,196	\$0.508	1,551
Less: share issue costs				(729)
Balance	30 June 2022	287,131,134		73,470
Share issue from dividend reinvestment plan	7 October 2022	2,797,556	\$0.443	1,238
Less: share issue costs				(6)
Balance	30 June 2023	289,928,690		74,702

* *Exercise of options* - these shares were issued as part of a zero cash arrangement whereby (a) the exercise of 1,800,000 options on 2 December 2021 and 2,050,000 options on 9 February 2022 by Daniel Riley for consideration of \$1,135,750, were offset by (b) the buyback of 6,150,000 options by the Company from Daniel Riley, at market price less the exercise price, for consideration of \$1,135,750.

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Note 23. Issued capital (continued)

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group and the parent entity's objective when managing capital is to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's debt and capital includes ordinary share capital, corporate bonds, and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There are no externally imposed capital requirements. This strategy is to ensure that the Group's gearing ratio remains under 90%. The gearing ratios for the year ended 30 June 2023 and 30 June 2022 are as follows:

	Consolidated	
	2023	2022
	\$'000	\$'000
Gearing ratios		
Total borrowings	278,989	293,058
Less: Cash and cash equivalents	(52,986)	(52,707)
Net debt	226,003	240,351
Total equity	73,484	85,095
Total capital	299,486	325,446
Gearing ratio	75.46%	73.85%

The capital risk management policy remains unchanged from the 30 June 2022 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 24. Reserves

	Consolidated	
	2023	2022
	\$'000	\$'000
General reserve	441	441
Share-based payments reserve	312	243
	753	684

General reserve

The general reserve is made up of historical profits transferred from retained profits that are preserved for future dividend payments.

Note 24. Reserves (continued)

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration.

Movements in reserves

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

Consolidated	General \$'000	Share-based payments \$'000	Total \$'000
Balance at 1 July 2021	441	-	441
Share-based payments	-	243	243
Balance at 30 June 2022	441	243	684
Share-based payments	-	69	69
Balance at 30 June 2023	441	312	753

Note 25. Dividends

Dividends

No dividends have been declared for the year ended 30 June 2023.

Dividends paid during the financial year were as follows:

	Consolidated	
	2023 \$'000	2022 \$'000
Final dividend for the year ended 30 June 2022 of 1.8 cents (2021: 1.3 cents) per ordinary share	5,168	3,612
Interim dividend for the year ended 30 June 2022 of 1.4 cents per ordinary share	-	3,969
	5,168	7,581

Franking credits

	Consolidated	
	2023 \$'000	2022 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	6,975	7,176

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Accounting policy for dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Note 26. Cash flow information

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

	Consolidated	
	2023 \$'000	2022 \$'000
(Loss)/profit after income tax benefit/(expense) for the year	(7,743)	13,223
Adjustments for:		
Depreciation and amortisation	530	2,309
Change in operating assets and liabilities:		
Decrease/(increase) in trade receivables (invoice finance)	6	(6)
Increase in income tax refund due	(3,016)	-
Increase in deferred tax assets	(2,640)	(686)
Decrease / (increase) in other current assets	331	(726)
Increase in intangible impairment	2,128	
Increase/(decrease) in trade and other payables	18,941	(986)
Increase in borrowings	1,474	122
Decrease in provision for income tax	(1,331)	(836)
Increase in employee benefits	-	424
Increase/(decrease) in other liabilities	530	(162)
Net cash from operating activities	<u>9,210</u>	<u>12,676</u>

Non-cash investing and financing activities

	Consolidated	
	2023 \$'000	2022 \$'000
Additions to the right-of-use assets (note 17)	1,375	718
Shares issued on acquisition (note 23)	-	1,551
Dividend reinvestment plan (note 23)	1,238	1,019
	<u>2,613</u>	<u>3,288</u>

Note 26. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Securitised debtor finance warehouse facility – A note and overdraft \$'000	Securitised debtor finance warehouse facility – A note and overdraft \$'000	Securitised debtor finance warehouse facility – B note \$'000	Securitised equipment finance warehouse facility – A note \$'000	Securitised equipment finance warehouse facility – B note \$'000	Securitised trade finance warehouse facility – A note \$'000	Securitised trade finance warehouse facility – B note \$'000
Balance at 1 July 2021	2,365	3,500	2,601	54,065	13,364	-	-
Net cash (used in)/from financing activities	(2,370)	(3,500)	(2,601)	20,349	6,142	19,124	2,642
Other non-cash changes	-	-	-	-	-	-	-
Balance at 30 June 2022	(5)	-	-	74,414	19,506	19,124	2,642
Net cash (used in)/from financing activities	3	-	-	(3,050)	-	(768)	680
Other non-cash changes	-	-	-	1	263	83	6
Balance at 30 June 2023	(2)	-	-	71,365	19,769	18,439	3,328

Consolidated	Receivables equipment financing facility – non-bank \$'000	Corporate bond no. 2 \$'000	Corporate bond no. 1 \$'000	Receivables financing facility - non-bank \$'000	Receivables financing facility - bank \$'000	Insurance premium funding \$'000	Lease liabilities \$'000	Total
Balance at 1 July 2021	-	-	19,877	19,472	89,520	1,500	1,143	207,407
Net cash from/(used in) financing activities	15,932	18,966	(20,000)	(19,472)	51,425	34	(581)	86,090
Other non-cash changes	-	-	123	-	-	-	-	123
Balance at 30 June 2022	15,932	18,966	-	-	140,945	1,534	562	293,620
Net cash from financing activities	(6,454)	-	-	-	(5,070)	(1,534)	(521)	(16,714)
Other non-cash changes	182	116	-	-	(1)	1,474	1,328	352
Balance at 30 June 2023	9,660	19,082	-	-	135,874	1,474	1,369	280,358

Note 27. Financial instruments

Financial risk management objectives

The Audit and Risk Committee has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group which includes credit risk, market risk and liquidity risk. The committee monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to financing risk and interest rate risk.

The Group's overall risk management strategy is to ensure that financial targets are met, while minimising potential adverse effects on financial performance relating to current and future cash flow requirements

The Group's financial instruments consist mainly of deposits with banks, trade receivables, equipment finance receivables borrowings and other payables.

The total for each category of financial instruments are as follows:

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Financial Assets</i>		
Cash and cash equivalent	52,986	52,707
Trade and other receivables	154,865	161,564
Equipment finance receivables	109,495	130,938
Other current assets	3,607	4,032
	<u>320,953</u>	<u>349,241</u>
<i>Financial liabilities</i>		
Trade and other payables	4,251	2,649
Borrowings - variable	186,381	197,604
Borrowings - fixed	92,608	95,454
Lease liabilities	1,369	562
	<u>284,609</u>	<u>296,269</u>

The above financial instruments are all held at amortised cost.

Credit risk

Credit risk arises predominantly from receivables from customers and also from cash and cash equivalents, and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'AA' are accepted. If customers are independently rated, these ratings are used. If there is no independent rating for customers, the Group's risk controls assess the credit quality of the customer, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group. The compliance with credit limits by clients is regularly monitored by line management.

Note 27. Financial instruments (continued)

The maximum exposure to credit risk at the reporting date, excluding any amounts recoverable under the Group's credit insurance (which is not able to be reliably estimated) is the carrying amount of the financial assets summarised in the following table. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparties default rates.

Earlypay's credit risk policies specify key credit underwriting and ongoing credit management requirements. Key features of the Group's credit risk management include:

- specific eligibility criteria for invoice finance and equipment finance facilities;
- defined credit underwriting process and delegated lending authorities;
- take-on verification of new debtor finance client ledgers (typically 50% of ledger);
- ongoing verification of new debtor finance batch purchases (typically at least 20 – 30%);
- dedicated collections team follow-up overdue invoices;
- dedicated allocations team reconcile cash receipts to individual invoices;
- dedicated risk management oversight function; and
- trade credit insurance policies in place to cover a material proportion of outstanding debtor finance invoices.

	Consolidated	
	2023	2022
	\$'000	\$'000
<i>Trade and equipment finance receivables</i>		
AAA Federal government departments and instrumentalities	1,972	1,507
Counterparties without external credit rating	262,389	292,177
	<u>264,361</u>	<u>293,684</u>
<i>Cash at bank and short-term bank deposits</i>		
AA-	52,986	52,707
	<u>52,986</u>	<u>52,707</u>

Allowance for expected credit loss ("ECL")

The Group establishes an allowance for loan impairment that represents its estimate of expected future losses for its trade receivables (invoice finance) and equipment finance receivables. Receivables and portfolio performance is subject to ongoing assessment and monitoring by the Group to ensure that the allowance for expected credit losses remains adequate.

Impairment of trade receivables (invoice finance)

	Consolidated	
	2023	2022
	\$'000	\$'000
Opening balance	2,703	3,821
Increase from origination and changes in expected cash flows	16,400	106
Receivables written-off during the year as uncollectable	(11,539)	(1,224)
Closing balance	<u>7,564</u>	<u>2,703</u>

Note 27. Financial instruments (continued)

Credit risk profile of trade receivables (invoice finance)

2023	Expected credit loss rate %	Gross receivables amount \$'000	Eligible invoices \$'000	Allowance for ECL \$'000
<i>Stage 1/2</i>				
Not overdue	0.5%	126,499	118,866	645
Less than 30 days overdue	0.7%	85,951	82,920	598
30 - 60 days overdue	2.4%	17,108	16,712	413
60 - 90 days overdue	6.1%	9,647	3,536	590
Over 90 days overdue	-	12,699	-	-
		<u>251,904</u>	<u>222,034</u>	<u>2,246</u>
<i>Stage 3</i>				
Credit impaired	26.3%	20,232	-	5,318
		<u>20,232</u>	<u>-</u>	<u>5,318</u>
		<u>272,136</u>	<u>222,034</u>	<u>7,564</u>

2022	Expected credit loss rate %	Gross receivables amount \$'000	Eligible invoices \$'000	Allowance for ECL \$'000
<i>Stage 1/2</i>				
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
Over 90 days overdue	-	18,941	-	-
		<u>262,963</u>	<u>228,795</u>	<u>485</u>
<i>Stage 3</i>				
Credit impaired	23.1%	9,604	-	2,218
		<u>9,604</u>	<u>-</u>	<u>2,218</u>
		<u>272,567</u>	<u>228,795</u>	<u>2,703</u>

Impairment of equipment finance receivables

	Consolidated	
	2023 \$'000	2022 \$'000
Opening balance	1,427	1,490
Increase from origination and changes in expected cash flows	929	450
Receivables written-off during the year as uncollectable	(482)	(513)
Closing balance	<u>1,874</u>	<u>1,427</u>

Note 27. Financial instruments (continued)

Credit risk profile of equipment finance receivables

Consolidated	Expected credit loss rate		Carrying amount		Allowance for ECL	
	2023 %	2022 %	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
<i>Stage 1/2</i>						
Not overdue	0.9%	0.5%	128,953	157,645	1,214	837
Less than 30 days overdue	1.6%	1.7%	35	57	1	1
30 - 60 days overdue	3.2%	9.3%	16	12	1	1
60 - 90 days overdue	6.3%	16.6%	10	4	1	1
Over 90 days overdue	20.0%	27.0%	209	34	42	9
			<u>129,223</u>	<u>157,752</u>	<u>1,259</u>	<u>849</u>
<i>Stage 3</i>						
Credit impaired	28.2%	33.2%	2,187	1,742	615	578
			<u>131,410</u>	<u>159,494</u>	<u>1,874</u>	<u>1,427</u>

Measurement of expected credit loss

The Group's ECL model incorporates consideration of:

- the probability of default ("PD") – the likelihood that a facility will default over a given time frame;
- the loss given default ("LGD") – the expected credit loss in the event of default; and
- the exposure at default ("EAD") – the expected outstanding balance of the receivable at the time of default.

A three-stage approach is utilised to measuring ECL as follows:

Performing (Stage 1)	Facilities that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month expected credit losses are recognised.
Increasing risk (Stage 2)	Increasing risk - facilities that have experienced a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.
Credit impaired (Stage 3)	Impaired - facilities that have objective evidence of impairment following a client defaulting on their contractual obligations. Expected credit loss is assessed on an individual basis by comparing the collateral to the outstanding balance of the facility.

Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset. Where an asset is expected to mature in 12 months or less, the 12-month ECL and the lifetime ECL have the same effective meaning.

Trade receivables (invoice finance)

For trade receivables, ECL is calculated on eligible invoices under a client facility. Eligible invoices are invoices that are not beyond their recourse period (typically 90 days overdue); are expected to be fully collectable; and do not represent an excessive concentration under the facility. Earlypay only provides funding for eligible invoices (although retains security over ineligible invoices).

Definition of a default

Key to the determination of significant increases in credit risk (and to the determination of ECLs) is the definition of default. The Group's definition of default for this purpose is:

- a counterparty defaults on a payment due under a facility agreement and that payment is more than 120 days overdue, and
- the collateral that secures, all or in part, the loan agreement has been sold or is otherwise not available for sale and the proceeds have not been paid to the lending company; or
- a counterparty commits an event of default under the terms and conditions of the facility agreement, which leads Earlypay to believe that the borrower's ability to meet its credit obligations to the lending company is in doubt.

Note 27. Financial instruments (continued)

Credit impairment

Financial assets are regarded as credit impaired when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset. Indicators that a financial asset is credit impaired include observable data about the following:

- significant financial difficulty of the borrower;
- the borrower is in breach of the facility agreement or other transaction document;
- the Group, for economic or contractual reasons relating to the borrower's financial difficulty, has granted concessions to the borrower that it would not otherwise consider;
- a borrower has, or it is becoming probable that a borrower will, enter administration, bankruptcy or other financial reorganisation; or
- the borrower is in hardship.

Forward-looking information

In addition to considering historical experience based on a 'through-the-cycle' view of expected credit losses, Earlypay also incorporates forward-looking information in determining ECL factors. In particular, based on the Group's judgement of forward-looking macroeconomic conditions, ECL factors may be adjusted to reflect point-in-time expectations. The following macroeconomic factors are considered:

- expected Gross Domestic Product growth;
- the level of the RBA cash rate;
- the level of inflation (CPI); and
- the level of Insolvencies.

Market risk

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Group's main interest rate risk arises from its receivables and borrowings.

Interest rates on the Group's invoice finance receivables are linked to a discretionary variable rate set by the Group. Interest rates on the Group's equipment finance receivables are fixed at inception of each client facility. Therefore, the Group ensures it has a balanced mix of variable rate borrowings and fixed rate borrowings to manage its interest rate exposure.

All of the Group's borrowings are on floating rate basis, except for the Securitised Equipment Finance Warehouse facility. The A note of the facility (held by the senior lender) is hedged on an ongoing basis via an interest rate swap with the senior lender. The interest rate swap converts the variable rate of the facility to a fixed rate. The B note of that facility has a fixed interest rate.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the interest rate that management considers to be reasonably possible. These sensitivities assume that the movement in interest rate is independent of other variables.

	Consolidated	
	2023	2022
	\$'000	Restated* \$'000
Sensitivity Analysis		
Financial Assets		
Cash and cash equivalents	52,986	52,707
Net invoice finance receivables – variable	154,865	161,564
Financial liabilities		
Borrowings – variable	(186,381)	(197,604)
Net	<u>21,470</u>	<u>16,667</u>

Note 27. Financial instruments (continued)

+/- 2% in interest rate

Equity	+/- 301	+/- 233
Profit after tax	+/- 301	+/- 233

* The Group has refined its interest rate sensitivity calculation methodology. The prior year has been restated to reflect the current year methodology.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2023	Weighted average interest rate %	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Carrying value \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	-	4,251	-	-	4,251
<i>Interest-bearing</i>					
Borrowings	6.46%	137,348	141,640	-	278,988
Lease liability	5.43%	363	1,006	-	1,369
Total non-derivatives		141,962	142,646	-	284,608

Consolidated - 2022 Restated*	Weighted average interest rate %	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Carrying value \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade payables	-	2,649	-	-	2,649
<i>Interest-bearing</i>					
Borrowings	4.04%	142,474	150,584	-	293,058
Lease liability	2.93%	452	110	-	562
Total non-derivatives		145,575	150,694	-	296,269

* Trade payables restated based on the voluntary change in accounting policy detailed in note 2.

Note 28. Key management personnel disclosures

Compensation

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

	Consolidated 2023 \$	Consolidated 2022 Restated* \$
Short-term employee benefits **	2,530,625	1,631,669
Post-employment benefits	127,557	115,416
Share-based payments	91,795	132,576
	<u>2,749,977</u>	<u>1,879,661</u>

* Restated to correct error in prior year disclosure.

** Includes one-off amounts in relation to compensation of outgoing key management personnel.

The expense recognised in relation to the share-based payment transactions was recognised within employee benefits expense within profit or loss were as follows:

	Consolidated 2023 \$'000	Consolidated 2022 \$'000
Rights granted to employees under the rights plan	<u>69</u>	<u>243</u>

Note 29. Remuneration of auditors

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

	Consolidated 2023 \$	Consolidated 2022 Restated* \$
<i>Audit services - Pitcher Partners</i>		
Audit or review of the financial statements	<u>300,000</u>	<u>274,162</u>
<i>Other services - Pitcher Partners</i>		
Other assurance and agreed upon procedures	15,000	23,000
Tax advisory	<u>32,915</u>	<u>35,155</u>
	<u>347,915</u>	<u>332,317</u>

* Restated based on additional fees agreed and paid post 30 June 2022

Note 30. Contingent liabilities

There are 3 rental guarantees in total of \$389,038 relating to the properties at Miller Street North Sydney, Queen Street Brisbane and St Kilda Road Melbourne. The guarantee amount is payable if lease terms regarding the property are broken.

An Earlypay subsidiary, 1stCash Pty Ltd has been joined in litigation against the receivers of a prior 1stCash client. The Commonwealth is suing the receivers in relation to approximately \$631,000 in government-funded employment entitlements, it claims were incorrectly paid to former employees. Earlypay acquired 1stCash Pty Ltd from Thorn Group in 2018 and the receivers are relying on a deed of indemnity entered into prior to the acquisition. The client account in question was not part of the acquisition and Earlypay does not believe it has any liability associated with this matter.

Note 31. Commitments

Consolidated	
2023	2022
\$'000	\$'000

Capital commitments

Committed at the reporting date but not recognised as liabilities, payable:

Property, plant and equipment

Intangible assets

-	-
-	-

Note 32. Related party transactions

Parent entity

Earlypay Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the Directors' report.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 33. Parent entity information

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

Statement of profit or loss and other comprehensive income

Parent	
2023	2022
\$'000	\$'000

(Loss)/profit after income tax

(3,327)	10,138
---------	--------

Other comprehensive income for the year, net of tax

-	-
---	---

Total comprehensive income

(3,327)	10,138
---------	--------

Note 33. Parent entity information (continued)

Statement of financial position

	Parent	
	2023 \$'000	2022 \$'000
Total current assets	17,613	24,833
Total non-current assets	189,173	197,080
Total assets	206,786	221,913
Total current liabilities	133,462	141,440
Total non-current liabilities	29,818	34,941
Total liabilities	163,280	176,381
Net assets	43,506	45,532
Equity		
Issued capital	74,702	73,470
Share-based payments reserve	312	243
Accumulated losses	(31,508)	(28,181)
Total equity	43,506	45,532

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

Other than guarantees detailed in note 35, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2023 and 30 June 2022.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

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

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2023 %	2022 %
Subsidiaries			
CMLPayroll Pty Limited	Australia	100%	100%
LesterPlus Pty Limited	Australia	100%	100%
Cashflow Finance Australia Pty Limited	Australia	100%	100%
Cashflow Advantage Pty Limited	Australia	100%	100%
The Invoice Exchange Pty Ltd	Australia	100%	100%
Earlypay EST Pty Ltd	Australia	100%	100%
1st Cash Pty Limited	Australia	100%	100%
180 Group Pty Limited	Australia	100%	100%
Wholly-owned entity:			
180 Capital Funding Pty Limited	Australia		
Classic Funding Group Pty Ltd	Australia	100%	100%
Wholly-owned entities:			
Classic Cash Flow Solutions Pty Ltd	Australia		
Classic Clean Energy Finance Pty Ltd	Australia		
Classic Finance Pty Ltd	Australia		
The Leasing Centre Pty Ltd	Australia		
CF Management Services Pty Ltd	Australia		
Zenith Management Services Group Pty Limited*	Australia	100%	100%
Lester Payroll Services Pty Limited*	Australia	100%	100%
Lester Associates Good Migration Pty Limited*	Australia	100%	100%
Lester Associates Business Services Pty Limited*	Australia	100%	100%

* In the process of voluntary deregistered as at 30 June 2023

Note 35. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Earlypay Ltd
CML Payroll Pty Ltd
Cashflow Finance Australia Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Earlypay Ltd, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2023 \$'000	2022 \$'000
Statement of profit or loss and other comprehensive income		
Revenue	(16,133)	19,949
(Loss)/profit before income tax benefit/(expense)	(16,133)	19,949
Income tax benefit/(expense)	5,511	(570)
(Loss)/profit after income tax benefit/(expense)	(10,622)	19,379
Other comprehensive income for the year, net of tax	-	-
Total comprehensive (loss)/income for the year	<u>(10,622)</u>	<u>19,379</u>
Equity - (accumulated losses)/retained profits	2023 \$'000	2022 \$'000
(Accumulated losses)/retained profits at the beginning of the financial year	1,889	(9,909)
(Loss)/profit after income tax benefit/(expense)	(10,622)	19,379
Dividends paid	-	(7,581)
(Accumulated losses)/retained profits at the end of the financial year	<u>(8,733)</u>	<u>1,889</u>

Note 35. Deed of cross guarantee (continued)

	2023 \$'000	2022 \$'000
Statement of financial position		
Current assets		
Cash and cash equivalents	35,846	26,669
Trade receivables (invoice finance)	256,433	268,802
Income tax receivable	6,088	1,982
Other assets	16,477	18,853
	<u>314,844</u>	<u>316,306</u>
Non-current assets		
Property, plant and equipment	161	197
Intangibles assets	28,702	29,191
Deferred tax asset	5,699	2,643
	<u>34,562</u>	<u>32,031</u>
Total assets	<u>349,406</u>	<u>348,337</u>
Current liabilities		
Trade and other payables	113,019	92,842
Borrowings	137,348	142,479
Lease liabilities	363	452
Employee benefits	1,043	1,029
Other liabilities	882	298
	<u>252,655</u>	<u>237,100</u>
Non-current liabilities		
Borrowings	28,742	34,898
Lease liabilities	1,006	110
Employee benefits	281	186
	<u>30,029</u>	<u>35,194</u>
Total liabilities	<u>282,684</u>	<u>272,294</u>
Net assets	<u>66,722</u>	<u>76,043</u>
Equity		
Issued capital	74,702	73,470
Reserves	753	684
(Accumulated losses)/retained profits	(8,733)	1,889
Total equity	<u>66,722</u>	<u>76,043</u>

Note 36. Share-based payments

Options

There were no options granted, exercised or outstanding during the year ended 30 June 2023.

Set out below is the summary of options granted to Mr. Daniel Riley for the year ended 30 June 2022:

2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised*	Expired/ forfeited/ bought back*	Balance at the end of the year
17/03/2017	09/03/2022	\$0.27	10,000,000	-	(3,850,000)	(6,150,000)	-
			<u>10,000,000</u>	<u>-</u>	<u>(3,850,000)</u>	<u>(6,150,000)</u>	<u>-</u>

Note 36. Share-based payments (continued)

- * These options were exercised and cancelled as part of a zero cash arrangement whereby (a) the exercise of 3,850,000 options for consideration of \$1,135,750, were offset by (b) the buyback of 6,150,000 options by the Company, at market price less the exercise price, for consideration of \$1,135,750.

The weighted average share price during the year ended 30 June 2022 was \$0.48.

Performance rights

The Group maintains a performance rights program to motivate executives to achieve long term performance targets.

Common features

Feature	Description
Instrument	Performance rights being a right to receive a share subject to performance and vesting conditions.
Opportunity	15% to 25% of fixed remuneration.
Dividends or share issues	No dividends are paid or accrued on unvested awards.
Performance criteria	The plan uses earnings per share growth, absolute TSR and return on equity performance hurdles.
Assessment approval and payment	At the end of performance period, the Remuneration & Nomination Committee assesses the relevant performance measures and determines the extent to which the awards should vest. Payment is made by the issuing or transfer of shares.
Change of control	Unless otherwise determined by the Board, in the event of a change of control including a takeover, the vesting conditions attached to the tranche at the time of the application will cease to apply and: <ul style="list-style-type: none"> a) unvested performance rights granted in the financial year of the change of control will be assessed by the Board for vesting; b) remaining unvested performance rights will vest if the change of control share price is greater than the price at the commencement of the measurement period and the change of control share price leading up to the change of control has a 20% premium to the price at the beginning of the measurement period; c) any unvested performance rights that do not vest pursuant to (a) and (b) will lapse; d) disposal restrictions applied to restricted shares by the Company will be lifted, including the removal of any Company initiated CHESS holding lock, if applicable. However, shares may not be sold if the holder is in possession of 'inside information'.
Termination	Unvested performance rights held at the date of termination and granted in the first year of the measurement period, will be forfeited in the proportion that the remainder of the first year of the measurement period following the termination bears to the full first year of the measurement period, unless otherwise determined by the Board. All other unvested performance rights will be retained for possible vesting based on performance during the measurement period, to be assessed following the completion of the measurement period.
Claw back provisions	There are no specific provisions providing the capacity to claw back a component of remuneration in the event of a matter of significant concern.

Note 36. Share-based payments (continued)

Specific features

2023 grants

Performance period July 2022: 3 years (1 July 2022 to 30 June 2025).
Vesting date 1 October 2025

Performance level	EPS tranche 1	TSR tranche 2	ROE tranche 3	Vesting % of tranche
Threshold	2.5%	8%	13.5%	25%
Between threshold and target	2.5% to 5%	8% to 10%	13.5% to 14.5%	Pro-rata
Target	5%	10%	14.5%	50%
Between target and stretch	5% to 7.5%	10% to 16%	14.5% to 16.5%	Pro-rata
Stretch	7.5%	16%	16.5%	100%
No. of rights	820,128	820,128	820,128	

2022 grants

Performance period July 2021: 3 years (1 July 2021 to 30 June 2024).
Vesting date 1 October 2024

Performance level	EPS tranche 1	TSR tranche 2	ROE tranche 3	Vesting % of tranche
Threshold	5%	10%	13.5%	25%
Between threshold and target	5% to 7.5%	10% to 12%	13.5% to 14.5%	Pro-rata
Target	7.5%	12%	14.5%	50%
Between target and stretch	7.5% to 10%	12% to 18%	14.5% to 16.5%	Pro-rata
Stretch	10%	18%	>16.5%	100%
No. of rights	907,538	907,538	907,537	

Performance rights movements

2023

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19/11/2021	01/10/2024	N/A	2,722,613	-	-	-	2,722,613
16/12/2022	01/10/2025	N/A	-	2,460,384	-	-	2,460,384
			2,722,613	2,460,384	-	-	5,182,997

2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19/11/2021	01/10/2024	N/A	-	2,722,613	-	-	2,722,613
			-	2,722,613	-	-	2,722,613

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.73 years (2022: 2.26 years).

Note 36. Share-based payments (continued)

Fair value

The fair value of performance rights has been determined as follows.

2023	No. of rights	Fair value \$'000
Market conditions	1,727,666	311
Non-market conditions	3,455,331	0
	5,182,997	311

Fair value at grant date for new market conditions grants:

Grant date	Expiry date	No. of rights	Share price at grant date	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
16/12/2022	01/10/2025	820,128	\$0.34	-	-	-	\$0.185

2022	No. of rights	Fair value \$'000
Market conditions	907,538	160
Non-market conditions	1,815,075	83
	2,722,613	243

Fair value at grant date for new market conditions grants:

Grant date	Expiry date	No. of rights	Share price at grant date	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
19/11/2021	01/10/2024	907,538	\$0.47	-	-	-	\$0.185

The share-based payments expense (and change in share-based payments reserve) based on the change in fair value was \$69,000 for the year ended 30 June 2023 (2022: \$243,000).

Fair value of rights were calculated using volume weighted average share price at which the Company's shares were traded on ASX over the 20 trading days prior to the date for which the calculation is made less dividends calculated for measurement period.

The minimum value of the performance rights to vest is nil as the performance rights criteria may not be met and consequently the performance rights may not vest. The maximum value of the performance rights yet to vest is not accurately determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the performance rights are exercised.

Accounting policy for share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

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

Note 36. Share-based payments (continued)

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

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

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

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 37. Events after the reporting period

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.