Novatti™
INNOVATION FOR PAYMENTS

ASX:NOV ABN 98 606 556 183

Annual Report 30 June 2017

www.novatti.com


Välkomna
歡迎
स्वागत
أهلا بكم
ਜੀ ਆਇਆਂ ਨੂੰ
خوش آمدید
Bienvenido
بسم الله سائين
Welcome
Witamy
ברוכים הבאים
Καλώς Ήλθατε
Karibu
Bienvenue
Selamat datang
Pasok po kayo
Benvenuto
欢迎
Добро пожаловать

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Directors	Peter Pawlowitsch Peter Cook Brandon Munro Paul Burton Kenneth Lai	
Company secretary	Ian Hobson	
Registered office	**Australia** Suite 5 95 Hay Street Subiaco WA 6000	**United Kingdom** 153 Stafford Road Wallington, Surrey SM6 9BN
	United States of America 300 Congress Street Unit 406 Quincy, Massachusetts 02169	**South Africa*** 60 – 3rd Avenue Highlands North Johannesburg Gauteng 2192
Principal place of business	**Australia** 1st Floor Legacy House 293 Swanston Street Melbourne VIC 3000 Phone: +61 3 9011 8490	**United Kingdom** 20 Nugent Road Guilford GU2 7AF +44 7733 057233
	United States of America 300 Congress Street Unit 406 Quincy, Massachusetts 02169	**South Africa** 60 – 3rd Avenue Highlands North Johannesburg
Share register	**Automic Registry Services** Suite 1A, Level 1, Ventnor Avenue, West Perth WA 6005, Phone: +61 8 9324 2099	
Auditor	**William Buck** Level 20, 81 William Street, Melbourne Vic 3000	
Solicitors	**Milcor Legal** Level 1, 6 Thelma Street, West Perth WA 6005	
Bankers	**National Australia Bank** Level 1, 330 Collins Street, Melbourne VIC 3000	
Stock exchange listing	**Novatti Group Limited shares are listed on the Australian Securities Exchange (ASX code: NOV)**	
Website	www.novatti.com www.novatti.com/investors/corporate-governance	
Australian Financial Services Licence	AFSL No. 448066	
Financial Conduct Authority	FCA No. 900631 as an appointed representative of CFS-ZIPP Ltd (FCA No. 900027) for issuance of e-money products	

*A new subsidiary, Flexe Payments Pty Ltd (Trading No 972563154) was incorporated in South Africa on the 24 May 2017. Flexe Payments Pty Ltd is 100% owned by Novatti Group Ltd.

Chairman's Letter

Dear fellow shareholder,

For those shareholders who have following the announcements, you will have noticed that it has been an extremely busy year for Novatti. The Group has progressed well on its aim of expanding its transactional businesses with revenue from the its recurring and transactional businesses growing from $1.07M to $1.34M.

For the financial year ended 30 June 2017, Novatti reported revenue of $3.54M, a decrease from FY16's revenue of $4.87M. Earnings before interest and tax was a loss of $4.80M which includes non-cash expenses of approximately $0.48M (including option expense).

Highlights for the year included:

- China Payments division establish within Novatti to focus on cross-border commerce payments between China and Australia.
- WeChat support deal (through Royal Pay Australia) to enable financial transactions for Chinese consumers in Australia.
- WeChat transactional growth rate at circa 20% per month driving Novatti's processing transaction fees.
- Alipay payments rollout supported by Novatti's support compliance and processing services underpinned by Novatti's Australian Financial Services Licence (AFSL).
- LatiPay agreement to enable Novatti to expand its payments service to cover Australian e-commerce and trade payments through WeChat, Alipay, JD Pay and 19 Chinese banks in Australia.
- Flexepin experiences strong growth for its Open Loop Voucher Service from Bitcoin merchants in Canada and Australia.
- PayGround AB partnership with Novatti's Flexe Payments Ltd to grow and capitalize the e-money and payments sector.
- Zapper Marketing selects Novatti to enable airtime top-up on the Zapper app through Novatti's TransferBridge solution.
- High Impact Corp, 50% Novatti owned, announced the launch of a new way for the Zimbabwe diaspora to remit funds to families.
- Acquire 100% of the basis2 billing and customer information system business.

Driving growth and shareholder value remains paramount for the Board and Management as the Group continues on its path of pursuing profitability organically and via acquisitions. The following year the Group will:

- Continue to focus on growing the Group's recurring and transactional revenues.
- Continue to grow the China Payments division focusing on the cross-border commerce payments between China and Australia.
- Target profitability for the financial year.

Whilst we face challenges from regulatory factors to competitive pressures, the Board considers that the Group has a breadth of products and service capabilities, underpinned by management and staff, to ensure that its strategy of growth remains on path.

On behalf of the Board, I would like to thank all staff and contractors for their contribution to the Group and look forward to their support in the coming year.

Peter Pawlowitsch
Chairman

Review of Operations

Overview

Novatti grows new financial networks by:

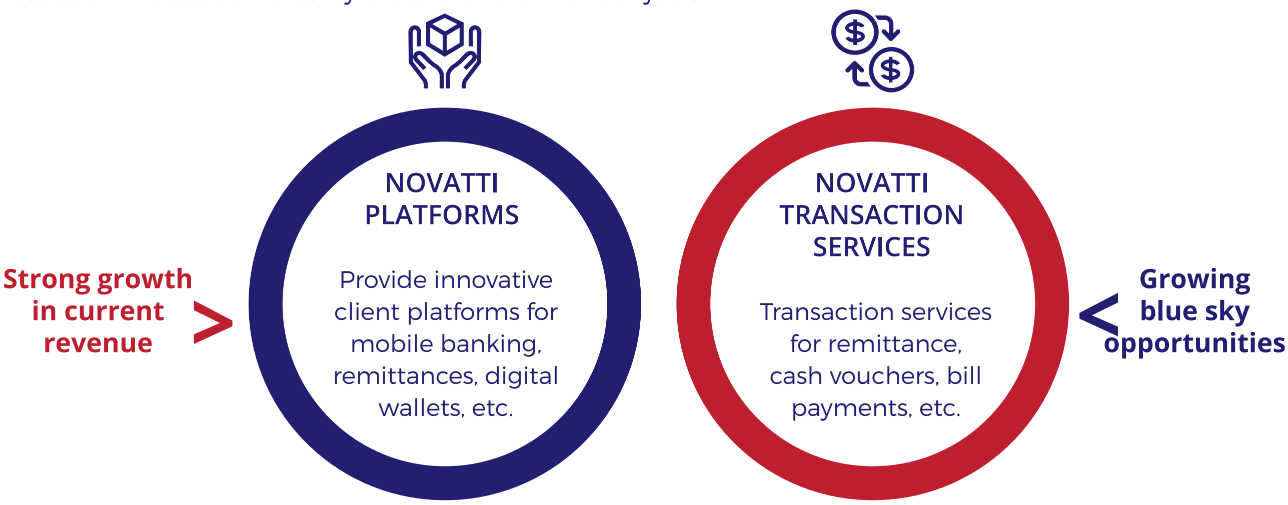
- **Empowering the global trend towards a cashless society.**
- **Giving financial institutions the ability to expand their offering, and acquire new market segments at a low cost.**
- **Providing technologies and products to enable new financial transaction services.**
- **Giving non-financial companies new income streams and capabilities.**
- **Enabling governments, enterprises & consumers to move to mobile financial services.**
- **Supporting the growth of new payment methods such as WeChat Pay and AliPay.**

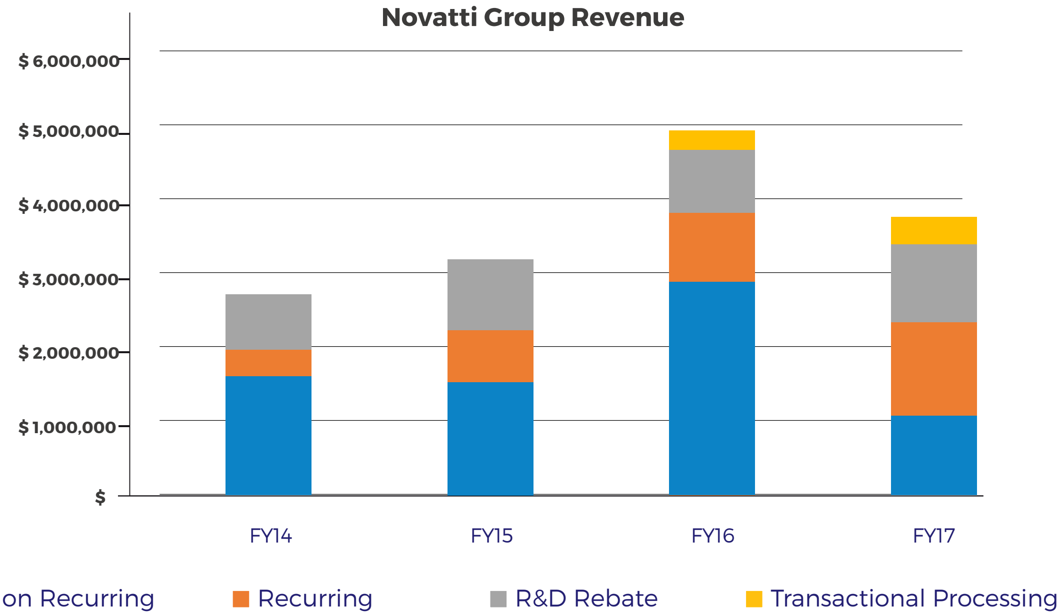
Corporate:

Date	Number of Shares – Novatti Group Ltd	Summary
01 July 2016	87,883,826	Number of shares on issue at commencement of financial year
16 September 2016	5,000,000	Conversion of 5 million Performance Shares upon achievement of Milestone 1 (as disclosed in Replacement Prospectus at clause 13.2.), Novatti Pty Ltd achieving $3.5 million in invoiced customer revenues for FY 16.
10 May 2017	11,910,051	Fully paid ordinary shares issued pursuant to the institutional component of the one for four accelerated pro-rata non-renounceable entitlement offer.
29 May 2017	3,178,770	Fully paid ordinary shares issued pursuant to the retail component of the one for four accelerated pro-rata non-renounceable entitlement offer.
30 June 2017	1,539,285	Fully paid ordinary shares issued pursuant to the shortfall facility of the retail entitlement offer.
30 June 2017	464,419	Management Fee paid in shares to Corporate Advisors for the 1 for 4 equity raising facility.

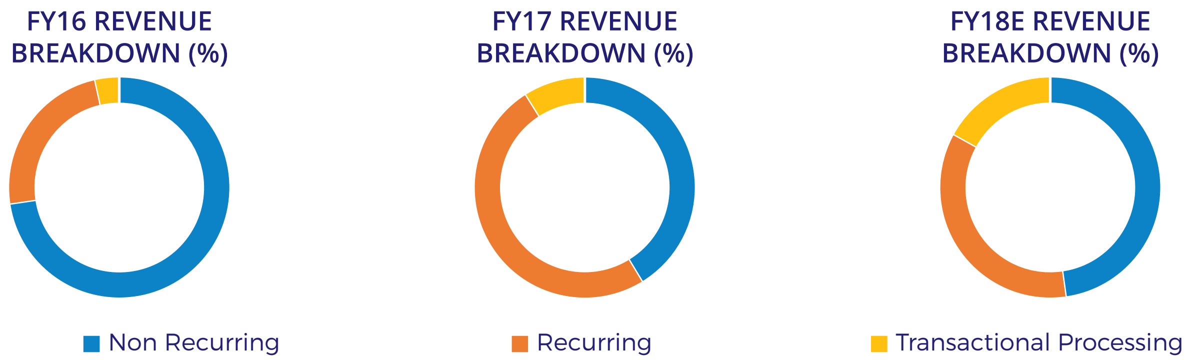
Business Operations

FY17 has seen Novatti increase the mix of predictable recurring and transactional revenues within the overall revenues. The majority of revenues are now increasingly recurring and financial transaction revenues. Such revenues include maintenance fees, SAAS fees, compliance fee, Flexepin sales and remittance type margins. These recurring revenues have been strongly enhanced by Novatti's acquisition of the basis2 billing business in May 2017. Novatti has successfully implemented a number of major projects for existing clients whilst also acquiring two additional SAAS clients. A continued focus on expenditure control has seen an annualised $1.5m reduction in costs achieved by the end of the financial year.





Growing percentage of Transactional revenue



The Novatti Platform

"The Novatti Platform empowers new cost-effective payment options."

The Novatti Platform is the technology foundation of the Group and enables a vast variety of solutions to be deployed on-site or in the cloud. The platform offers highly scalable transaction processing and stored value account management systems. The Novatti Platform is deployed with an array of mobile and alternative payment functionality to telecommunication and financial service companies globally. The platform can be implemented across an expansive range of internal and external systems such as banks, ATMs, Point of Sale (POS) terminals, mobile phones, web portals, POS systems, prepaid and post-paid billing systems, and telecommunications infrastructure. Novatti is focused on increasing financial inclusion to unbanked or underbanked societies in developing nations with minimal access to traditional bank accounts. The innovative technologies enable new and cost-effective payment service to solve the needs in emerging marketplaces, where the internet and mobile penetration is rapidly growing.
The Novatti Platform consists of a variety of software modules. Each module can be delivered as a standalone solution or integrated with another module (including existing systems) utilising a common backbone messaging system. The individual modules can be implemented to support the following payment applications:

- Digital wallets
- Mobile money
- Voucher management
- Distribution and activation of virtual and physical vouchers such as prepaid gift cards or prepaid debit cards
- Airtime distribution (also known as e-top-up, pin-less top-up, mobile top-up or mobile recharge)
- International and domestic bill payments
- International and domestic remittances
- Agency banking to enable branchless banking in remote or isolated areas

Go-to-market strategy

The Novatti Payments Platform offers our clients the opportunity to provide innovative services to their consumers. To achieve such, the Novatti Payments Platform has been re-architected and largely rebuilt over the last two years. Software development is primarily done in Melbourne, with an increasing amount from our Offshore Development Centre in Vietnam. Development costs are increasingly competitive.

Technology strategy

In July 2015, Novatti was appointed to supply a mobile money and mobile banking platform for Tanzania Telecommunications Company Limited (TTCL) in Tanzania. The Novatti Platform will enable TTCL to enter the mobile money marketplace.

The TTCL project provides an example of our state-of-the-art payment and mobile banking platform and shows our strong understanding of building robust mobile money systems.

Transaction services

During the year, the Group successfully grew the mix of revenue that was recurring or transaction processing. The continued progress towards these types of predictable revenues should continue in FY18.

Peter Cook, Managing Director and Chief Executive Officer

Transaction Services

The Transaction Services division operates under a number of different brands.

Novatti™ offering white-label or direct-to-market services

Transaction Processing services via Flexewallet™

Open-loop cash vouchers for online payments called Flexepin™

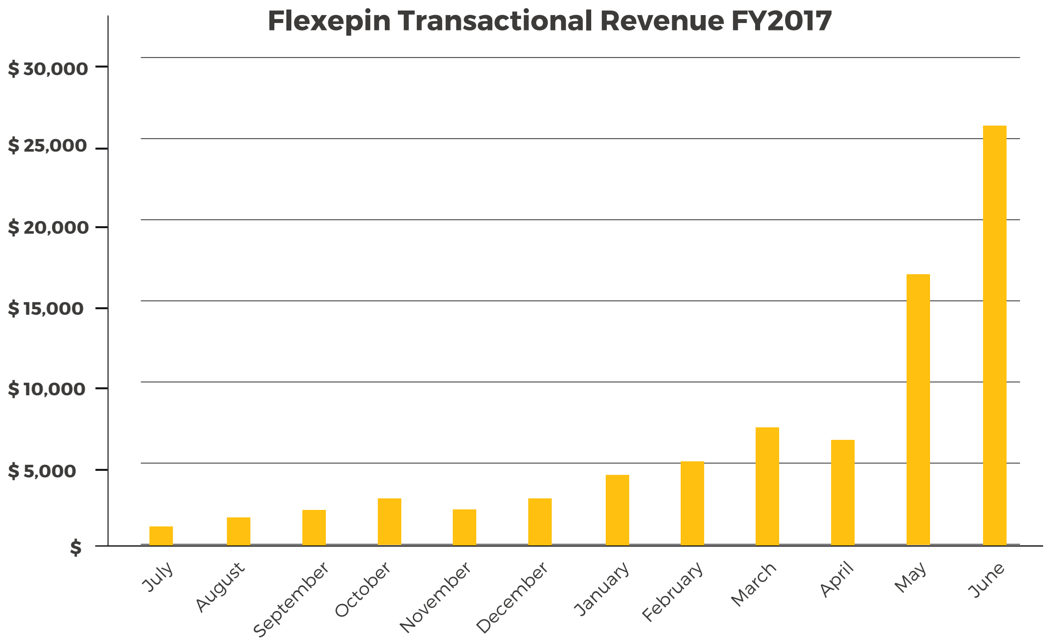
Remittance services via TransferBridge™

Compliance and settlement processing of Chinese payment methods such as WeChat Pay, AliPay, JDPay and Baidu

Flexepin expansion

"Flexepin successful launch in Australia provided the Group with a new scalable revenue source."

The Flexepin network was expanded into Europe with a successful white label partnership with Scandinavian group PayGround AB and the launch of services in Greece and Cyprus. Sales have commenced in Nigeria and Ghana and commercial relationships should bring on additional countries in Europe, Africa and Asia.
The growth in the Bitcoin market has seen strong usage of Flexepin, in particular in Canada, where consumers find it is a convenient and secure way to procure Bitcoin Flexepin revenues grew strongly on a quarter by quarter basis as the number of merchants and territories expanded.



China Payments

The Group has entered into a number of partnerships with companies including RoyalPay, epay and LatiPay who are involved in bringing new Chinese methods to Australia to allow Chinese consumers to more easily pay for goods and services. Novatti has used its licencing and compliance capabilities and its technology to facilitate these services. With over 1.2m Chinese tourists and over 200,000 Chinese students in Australia, plus ecommerce purchases to Australian websites, the Chinese payment methods herald major new financial transaction streams in Australia. Novatti is well positioned to be a strong beneficiary.

Remittance services

Novatti has continued to develop hard-to-get strategic relationships to grow into the remittance market. This has included the launch of the Amagetsi service for the Zimbabwe diaspora to pay electricity bills for family in Zimbabwe and airtime top-up services for Zapper in South Africa. Novatti achieved its Remittance Network Provider status in Australia late in the financial year and is ready to commence full remittance services from Australia.

Financial licences

Flexewallet holds an Australian Financial Services Licence (AFSL No. 448066) for non-cash payments, is registered with AUSTRAC and is a member of the Financial Ombudsman Scheme in Australia.

Flexe Payments (UK) is approved by the Financial Conduct Authority (FCA No. 900631) as an appointed representative of CFS-ZIPP Ltd (FCA No. 900027) for the issuance of e-money products. CFS-Zipp has passported the e-money licence it holds into all the states of the European Union, effectively allowing Flexe Payments (subject to the appropriate notification) to operate in these countries.

Directors' Report

Directors

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

- PETER PAWLOWITSCH
- PETER COOK
- BRANDON MUNRO
- PAUL BURTON
- KENNETH LAI

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Novatti Group Limited (referred to hereafter as the 'Group', 'Novatti' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Information on Directors

Name:	Peter Pawlowitsch
Title:	Non-Executive Chairman
Qualifications:	BCom, MBA, CPA.
Experience and expertise:	Peter is an accountant by profession, with extensive experience as a director and officer of ASX-listed entities. He brings to the team experience in operational management, business administration and project evaluation in the IT, hospitality and mining sectors gained during the last 15 years.
Other current directorships:	Chairman of Dubber Corporation Limited (20 September 2011 – present), Non-executive director of Ventnor Resources Ltd (12 February 2010 – present), Rewardle Holdings (30 May 2017 – present), Knosys Limited (16 March 2015 – present).
Former directorships (last 3 years):	Department 13 Ltd (formerly Kunene Resources Ltd).
Special responsibilities:	None.
Interests in shares:	2,343,750 ordinary shares.
Interests in options:	1,000,000
Contractual rights to shares:	None.

Name:	**Paul Burton**
Title:	Non-Executive
Qualifications:	Chartered Accountant
Experience and expertise:	Paul has over 14 years of leadership experience in the payments industry and was the CEO of Datacash Group Plc, a payments gateway company bought by MasterCard. Datacash had a significant presence in Africa and Paul steered the company's expansion in that market.
Other current directorships:	None.
Former directorships (last 3 years):	None.
Special responsibilities:	None.
Interests in shares:	0 ordinary shares.
Interests in options:	5,750,000
Contractual rights to shares:	None.

Name:	**Kenneth Lai**
Title:	Non-Executive
Qualifications:	Bachelor of Science – Majoring in Computer Science
Experience and expertise:	MD of Hong Kong-based investment firm Prestige Team Limited, which has interests in payment processing, real estate, digital marketing and information technology support services.
Other current directorships:	None.
Former directorships (last 3 years):	None.
Special responsibilities:	None.
Interests in shares:	12,918,750 ordinary shares.
Interests in options:	750,000
Contractual rights to shares:	None.

Name:	Brandon Munro
Title:	Non-Executive Chairman
Qualifications:	BEco & Law, Post-Grad Applied Finance & Investment from the Securities Institute of Australia, GAICD, F.Fin
Experience and expertise:	Brandon is a corporate lawyer by profession with executive experience in the private equity, mining, infrastructure and IT sectors. Brandon brings regulatory, governance, mergers and acquisitions and capital markets knowledge to the team, as well as his own experience co-founding start-ups in the IT and exploration sectors. He commenced his career as a lawyer working for 7 years at premier Australian commercial law firms, following which he held executive management and director positions in the resource and infrastructure sectors, including private equity and funds management industry.
Other current directorships:	Managing Director of Bannerman Resources Ltd (9 March 2016 – present), and Non-executive director of Rewardle Holdings (25 March 2014 – 30 May 2017).
Former directorships (last 3 years):	Department 13 Ltd (formerly Kunene Resources Ltd).
Special responsibilities:	None.
Interests in shares:	1,562,500 ordinary shares.
Interests in options:	1,000,000
Contractual rights to shares:	None.

Name:	Peter Cook
Title:	Managing Director and Chief Executive Officer
Qualifications:	BSc, Grad Dip Computing, Grad Dip Securities, GAICD.
Experience and expertise:	Peter has over 25 years of experience as a director and executive. Peter's career has been largely based on founding and leading multiple telecommunications and payments companies. Unidial Pty Ltd and Ezipin Canada Inc. are such examples and all with successful exits to private and public companies. Peter was a non executive Director and Deputy Chairman of ASX-listed Senetas Corporation Limited from June 1999 to January 2006.
Other current directorships:	None.
Former directorships (last 3 years):	None.
Special responsibilities:	None.
Interests in shares:	11,107,904 ordinary shares.
Interests in options:	5,000,000
Contractual rights to shares:	None.

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

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

Company secretary

Ian Hobson was appointed Company Secretary on 12 October 2015 and holds a Bachelor of Business degree, is a Chartered Accountant and Chartered Secretary. Ian provides secretarial services and corporate, management and accounting advice to a number of listed companies. Ian’s fees are based on a fee for service arrangement.

Meetings of Directors

The number of meetings of the Group’s Board of Directors (the ‘Board’) and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Attended	Held
Peter Pawlowitsch	7	7
Peter Cook	7	7
Brandon Munro	7	7
Paul Burton	5	7
Kenneth Lai	4	7

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

The Group will not have a separate Audit and Risk Committee until such time as the Board is of a sufficient size and structure, and the Group’s operations are of a sufficient magnitude, for a separate committee to be of benefit to the Group. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under the written terms of reference for that committee, including but not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Group, the Group’s internal financial control system and risk management systems and the external audit functions.

The Board has not established a Nomination and Remuneration Committee as the role of the committee will be undertaken by the full Board.

Review of 2017 financial results

The loss for the Group after providing for income tax and non-controlling interest amounted to ($4,717,729) across all regions to support growth.

The Group's Net Asset Position as at 30 June 2017 was $2,272,260 with $717,881 + held in Cash or Cash equivalents.

The Group is debt free.

The earnings of the Group for 30 June 2017 is summarised below:

	2017 $	2016 $
Sales revenue and Other income^	3,541,917	4,871,209
EBITDA (underlying)*	(4,082,023)	(3,914,331)
Profit/(Loss) before Tax	(4,717,729)	(4,871,366)
Tax Expense	-	(96,354)
Net Profit/(Loss) after Tax	(4,717,729)	(4,967,720)
Cash+ Net Cash	717,881	4,725,649
Net Cash	654,146	4,329,344
Operating Cashflow	(3,941,519)	(2,740,040)

^ Other income as outlined in Note 4 of the financial statements.

* Underlying EBITDA excludes option expenses, depreciation, amortisation, withholding tax and VAT unclaimed.

+ Includes $63,735 of clients' funds held on trust under Flexewallet's Remittance program, (FY16: $396,305). These funds are distributed under instructions within 24 hours.

The factors that are considered to affect Total Shareholders Return ('TSR') are summarised below:

	2017 $	2016 $
Share price at financial year end	0.115	0.14
Total dividends declared (cents per share)	-	-
Basic earnings per share (cents per share)	(5.03)	(9.06)

Dividends

There were no dividends paid, provided nor declared as at 30 June 2017.

Significant changes in the state of affairs

Non-renounceable entitlement offer.

On 8 May 2017, Novatti Group Limited announced an accelerated 1 for 4 non-renounceable pro rata entitlement offer of new ordinary shares in the Group at an issue price of $0.14, the purpose of the offer was to fund the acquisition of basis2, a new business for the Group.

16,628,106 ordinary shares have been issued under this entitlement raising $2.3M.

Acquisition of basis2

Novatti Group Limited entered into an agreement with Prophecy International Pty Ltd (ASX:PRO) ('Prophecy') to acquire 100% of its basis2 billing and customer information systems (CIS) business, the acquisition settled 26 May 2017.

The consideration for the acquisition was $2.75 million in cash. The actual cash payable being $2.3m due to advanced payments by customers netted off against the acquisition price.

basis2 will operate under Novatti Inc., a new subsidiary that is 100% owned by the Group. Novatti Inc. was incorporated in the United States on 6 April 2017.

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group will continue its principal activity of sales and deploying the Novatti Platform and increase transaction services.

Environmental regulation

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

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and the Corporations Regulations 2001.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive and non-executive rewards with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward. The Board of Directors (the 'Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency
- Performance linkage/alignment of executive compensation

As there is currently no Nomination and Remuneration Committee, the full Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The full Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

Alignment of shareholders' interests:
- Rewards capability and experience,
- Reflects competitive reward for contribution to growth in shareholder wealth, and
- Provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the remuneration structure of non-executive directors and executives are separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other non-executive directors based on similar roles in the external market. The Chairman is not present at any discussions relating to the determination of his remuneration. Non-executive directors do receive share options.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The total maximum remuneration of non-executive directors was set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The maximum remuneration has been set at an amount not to exceed $500,000.

Executive remuneration

The Group's remuneration policy for executive directors and senior management is designed to promote superior performance and long-term commitment to the Group.

Remuneration policies and arrangements for the Key Executive Members of the Group including the Chief Executive Officer, Chief Operating Officer, and the Chief Financial Officer are reviewed by the Board and ratified each year.

The Group rewards its executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has three components:

- Fixed remuneration including base pay and non-monetary benefits,
- Short-term performance incentives, and
- Long-term incentives.

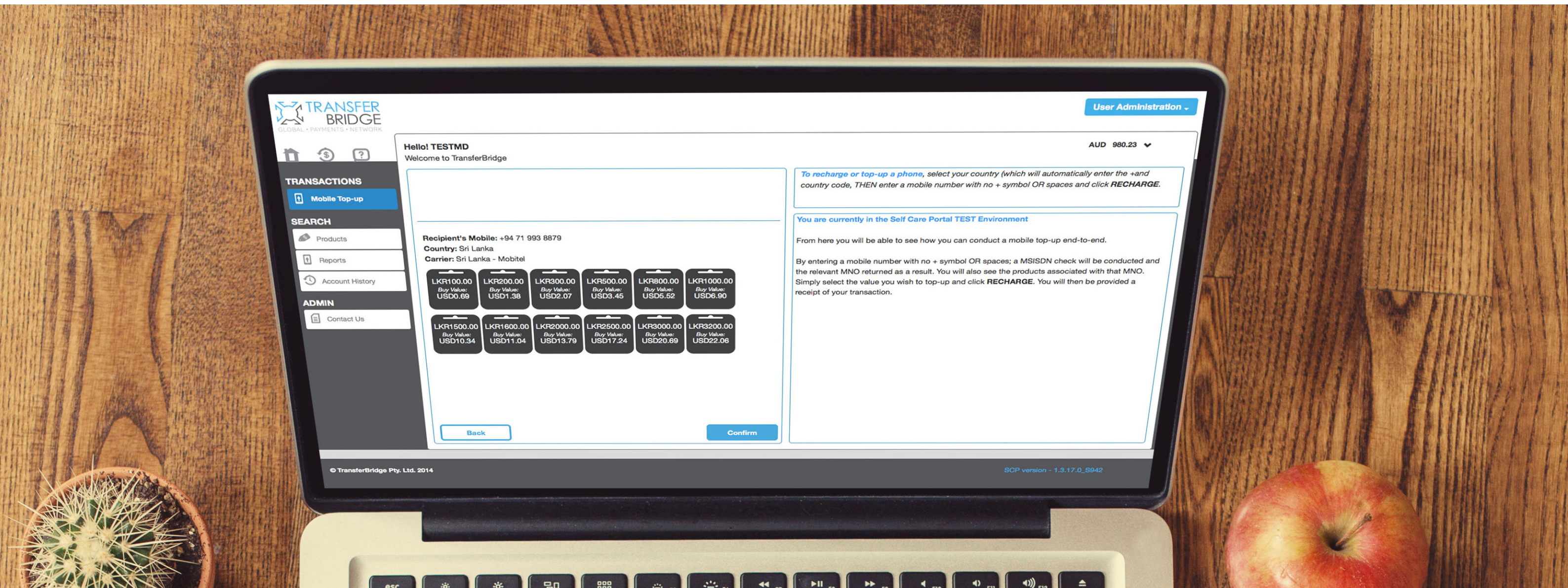
The combination of these three components comprises the executive's total remuneration.

The following table illustrates how the Group's remuneration strategy aligns with the Group's strategic direction and links remuneration outcomes to performance:

Novatti Group's business objective:
To provide telecom operators and financial institutions innovative financial services such as mobile money, mobile banking, remittances and digital wallets. Novatti's divisions extend market reach by providing FinTech solutions that reduce costs to acquire and manage a previously underserved market.

REMUNERATION STRATEGY LINKAGES TO BUSINESS OBJECTIVE:

Align the interests of executives with shareholders	Attract, motivate and retain high performing individuals
The remuneration strategy incorporates "at-risk" components, including both short and long-term elements delivered in equity.	Remuneration is competitive with companies of a similar size and complexity.
Performance is assessed against a suite of financial and non-financial measures relevant to the success of the Group and generating returns for shareholders.	Deferred and long-term remuneration is designed to encourage long term consistent performance and employee retention.



Remuneration component	Vehicle	Purpose	Link to Performance
Fixed Remuneration	Consisting of base salary, superannuation and non-monetary benefits. Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.	To provide competitive fixed remuneration set with reference to role, market, experience and performance.	Reviewed annually by the Board, based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.
Short Term Incentive	Is paid in cash.	This is designed to reward executives for their contribution to the achievement of annual Group, business unit and individual outcomes.	Directly linked to pre-agreed KPIs. Reviewed regularly with the relevant executive member. Final performance is determined by the Board.
Long Term Performance	Equity including Options, Shares and/or Rights.	Reward executives for their contribution to the creation of shareholder value over the longer term.	It aims to align the targets of the business units with the targets of those executives responsible for meeting those targets.

Details of the incentive plans used

Short Term Incentive program (STI):
The STI Program awards a cash bonus based on key members achieving targets from a Group, Business Unit and individual perspective.

STI awarded to each executive depends on the extent to which specific targets set at the beginning of the financial year by the Board are met. Targets are set by a cascading process from the Board through the executive group.

The targets consist of financial and non-financial Key Performance Indicators (KPIs). These may include but are not limited to:

- Product management and project platform implementation,
- Financial and Business Unit operational targets linked to the achievement of the Group's growth in annual sales revenue and controllable financial drivers including cash, market growth (including geographical market growth), expense management control and capital management improvement,
- Corporate development matters including employment, retention, and remuneration of core personnel, leadership and succession, cultural development and communication activities, and
- Establishment of business operational frameworks and procedures as well as Risk Management in respect of financial and operational issues.

These measures were chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value.

These measurement methods were selected as they directly reflect whether the STI performance targets have been met or not, as set by the Board.

Discretionary bonuses were paid to Peter Cook ($109,500 or 50% of his FY16 entitlement), Alan Munday ($65,805 or 90% of his FY16 entitlement) and Paolo Montessori ($35,000 or 30% of his FY16 entitlement) in the year ended 30 June 2017. These bonuses were accrued for as at 30 June 2016. For the year ended 30

June 2017, no discretionary bonuses were paid nor accrued to senior executives.

The results of the STI financial performance measures are listed in the remuneration table below, on page 21.

Long Term Incentive program (LTI)

LTI awards are issued annually to executives and are provided in order to align the remuneration of Key Executive Members with the creation of shareholder value. LTI comprise equity instruments including shares and options, where the incentive involves the time-based vesting of options on the basis that the executive or employee continues to be employed by the Group and are eligible under the Group's Employee Share Plan (ESP) and or Option Plan (ESOP).

The vesting of these awards is dependent on the length of time and service of the executive or employee, and alternatively, they can also be awarded at the discretion of the Board.

The achievement of the Group's strategic and financial objectives is the key focus of the efforts of the Group. As indicated above, over the course of each financial year, the Board reviews the Group's executive remuneration policy to ensure that the remuneration framework remains focused on driving and rewarding executive performance, while being closely aligned to the achievement of Group strategic objectives and the creation of shareholder value.

LTI are based on participation within Novatti's ESP and or ESOP. LTI, based on equity remuneration (being either the issue of securities, issue of performance shares and or rights or the issue of options), are made in accordance with thresholds as set out in this financial plan. By using the Group's ESP and or ESOP to offer shares and options to employees, the interest of employees is aligned with shareholder wealth. A copy of the ESP and ESOP can be found via the Group's website.

The table below sets out the summary information for key executives of their Options' vesting and their lapsing date of options as LTI awards for FY17.

Name	Start date	No of Options vested in 2017	No of Options lapsed/ cancelled	Balance not vested	Lapsing date for Options
Peter Cook	12 Nov 2015	-	-	-	30 June 2019
Alan Munday	12 Nov 2015	250,000	-	500,000	30 June 2019
Steven Stamboultgis	12 Nov 2015	200,000	-	500,000	30 June 2019
Paolo Montessori	3 Feb 2016	750,000	4,500,000	-	30 June 2019
Total		**1,200,000**	**4,500,000**	**1,000,000**	

No Options have been issued to executives for the year ended 30 June 2017.

FY16

Name	Start date	LTI award no of Options	No of Options vested in 2016	Lapsing date for Options
Peter Cook^	12 Nov 2015	5,000,000	5,000,000	30 June 2019
Alan Munday*	12 Nov 2015	750,000	-	30 June 2019
Steven Stamboultgis*	12 Nov 2015	600,000	-	30 June 2019
Paolo Montessori*	3 Feb 2016	5,250,000	-	30 June 2019
Total		**11,600,000**	**5,000,000**	

^Total Options issued have vested for the year ended 30 June 2016, however, are in escrow as per the terms of their agreements for a period of 24 months and may be exercisable after escrow and before 30 June 2019.
*Options are exercisable at $0.20 and vest over three equal tranches on 1 July 2016, 1 July 2017 and 1 July 2018.

Details of remuneration

Amounts of remuneration

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

The key management personnel of the Group consisted of the following directors of **Novatti Group Limited**:

- **Peter Pawlowitsch** - Non-Executive Chairman
- **Brandon Munro** - Non-Executive Director
- **Peter Cook** - Managing Director and Chief Executive Officer
- **Kenneth Lai** - Non-Executive Director
- **Paul Burton** - Non-Executive Director

Other key management personnel

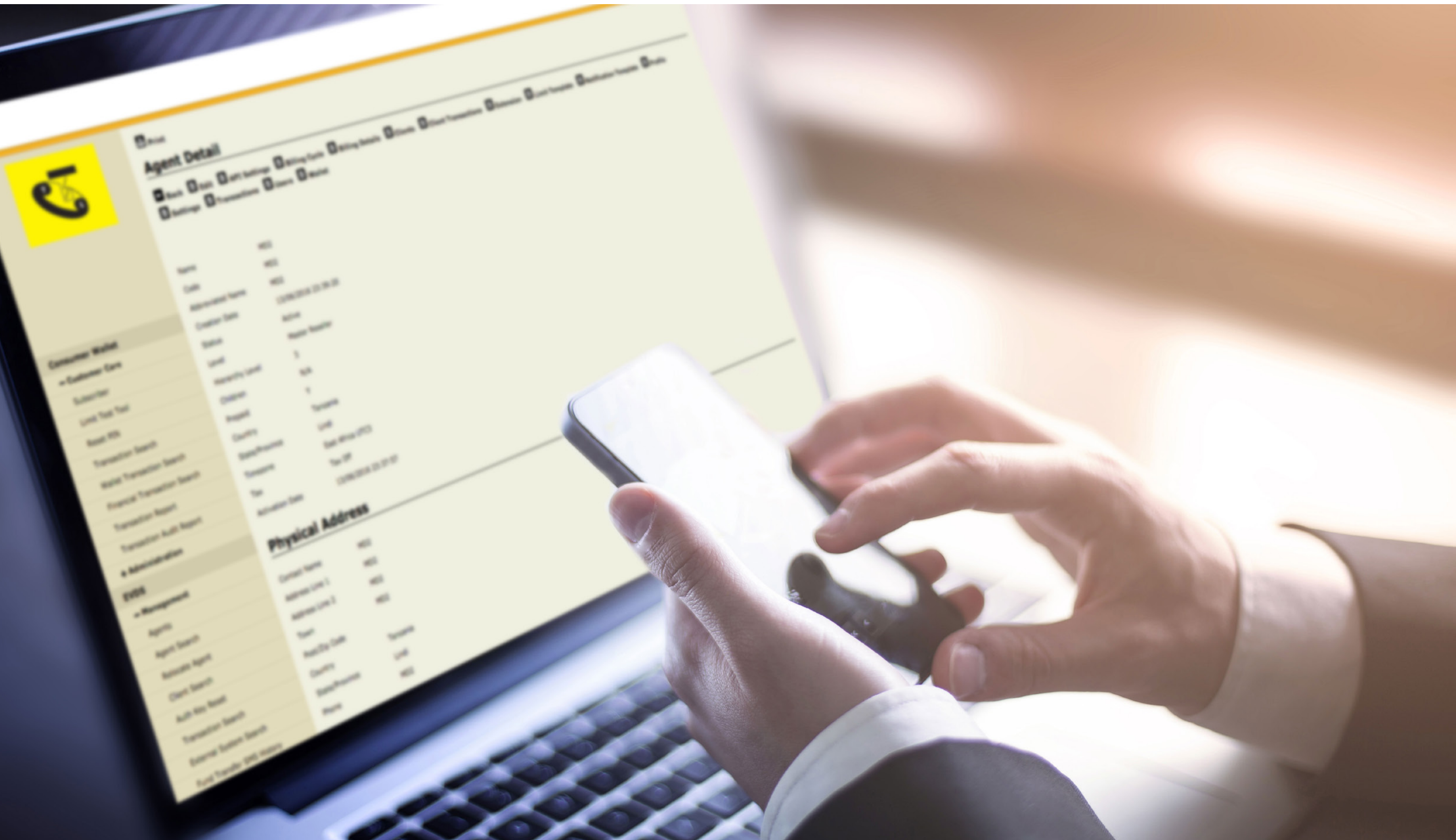
- **Alan Munday** – Group Chief Operating Officer
- **Steven Stamboultgis** – Chief Financial Officer
- **Paolo Montessori** – Chief Executive Transaction Processing Services (Resigned on the 27 January 2017 and the position will not be replaced).

	Fixed remuneration		Short-term benefits						Post-employment benefits	Long term benefits	Equity (long term)		
	Cash salary & fees	Cash bonus	Non-monetary	Long service leave	Options exp in yr Equity-settled	Superannuation	Total	Cash bonus paid or payable	Cash bonus forfeited	Fixed Rem	At risk STI	At risk LTI	Options as a proportion of total rem
2017	$	$	$	$	$	$	$	%	%	%	%	%	%
Non-Executive Directors:													
Peter Pawlowitsch (Chairman)	59,361	-	-	-	19,546	5,639	84,546	-	-	77	0	23	23
Kenneth Lai	-	-	-	-	8,683	-	8,683	-	-	-	-	100	100
Paul Burton	-	-	-	-	106,417	-	106,417	-	-	-	-	100	100
Brandon Munro	36,530	-	-	-	19,546	3,470	59,546	-	-	67	0	33	33
Executive Directors:													
Peter Cook*	251,701	109,500	16,073	1,717	97,735	21,070	497,796	-	100	80	0	20	20
Other Key Management Personnel:													
Alan Munday	200,912	63,805	-	1,342	14,660	27,281	308,000	-	100	97	0	3	3
Steven Stamboultgis	164,382	-	-	878	11,728	15,616	192,604	-	-	96	0	4	4
Paolo Montessori	145,833	35,000	-	-	16,505	-	197,338	-	100	92	0	8	8
	858,719	208,305	16,073	3,937	294,820	73,076	1,454,930						

*Overpayment of $15,094 during the year caused by payroll service provider error. FY18 remuneration will be adjusted accordingly.

	Fixed remuneration		Short-term benefits						Post-employment benefits	Long term benefits	Equity (long term)		
	Cash salary & fees	Cash bonus	Non-monetary	Long service leave	Options exp in yr Equity-settled	Superannuation	Total	Cash bonus paid or payable	Cash bonus forfeited	Fixed Rem	At risk STI	At risk LTI	Options as a proportion of total rem
2016	$	$	$	$	$	$	$	%	%	%	%	%	%
Non-Executive Directors:													
Peter Pawlowitsch (Chairman)	27,016	-	-	-	14,570	2,566	44,152	-	-	67	-	33	33
Kenneth Lai[1]	-	-	-	-	725	-	725	-	-	-	-	100	100
Paul Burton[2]	-	-	-	-	73,577	-	73,577	-	-	-	-	100	100
Brandon Munro	16,625	-	-	-	14,570	1,579	32,774	-	-	56	-	44	44
Executive Directors:													
Peter Cook[3,4]	254,444	109,500	3,709	412	72,851	19,306	460,222	50	50	37	47	16	16
Other Key Management Personnel:													
Alan Munday	203,957	72,000	-	335	10,927	19,376	306,595	90	10%	70	26	4	4
Steven Stamboultgis	158,989	-	-	169	8,742	10,411	178,311	-	-	95	-	5	5
Paolo Montessori	104,167	30,000	–	–	49,787	–	183,954	30	70	19	54	27	26
	765,198	211,500[5]	3,709	916	245.749	3,709	1,280,310						

[1] Kenneth Lai's remuneration is by way of 750,000 options vesting over a 12 and 24-month vesting period. The granting of the options occurred at the FY16 AGM.
[2] Paul Burton's remuneration is by way of 750,000 options vesting over a 12 and 24-month vesting period. The granting of the options occurred at the FY16 AGM.
[3] Peter Cook was rewarded 872,004 Performance Shares, as announced to the ASX on 16 September 2016. See Note 36 for further details.
[4] Bonuses relating to Peter Cook for the FY14 and FY15 periods were paid out in FY15. $130,000 related to FY14 and $200,000 for FY15 bonuses. Of the $330,000 paid out as bonuses, $291,500 was converted to equity in the form of shares. An additional $91,079 of Peter's cash salary value was converted to equity (2,391,120 ordinary shares at $0.16) and $38,500 was paid out as cash
[5] $211,500 was unpaid as at 30 June 2016, however, it had been accrued as at 30 June 2016.



Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Peter Cook
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	20 November 2015.
Term of agreement:	The term is not fixed.
Remuneration:	Base salary of $273,750 (including superannuation). 5 million Options each exercisable at $0.20 on or before 30 June 2019 (as set out in Section 13.3 of the Replacement Prospectus dated 8 December 2015).
Annual Review	Remuneration is subject to an annual review to be conducted by the board. Factors to be considered include personal competency progression, achievement of personal development targets and KPI's, company remuneration policy, its financial position and current market equivalent positions. KPI's to be agreed each year and may be varied by mutual agreement.
Bonus:	The executive bonus structure targets are reviewed annually with both parties acting in good faith and reflecting the current needs of the business. The performance bonus can be up to up to $219,000 (including statutory superannuation).
Termination:	The agreement may be terminated, (A) by either party without cause with six months' notice, or at the election of the Group, immediately with payment in lieu of six months' notice (subject to the limitation of the Corporations Act and Listing Rules). (B) By the Group on one months' notice, if the executive is unable to perform his duties due to illness, accident or incapacitation, for three consecutive months or a period aggregating more than three months in any 12-month period.

Name:	Alan Munday
Title:	Group Chief Operating Officer
Agreement commenced:	20 November 2015.
Term of agreement:	The term is not fixed.
Remuneration:	Base salary of $220,000 (including statutory superannuation), 750,000 Options, each exercisable at $0.20 on or before 30 June 2019, vesting over three equal tranches on 1 July 2016, 2017 and 2018, if the employment has not terminated by the relevant date, on the same terms and conditions (as set out in Section 13.3 of the Replacement Prospectus dated 8 December 2015).
Annual Review	Remuneration is subject to an annual review to be conducted by the board. Factors to be considered include personal competency progression, achievement of personal development targets and KPI's, company remuneration policy, its financial position and current market equivalent positions. KPI's to be agreed each year and may be varied by mutual agreement.
Bonus:	The executive bonus structure targets are reviewed annually with both parties acting in good faith and reflecting the current needs of the business. The performance bonus can be up to up to $80,000 (including statutory superannuation).
Termination:	The agreement may be terminated, (A) without cause, with three months' notice from the Group or two months' from the executive, or payment in lieu of notice at the Group's election (subject to the limitation of the Corporations Act and Listing Rules). (B) by Novatti on one months' notice, if the executive is unable to perform his duties due to illness, accident or incapacitation, for three consecutive months or a period aggregating more than three months in any 12-month period or (C), summarily following material breach or in the case of serious misconduct.

Name:	Steven Stamboultgis
Title:	Chief Financial Officer
Agreement commenced:	20 November 2015.
Term of agreement:	The term is not fixed.
Remuneration:	Base salary of $180,000 (including statutory superannuation) and 600,000 Options, each exercisable at $0.20 on or before 30 June 2019, vesting over three equal tranches on 1 July 2016, 2017 and 2018, if the employment has not terminated by the relevant date, on the same terms and conditions (as set out in Section 13.3 of the Replacement Prospectus dated 8 December 2015).
Annual Review	Remuneration is subject to an annual review to be conducted by the board. Factors to be considered include personal competency progression, achievement of personal development targets and KPI's, company remuneration policy, its financial position and current market equivalent positions. KPI's to be agreed each year and may be varied by mutual agreement.
Bonus:	None.
Termination:	The agreement may be terminated by either party without cause with three months' notice, or in the case of the Group, immediately with payment in lieu of notice (subject to the limitation of the Corporations Act and Listing Rules), by the Group on one months' notice, if Steven is unable to perform his duties due to illness, accident or incapacitation, for three months or a period aggregating more than three months in any 12 month period, or summarily following material breach or in case of serious misconduct.

Name:	Paolo Montessori
Title:	Chief Executive Transaction Processing Services
Agreement commenced:	27 January 2016.
Agreement ends:	Paolo Montessori resigned as Chief Executive Transaction Processing Services on 27 January 2017.
Term of agreement:	The term is not fixed.
Remuneration:	Annual consultancy of $250,000, exclusive of GST, 750,000 Options issued under the ESOP and 4,500,000 Options issued as Performance Options, each exercisable at $0.20 on or before 30 June 2019, vesting over three equal tranches on 1 July 2016, 2017 and 2018, if the employment has not terminated by the relevant date, on the same terms and conditions (as set out in Section 13.3 of the Replacement Prospectus dated 8 December 2015).
Bonus:	The executive bonus structure targets are reviewed annually with both parties acting in good faith and reflecting the current needs of the business. The performance bonus can be up to up to $100,000.
Termination:	The consultancy agreement may be terminated by the Group at any time for any reason which reason need not be specified, by giving three months' notice, (subject to the limitation of the Corporations Act and Listing Rules). Where the Group gives notice, the Group may pay Paolo in lieu or may require the Paolo to continue to provide services during the notice period or part thereof. If the Group elects to pay Paolo in lieu, the Group will immediately pay to Paolo an amount equal to three months' worth of the annual consultancy fee component of the consultancy fees and Paolo will accept that amount in full and final satisfaction of all claims against the Group. If Paolo is unable to perform his duties due to illness, accident or incapacitation, for three months or a period aggregating more than three months in any 12 month period, or summarily following material breach or in case of serious misconduct, the Group may terminate the agreement on terms it sees fit by giving Paolo six months' notice or an amount equal to six months' worth of the cash component of his consultancy fee and Paolo will accept that amount in full and final satisfaction of all claims against the Group. At any time, the Group may immediately terminate the agreement without notice as the result of an occurrence that gives the Group a right of summary dismissal of an employee at common law, including, wilful breach, gross or wilful disobedience, gross or wilful misconduct, dishonesty, subordination or neglect, failing to meet performance targets, having a receiver, receiver and manager, investigator, administrator, liquidator, provisional liquidator appointed of if an application is prescribed for the appointment of a provisional liquidator, being declared bankrupt, being placed under the control of any committee or officer under a law relating to mental health such that he is unable to satisfactorily carry out his duties, convicted of criminal offence involving fraud or dishonesty or any other offence which is punishable by imprisonment.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

No shares or options were issued as part of compensation for the year ended 30 June 2017.

Options were issued to Kenneth Lai and Paul Burton as their director remuneration. Kenneth and Paul had been each offered 750,000 options, vesting 12 months and 24 months equally after appointment date. Each option has an exercise price of $0.25. The last day for exercising is 30 June 2019 The options were subject to shareholder approval, which was ratified at the Group's 2016 Annual General Meeting (AGM).

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years include:

2017	Grant date	Grant number	Fair value per option at grant date	Opening Balance Options	Opening Balance Vested	Balance Vested during the yr	Options lapsed/ cancelled during yr	Value ex during the yr	Expiry date	First ex date	Last ex date
Director											
Executive Directors											
Peter Cook	12 Nov 15	5,000,000	$0.20	5,000,000	5,000,000	-		-	30 Jun 19	12 Nov 15	30 Jun 19
Other Key Management Personnel:											
Alan Munday	12 Nov 15	250,000	$0.20	250,000	-	250,000	-	-	30 Jun 19	1 Jul 16	30 Jun 19
Alan Munday	12 Nov 15	250,000	$0.20	250,000	-	-	-	-	30 Jun 19	1 Jul 17	30 Jun 19
Alan Munday	12 Nov 15	250,000	$0.20	250,000	-	-	-	-	30 Jun 19	1 Jul 18	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	$0.20	200,000	-	200,000	-	-	30 Jun 19	1 Jul 16	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	$0.20	200,000	-	-	-	-	30 Jun 19	1 Jul 17	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	$0.20	200,000	-	-	-	-	30 Jun 19	1 Jul 18	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	1,750,000	-	750,000	1,000,000	-	30 Jun 19	27 Jan 17	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	1,750,000		-	1,750,000	-	30 Jun 19	27 Jan 18	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	1,750,000		-	1,750,000	-	30 Jun 19	27 Jan 19	30 Jun 19
Non-Executive Directors											
Peter Pawlowitsch	12 Nov 15	1,000,000	$0.20	1,000,000	1,000,000	-		-	30 Jun 19	12 Nov 15	30 Jun 19
Brandon Munro	12 Nov 15	1,000,000	$0.20	1,000,000	1,000,000	-		-	30 Jun 19	12 Nov 15	30 Jun 19
Kenneth Lai	31 May 16	375,000	$0.25	375,000	-	375,000		-	30 Jun 19	31 May 17	30 Jun 19
Kenneth Lai	31 May 16	375,000	$0.25	375,000	-	-		-	30 Jun 19	31 May 18	30 Jun 19
Paul Burton	12 Nov 15	5,000,000	$0.20	5,000,000	5,000,000	-		-	30 Jun 19	12 Nov 16	30 Jun 19
Paul Burton	31 May 16	375,000	$0.25	375,000		375,000		-	30 Jun 19	31 May 17	30 Jun 19
Paul Burton	31 May 16	375,000	$0.25	375,000		-		-	30 Jun 19	31 May 18	30 Jun 19
Total		20,100,000		20,100,000	12,000,000	2,325,000	4,500,000	-			

2016	Grant date	Grant number	Fair value per option at grant date	Opening Balance Options	Opening Balance Vested	Balance Vested during the yr	Options lapsed/ cancelled during yr	Value ex during the yr	Expiry date	First ex date	Last ex date
Director											
Executive Directors											
Peter Cook	12 Nov 15	5,000,000	$0.20	5,000,000[6]	-	$0.20	30 Jun 19	12 Nov 15	30 Jun 19	12 Nov 15	30 Jun 19
Other Key Management Personnel:											
Alan Munday	12 Nov 15	250,000	$0.20	-	-	$0.20	30 Jun 19	1 Jul 16	30 Jun 19	1 Jul 16	30 Jun 19
Alan Munday	12 Nov 15	250,000	$0.20	-	-	$0.20	30 Jun 19	1 Jul 17	30 Jun 19	1 Jul 17	30 Jun 19
Alan Munday	12 Nov 15	250,000	$0.20	-	-	$0.20	30 Jun 19	1 Jul 18	30 Jun 19	1 Jul 18	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	$0.20	-	-	$0.20	30 Jun 19	1 Jul 16	30 Jun 19	1 Jul 16	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	$0.20	-	-	$0.20	30 Jun 19	1 Jul 17	30 Jun 19	1 Jul 17	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	$0.20	-	-	$0.20	30 Jun 19	1 Jul 18	30 Jun 19	1 Jul 18	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	-	-	$0.20	30 Jun 19	27 Jan 17	30 Jun 19	27 Jan 17	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	-	-	$0.20	30 Jun 19	27 Jan 18	30 Jun 19	27 Jan 18	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	-	-	$0.20	30 Jun 19	27 Jan 19	30 Jun 19	27 Jan 19	30 Jun 19
Non-Executive Directors											
Peter Pawlowitsch	12 Nov 15	1,000,000	$0.20	1,000,000[7]	-	$0.20	30 Jun 19	12 Nov 15	30 Jun 19	12 Nov 15	30 Jun 19
Brandon Munro	12 Nov 15	1,000,000	$0.20	1,000,000[8]	-	$0.20	30 Jun 19	12 Nov 15	30 Jun 19	12 Nov 15	30 Jun 19
Kenneth Lai	31 May 16	375,000[9]	$0.25		-	$0.25	30 Jun 19	31 May 17	30 Jun 19	31 May 17	30 Jun 19
Kenneth Lai	31 May 16	375,000[10]	$0.25		-	$0.25	30 Jun 19	31 May 18	30 Jun 19	31 May 18	30 Jun 19
Paul Burton	12 Nov 15	5,000,000	$0.20	5,000,000[11]	-	$0.20	30 Jun 19	12 Nov 16	30 Jun 19	12 Nov 16	30 Jun 19
Paul Burton	31 May 16	375,000[12]	$0.25	-	-	$0.25	30 Jun 19	31 May 17	30 Jun 19	31 May 17	30 Jun 19
Paul Burton	31 May 16	375,000[13]	$0.25	-	-	$0.25	30 Jun 19	31 May 18	30 Jun 19	31 May 18	30 Jun 19
Total		20,100,000		12,000,000							

[6] Peter Cook's 5,000,000 options are escrowed for 24 months from grant date.

[7] Peter Pawlowitsch's 1,000,000 options are escrowed for 24 months from grant date.

[8] Brandon Munro's 1,000,000 options are escrowed for 24 months from grant date.

[9] Kenneth Lai's 375,000 options were subject to shareholder approval at the FY16 Annual General Meeting. Security Holder Resolution passed on 16 November 2016

[10] Ibid.

[11] Paul Burton's 5,000,000 options are escrowed for 12 months from grant date.

[12] Paul Burton's 375,000 options were subject to shareholder approval at the FY16 Annual General Meeting. Security Holder Resolution passed on 16 November 2016.

[13] Ibid.

Options granted carry no dividend or voting rights.

No Options were granted to directors and key management personnel during the year ended 30 June 2017. Values of options over ordinary shares exercised and lapsed for directors and other key management personnel during the year ended 30 June 2017 are set out below:

2017	Number of Options granted during the yr	Value of Options granted during the yr	Value of Options ex during the yr	Value of Options lapsed during the yr
Name	$	$	$	$
Peter Pawlowitsch	-	-	-	-
Peter Cook	-	-	-	-
Brandon Munro	-	-	-	-
Kenneth Lai	-	-	-	-
Paul Burton	-	-	-	-
Paul Burton	-	-	-	-
Alan Munday	-	-	-	-
Steven Stamboultgis	-	-	-	-
Paolo Montessori	-	-	-	78,760
Total	-	-	-	78,760

2016	Number of Options granted during the yr	Value of Options granted during the yr	Value of Options ex during the yr	Value of Options lapsed during the yr
Name	$	$	$	$
Peter Pawlowitsch	1,000,000	58,531	-	-
Peter Cook	5,000,000	292,655	-	-
Brandon Munro	1,000,000	58,531	-	-
Kenneth Lai[14]	750,000	19,424	-	-
Paul Burton[15]	750,000	19,424	-	-
Paul Burton	5,000,000	292,655	-	-
Alan Munday	750,000	43,898	-	-
Steve Stamboultgis	600,000	35,119	-	-
Paolo Montessori	5,250,000	310,016	-	-
Total	20,100,000	1,130,253	-	-

The factors that are considered to affect Total Shareholders Return ('TSR') are summarised below:

	2017	2016
Share price at financial year end	0.115	0.14
Total dividends declared (cents per share)	-	-
Basic earnings per share (cents per share)	(5.03)	(9.06)

[14] Kenneth Lai's 750,000 Options were subject to shareholder approval and occurred at the FY16 Annual General Meeting.

[15] Paul Burton's 750,000 Options were subject to shareholder approval and occurred at the FY16 Annual General Meeting

Disclosures relating to the directors & Senior Management

Additional disclosures relating to key management personnel

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

	Bal issued as at listing date	Received as part of rem	Additions	Disposals/ other	Bal at the end of the year
Ordinary shares					
Peter Pawlowitsch	1,875,000	-	468,750	-	2,343,750
Peter Cook	9,835,900	-	1,272,004^	-	11,107,904
Brandon Munro	1,250,000	-	312,500	-	1,562,500
Kenneth Lai	10,335,000	-	2,583,750*	-	12,918,750
Paul Burton	-	-	-	-	-
Alan Munday	50,000	-	-	-	50,000
Steven Stamboultgis	20,000	-	-	-	20,000
Paolo Montessori	-	-	-	-	-
Total	23,365,900	-	4,637,004	-	28,002,904

^ Includes the conversion of 872,004 Performance Shares as announced to the ASX on 16 September 2016.

* Ordinary shares issued under the Institutional component of the one for four accelerated pro-rata non-renounceable entitlement offer as announced on the ASX on the 16 May 2017

Option holding

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

	Balance Issued as at Listing date	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Peter Pawlowitsch	1,000,000	-	-	-	1,000,000
Peter Cook	5,000,000	-	-	-	5,000,000
Brandon Munro	1,000,000	-	-	-	1,000,000
Kenneth Lai[16]	750,000	-	-		750,000
Paul Burton[17]	750,000	-	-	-	750,000
Paul Burton	5,000,000	-	-	-	5,000,000
Alan Munday	750,000	-	-	-	750,000
Steven Stamboultgis	600,000	-	-	-	600,000
Paolo Montessori	5,250,000	-	-	4,500,000	750,000
Total	20,100,000	-	-	4,500,000	15,600,000

Other transactions with key management personnel and their related parties.

[16] Kenneth Lai's 750,000 Options were subject to shareholder approval and occurred at the FY16 Annual General Meeting.

[17] Paul Burton's 750,000 Options were subject to shareholder approval and occurred at the FY16 Annual General Meeting.

Services

During the financial year, no payments were made to Directors outside of their normal duties as Directors for Novatti Group Ltd.

Loans from Directors:

There are no loans that were entered into or, outstanding with the Directors of Novatti Group Ltd as at 30 June 2017.

Current and non-current liabilities to a Director:

There are no other current or non-current liabilities outstanding to Directors of the Group as at 30 June 2017.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Novatti Group Limited under option at the date of this report are as follows:

Grant date	Expiry date	Ex price	Expired/forfeited/other	Number under option
12 Nov 15	30 Jun 19	$0.20	-	13,750,000
12 Nov 15	30 Jun 19	$0.20	-	1,150,000
12 Nov 15	30 Jun 19	$0.20	-	1,150,000
12 Nov 15	30 Jun 19	$0.20	-	1,150,000
8 Jan 16	30 Jun 19	$0.20	-	2,859,250
3 Feb 16	30 Jun 19	$0.20	1,000,000	750,000
3 Feb 16	30 Jun 19	$0.20	1,750,000	-
3 Feb 16	30 Jun 19	$0.20	1,750,000	-
8 Feb 16	30 Jun 19	$0.20	-	4,000,000
31 May 16	30 Jun 19	$0.25	-	1,500,000
24 Jun 16	30 Jun 19	$0.20	530,000	3,107,000
21 Jul 16	31 Dec 19	$0.20	-	1,000,000
Total			**5,030,000**	**30,416,250**

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

Shares issued upon the exercise of options

No shares were issued by Novatti Group Limited during the year ended 30 June 2017 up to the date of this report as a result of the exercise of options granted.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

During the financial year, the Group has not paid a premium in respect of a contract to ensure the auditor of the Group or any related entity.

Proceedings on behalf of the Group

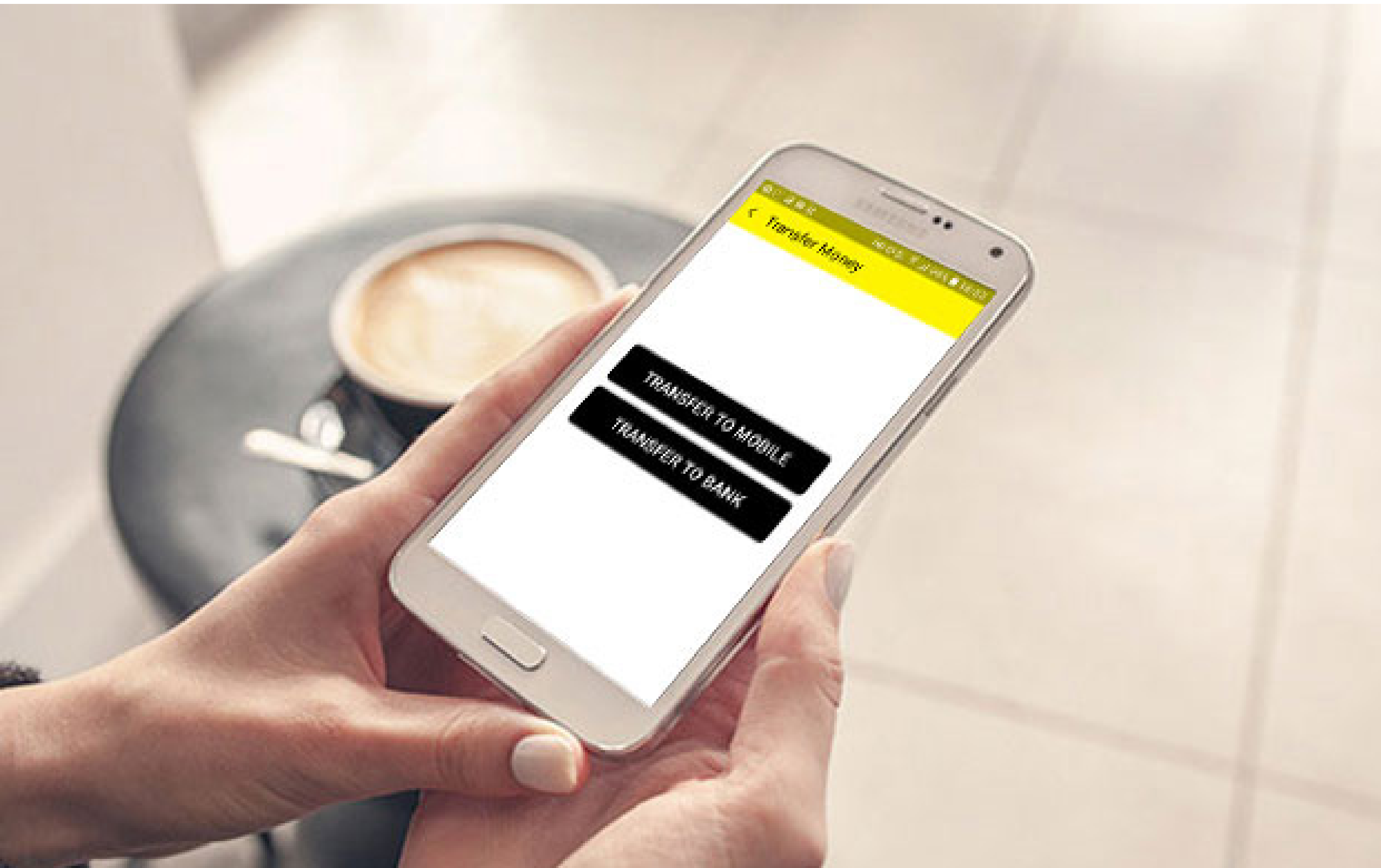
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 22 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.



A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

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

On behalf of the directors

Peter Pawlowitsch
Chairman
31 August 2017

Melbourne

The Board of Directors of Novatti Group Limited ('Novatti', "Group" or the 'Company') is responsible for corporate governance.

The Board has chosen to prepare the Corporate Governance Statement ('CGS') in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the CGS may be available on the Group's website.

Accordingly, a copy of the Group's CGS is available on the Novatti Group website at www.novatti.com under the Corporate Governance section.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF NOVATTI GROUP LIMITED

I declare that, to the best of my knowledge and belief during the year ended 30 June 2017 there have been:

— no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck.

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

J. C. Luckins
Director
Dated this 31 day of August, 2017

CHARTERED ACCOUNTANTS & ADVISORS
Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

Financial Report

General information

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

Novatti Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office
Level 1
6 Thelma Street
West Perth WA 6005

Principal place of business
1st floor
Legacy House
293 Swanston Street
Melbourne VIC 3000

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 financial statements were authorised for issue, in accordance with a resolution of Directors.

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2017

	Note	Consolidated 2017	Consolidated 2016
		$	$
Revenue	4	2,191,206	3,870,114
Other income	4	1,350,711	997,374
Total Revenue		3,541,917	4,867,488
Expenses			
Client hosting fees and other direct services	6	(621,183)	(2,136,683)
Employee benefits		(5,883,090)	(5,587,115)
Depreciation and amortisation expense	13,14	(54,946)	(19,449)
Occupancy		(143,149)	(100,190)
Finance charges	6	(15,869)	(34,297)
Foreign currency translation (losses)/gains		(14,493)	22,791
Travel expenses		(289,696)	(275,352)
Marketing expenses		(124,526)	(148,035)
Data management expenses		(75,355)	(145,666)
Share of net profit of joint ventures accounted for using the equity method	5	(8,511)	(199,338)
Transaction cost		-	(224,875)
Withholding Tax not claimable		(149,439)	-
VAT not claimable		(35,607)	-
Other expenses		(843,782)	(890,645)
Loss before income tax expense		(4,717,729)	(4,871,366)
Income tax expense	7	-	(96,354)
Loss after income tax expense for the year		(4,717,729)	(4,967,720)
Total comprehensive income for the year attributable to owners		(4,717,729)	(4,967,720)

		2017	2016
		Cents	Cents
Basic earnings and diluted per share	31	(5.03)	(9.06)

The above statement of profit or loss and Other Comprehensive Income (OCI) should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

For the year ended 30 June 2017

	Note	Consolidated 2017	Consolidated 2016
		$	$
Assets			
Current assets			
Cash and cash equivalents	8	717,881	4,725,649
Trade and other receivables	10	1,538,316	1,541,958
Financial Assets	11	32,554	31,837
Other	12	85,493	52,580
Total current assets		2,374,244	6,352,024
Non-current assets			
Investments accounted for using the equity method	5, 28	4,363	14,901
Property, plant and equipment	13	26,391	46,357
Intangible assets	14	2,668,614	-
Total non-current assets		2,699,368	61,258
Total assets		5,073,612	6,413,282
Liabilities			
Current liabilities			
Trade and other payables	15	2,302,623	1,878,719
Employee benefits	16	479,605	152,232
Total current liabilities		2,782,228	2,030,951
Non-current liabilities			
Employee benefits	16	19,124	118,569
Other non-current liabilities		-	-
Total non-current liabilities		19,124	118,569
Total liabilities		2,801,352	2,149,520
Net assets		2,272,260	4,263,762
Equity			
Issued capital	17	14,296,835	11,940,604
Reserves	18	1,084,310	714,314
Accumulated Losses	19	(13,108,885)	(8,391,156)
Retained profits			
Total equity		2,272,260	4,263,762

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

Statement of Changes in Equity

For the year ended 30 June 2017

	Issued Capital	Option Reserves	Foreign Currency Translation Reserve	Retained Profits	Total Equity
Consolidated	**$**	**$**	**$**	**$**	**$**
Balance at 1 July 2016	11,940,604	713,465	849	(8,391,156)	4,263,762
Loss after income tax expense for the year	-	-	-	(4,717,729)	(4,717,729)
	11,940,604	713,465	849	(13,108,885)	(453,967)
Transactions with owners in their capacity as owners:					
Shares issued during the period	2,356,231	-	-	-	2,356,231
Options issued (Note 17)	-	415,014	-	-	415,014
Foreign exchange translation differences	-	-	(45,018)	-	(45,018)
Balance at 30 June 2017	14,296,835	1,128,479	(44,169)	(13,108,885)	2,272,260

On 8 May 2017, Novatti Group Limited announced an accelerated 1 for 4 non-renounceable pro rata entitlement offer of new ordinary shares in the Group at an issue price of $0.14, the purpose of the offer was to fund the acquisition of basis2, a new business for the group.

16,628,106 ordinary shares have been issued under this entitlement raising $2.3M.

For the year ended 30 June 2016

	Issued Capital	Option Reserves	Foreign Currency Translation Reserve	Retained Profits	Total Equity
Consolidated	**$**	**$**	**$**	**$**	**$**
Balance at 1 July 2015	3,458,122	-	-	(3,423,436)	34,686
Deemed Consideration on reverse acquisition that is not a Business	225,000		-		225,000
Loss after income tax expense for the year	-	-	-	(4,967,720)	(4,967,720)
	3,683,122	-	-	(8,391,156)	(4,708,034)
Transactions with owners in their capacity as owners:					
Shares issued during the period	8,257,482	-	-	-	8,257,482
Options issued	-	713,465	-	-	713,465
Foreign exchange translation differences	-	-	849	-	849
Balance at 30 June 2016	11,940,604	713,465	849	(8,391,156)	4,263,762

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

Statement of Cash Flows

For the year ended 30 June 2017

	Note	Consolidated 2017	Consolidated 2016
		$	$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		5,926,927	4,085,663
Payments to suppliers and employees (inclusive of GST)		(11,202,568)	(7,692,426)
Interest received		29,895	60,695
Receipt of Research and Development rebate		1,320,099	936,679
Interest and other finance costs paid		(15,872)	(34,297)
Income taxes paid		-	(96,354)
Net cash from operating activities	30	(3,941,519)	(2,740,040)
Cash flows from investing activities			
Payment for acquisition of basis2 assets		(2,354,879)	
Joint Venture High Impact Corp. - Loan		(13,233)	(27,571)
Joint Venture Novatti (Malaysia) Sdn Bhd - Investment		-	(16,457)
Proceeds from sale of property, plant and equipment		2,100	-
Payments for property, plant and equipment		(10,289)	(56,513)
Net cash used in investing activities		(2,376,301)	(100,541)
Cash flows from financing activities			
Proceeds from issue of shares – Pre Initial Public Offering		2,327,935	1,219,126
Proceeds from issue of shares – Initial Public Offering		-	7,000,000
Share issue transaction costs		(3,390)	(595,264)
Proceeds from borrowings		-	-
Repayment of borrowings		-	(359,707)
Net cash used in financing activities		2,324,545	7,264,155
Net increase/(decrease) in cash and cash equivalents		(3,993,275)	4,423,574
Cash and cash equivalents at the beginning of the financial year		4,725,649	279,284
Effects of exchange rate changes on cash and cash equivalents		(14,493)	22,791
Cash and cash equivalents at the end of the financial year	8	717,881	4,725,649

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

Notes to the Financial Statements

For the year ended 30 June 2017

Note 1. Significant accounting policies

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

New, revised or amending Accounting Standards and Interpretations adopted

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the legal parent entity is disclosed in Note 25.

Principles of consolidation

These are the financial statements of Novatti Group Limited (the 'Company' or as the 'legal parent') and its controlled entities (the 'Group') as at 30 June 2017.

On 28 September 2015, Novatti Group Limited entered into a Share Purchase Agreement with the equity holders of Novatti Pty Ltd to acquire, via a share for share scrip rollover, all the shares in Novatti Pty Ltd. Judgements have been applied to the accounting treatment of this transaction whereby Novatti Group Ltd obtained control of Novatti Pty Ltd. The transaction has been treated as a reverse acquisition that is not a business in accordance with AASB 3 Business Combinations.

In accounting for the transaction as a reverse acquisition that is not a business, the following judgements were made:

- Identification of Novatti Pty Ltd as the acquirer for accounting purposes using the guidance contained in AASB 3 Business Combinations and therefore the financial statements treated as a continuation of Novatti Pty Ltd and
- The deemed consideration to effect the transaction for accounting purposes was determined by assigning a price to the number of shares that Novatti Pty Ltd would have to issue to effect the transaction.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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.

If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary,
- De-recognises the carrying amount of any non-controlling interests,
- De-recognises the cumulative translation differences recorded in equity,
- Recognises the fair value of the consideration received,
- Recognises the fair value of any investment retained, and
- Recognises any surplus or deficit in profit or loss.

Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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.

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.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Novatti Group Limited's functional and presentation currency.

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.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

The Group derived the following revenue for the provisions of its services:

Platform Sales

Deployment and the support of specialist mobile and alternative payment technology. There are two primary components, the recognition of revenue on the completion and delivery of agreed milestones and the revenue recognised for ongoing maintenance and support.

Transaction Sales
Included within transaction sales are:

- Fees for software as a service
- Fees for the facilitation of top up vouchers

Interest
Interest revenue is recognised on a time proportional basis that takes into account the effective yield on the financial asset.

Unearned revenue
Unearned revenue includes revenue from clients whereby services are billed in advance of their anniversary dates and have outstanding services owing at the balance date of 30 June 2017.

Accrued revenue
Accrued revenue includes revenue from the sales of services unbilled as at 30 June 2017.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Government grants
Government grants, including Research and Development revenues, are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be fulfilled.

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 rates that have been enacted by reporting date, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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

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

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

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

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

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

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

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

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.
Cash and cash equivalents include cash held in trust for remittance top up voucher services. Receipts from top up voucher distributors are recognised as (cash) "Receipts from Customers" whilst remittances to merchants for top up vouchers are recognised as (cash) "Payments to suppliers (and employees)".

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in Joint Ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the Joint Venture are recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in Joint Ventures are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the Joint Venture.

Dividends received or receivable from Joint Ventures reduce the carrying amount of the investment.

When the Group's share of losses in a Joint Venture equals or exceeds its interest in the Joint Venture, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the Joint Venture.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition- date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition- date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in the statement of profit or loss and other comprehensive income through the amortisation process and when the financial asset is derecognised.

Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

The depreciable amount of all fixed assets, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives for the current period are as follows:

Leasehold improvements	- 2 years
Plant and equipment	- 2 years
Fixtures and Fittings	- 10 years

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to the statement of profit or loss and other comprehensive income in the period in which they arise.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The estimated useful lives for Intangibles for the current period is:

Customer lists	- 10 years
Intangible asset	- 10 years

Intangible assets acquired in a business combination

Intangible assets, including customer lists and intellectual property acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of Intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash- generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash- generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Impairment of non-financial assets

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.

Trade and other payables

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

Provisions

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

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be wholly settled 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 wholly within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, which are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option, together with non- vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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 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.

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

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

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

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

Cash flows are presented on a gross basis in the statement of cash flows. 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.

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 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in OCI. For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an Expected Credit Loss ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

Based on the Group's preliminary assessment, there will be no material impact on the transactions and balances recognised in the financial statements when this standard is first adopted for the year ended 30 June 2018.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

The Group has undertaken a preliminary assessment of the impact of AASB 15. However, based on the Group's preliminary assessment, this standard is not expected to have a material impact on the transactions and balances in the financial statements when it is first adopted for the year 30 June 2019. The Group has adopted the 'Modified Retrospective' method of transition under AASB 15 Revenue from Contracts with Customers.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply AASB 16 Leases at or before the date of initial application of this Standard. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right- of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
The previous accounting model for leases required lessees and lessors to classify their leases as either finances leases or operating leases and account for those two types of leases differently. That model was criticised for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognise assets and liabilities arising from operating leases. Accordingly, the International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to develop a new approach to lease accounting that requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

The consolidated entity will adopt AASB16 from 1 July 2019. Whilst the Group has yet to prepare a detailed analysis of its impact, it does note that the financial statements will be reflective of a "right of use" asset for capitalization in the statement of financial position. A liability corresponding to the capitalized lease will also be recognized. In the earlier periods of the lease, the expenses associated with the lease under AASB16 will be higher when compared to the lease expenses under AASB117. However EBITDA (Earnings before interested, tax and depreciation) results will be improved as the operating expense is replaced by depreciation in the profit and loss under AASB16.

Note 2. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments, 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 judgments and estimates will seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

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

The value of the Performance Shares are based on their fair value at the time of grant using a share price of $0.16, with each of the four milestones discounted for the probability of achievement. This value is recognised within the accounts of the legal parent and upon consolidation, is eliminated.

Provision for impairment of receivables

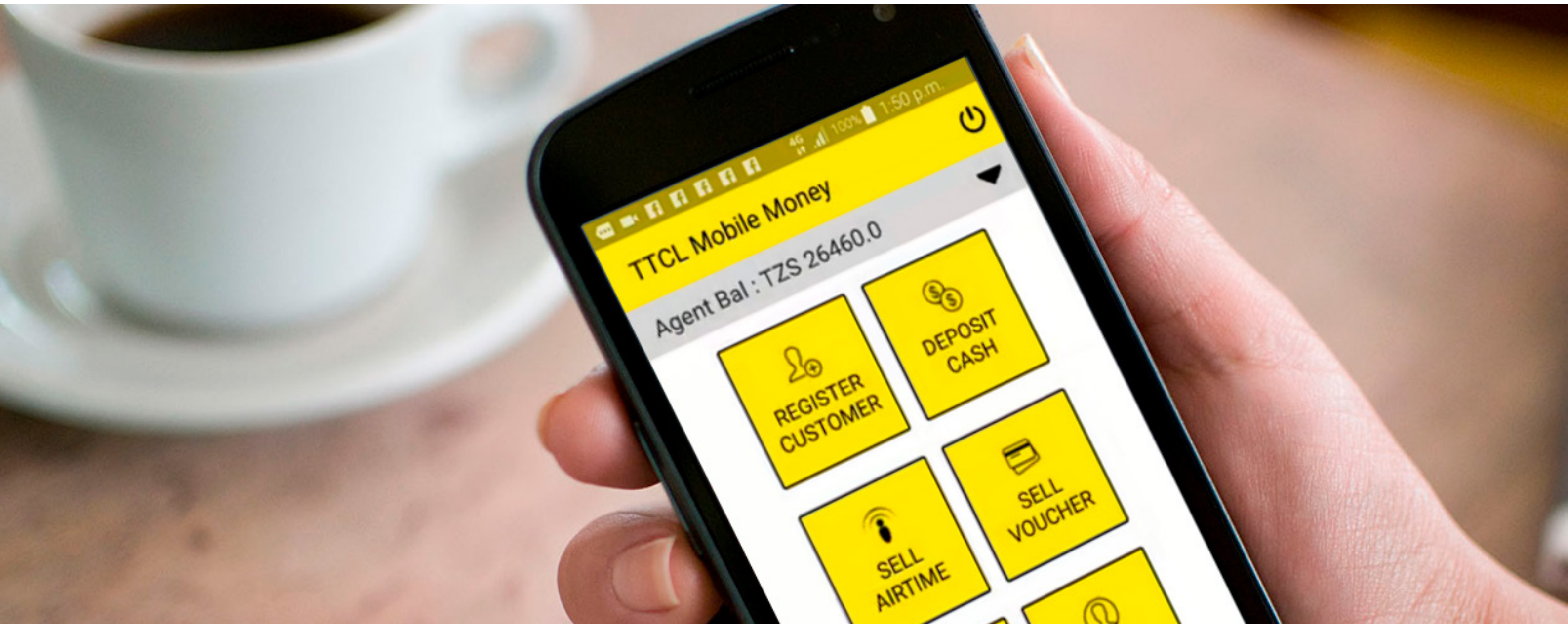
The provision for impairment of receivables assessment requires a degree of estimation and judgment. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Note 3. Operating segments

Identification of reportable operating segments

The Group is organised into four operating business segments: (A) Novatti Platform, incorporating enterprise sales and Maintenance & Support via the Novatti Platform, (B) Advanced Billing Solutions, incorporating basis2 operating under Novatti Incorporated (C) Transaction Services incorporating Flexewallet Pty Ltd, Flexepayments (South Africa) Pty Ltd and Flexe Payments Ltd and (D) Novatti Group Limited is the legal parent that holds the financial assets for the Group. These operating business segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a monthly basis.



Types of products and services

The principal products and services of each of these operating segments are as follows:

Novatti Platform

Develops, deploys and supports specialised mobile and alternate payment technology, primarily through the deployment of the Novatti Platform.

Advanced Billing Solutions

basis2 trading under Novatti Inc.: Provides a technologically advanced billing and CIS solution to service providers in the utilities industry.

Transaction Services

TransferBridge: Provides a comprehensive global network that interconnects emerging payment platforms, remittance operators, financial institutions, retailers, utilities and all types of telecommunication operators.

Flexewallet and Flexe Payments: Offers customers an alternative payment method in the form of a prepaid cash voucher. Vouchers can be used for a multitude of payment methods such as prepaid account top-ups and for secure online payment of goods and services. Vouchers are available in a variety of currencies and locations globally.

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans are eliminated on consolidation.

Operating segment information

	Novatti Platform	Billing Solutions	Transaction Services	Novatti Group Limited	Total
Revenue – 30 June 2017					
Sales to external customers	1,779,151	192,197	219,858	-	2,191,206
Intersegment sales	-	-	-	-	-
Total sales revenue	1,779,151	192,197	219,858	-	2,191,206
Other revenue	1,320,099	-	-	-	1,320,099
Total revenue	3,099,250	192,197	219,858	-	3,511,305
EBITDA	(2,339,528)	(12,345)	(1,225,198)	(915,409)	(4,492,480)
Depreciation and amortisation	-				(54,946)
Interest revenue	-				30,612
Finance costs	-				(15,869)
Other costs	-				(185,046)
Profit before income tax expense	-				(4,717,729)
Income tax expense	-				-
Profit after income tax expense	-				(4,717,729)
Segment Assets	1,106,774	1,952,078	793,548	1,221,212	5,073,612
Segment Liabilities	1,365,923	424,973	762,056	248,400	2,801,352
Employee Benefits	4,330,968	16,646	1,089,226	446,250	5,883,090
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	-	-	-	-	-

Revenue from Australian customers is $735,303 (FY16: $1,085,431).
Revenue from customers in other countries is $1,452,743 (FY16: $1,285,121).
Revenue from a single customer in a country other than Australia is $614,675 (FY16: $255,538).

	Novatti Platform	Transaction Services	Novatti Group Limited	Total
Consolidated – 30 June 2016	**$**	**$**	**$**	**$**
Revenue				
Sales to external customers	3,736,608	133,506	-	3,870,114
Intersegment sales	-	-	-	-
Total sales revenue	3,736,608	133,506	-	3,870,114
Other revenue	938,931	-	58,443	997,374
Total revenue	4,675,539	133,506	58,443	4,867,488
EBITDA	(2,968,657)	(716,235)	(1,193,423)	(4,878,315)
Depreciation and amortisation				(19,449)
Interest revenue				60,695
Finance costs				(34,297)
Profit before income tax expense				(4,871,366)
Income tax expense				(96,354)
Profit after income tax expense				(4,967,720)
Segment Assets	1,934,738	473,835	4,004,709	6,413,282
Segment Liabilities	1,552,800	535,240	61,480	2,149,520
Employee Benefits	4,698,976	506,145	381,994	5,587,115
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	-	-	-	-

Note 4. Revenue

	Consolidated 2017	Consolidated 2016
	$	**$**
Sales revenue:		
Rendering of services	120,681	-
Transactional Services	216,258	133,506
Maintenance and Support	1,124,687	936,839
Licence income	729,580	2,799,769
	2,191,206	3,870,114
Other revenue:		
Interest	30,612	60,695
Research and Development	1,320,099	936,679
Other	-	-
	1,350,711	997,374
Revenue	3,541,917	4,867,488

Note 5. Share of Joint Venture accounted for using the equity method

	Consolidated 2017	Consolidated 2016
	$	$
Share of loss – High Impact	-	(197,426)
Share of loss – ATX Malaysia	(8,511)	(1,912)
Total share of loss in Joint Ventures	(8,511)	(199,338)
Note 5 a. Investments accounted for using the equity method		
Investment in Joint Venture - High Impact	-	-
Investment in Joint Venture - ATX Malaysia	4,363	14,901

In respect of High Impact, Novatti has not incurred legal or constructive obligations, or made payments on behalf of the joint venture. The directors are unable to accurately ascertain the likely returns for this investment and so had resolved to write-off its share of this investment in FY 16.

In accordance with AASB 128 Novatti Group Limited will periodically review the status of its Joint Venture in High Impact. Subsequently where the Joint Venture entity reports a profit, Novatti will resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Note 6. Expenses

	Consolidated 2017	Consolidated 2016
	$	$
Profit before income tax includes the following specific expenses:		
Client hosting fees and other direct services	621,183	2,136,683
Finance costs		
Interest and finance charges paid/payable	15,869	34,297
Share-based payments expense		
Share-based payments expense (Options)	410,457	541,684
Superannuation expense		
Defined contribution superannuation expense	285,033	237,330

Note 7. Income tax expense

	Consolidated 2017	Consolidated 2016
	$	$
Reconciliation of Income tax expense to prima facie tax payable		
Loss before Income Tax	(4,717,729)	(4,871,366)
Prima facie income tax on loss at the domestic tax rate of Novatti Group Ltd of 27.5% (2016: 30%)	(1,297,375)	(1,461,410)
Adjustment for tax rate differences in foreign jurisdictions	45,003	3,648
Adjustment for tax exempt research and development tax incentive received	(363,027)	(281,004)
Adjustments from prior periods	(12,502)	-
Adjustment for changes in tax rates	(79,378)	-
Adjustment for non-deductible expenses:		
- Share based payments expense	112,876	90,735
- Adjustment for R&D accounting expense included within R&D incentive	880,066	-
- Deemed Equity Consideration on Reverse Acquisition that is not a business	-	67,463
- Other non-deductible expenses	1,755	21,642
	(712,582)	(1,558,926)
Current year tax losses not brought to account	1,333,060	1,553,959
Current year temporary differences not brought to account	167,708	4,966
Adjustments in respect of current income tax of previous year	(788,186)	-
Income tax expense	-	96,354
Deferred tax assets not brought to account:		
Unused tax losses for which no deferred tax asset has been recognised	7,135,200	5,179,864
Deductible temporary differences for which no deferred tax asset has been recognised	1,521,340	911,467
	8,656,540	6,091,331
Potential tax benefit @ 27.5% (2016: 30%)	2,380,549	1,827,399

Note 8. Current assets - cash and cash equivalents

	Consolidated 2017	Consolidated 2016
	$	$
Cash on hand	17,897	1,714
Bank Balances	699,984	4,723,935
	717,881	4,725,649
Reconciliation to cash and cash equivalents at the end of the financial year		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Cash and Cash Equivalents	654,146	4,329,344
Cash and Cash Equivalents held on trust under Flexewallet's Remittance program. These funds are distributed under instructions within 24 hours.	63,735	396,305
Balance as per statement of cash flows	717,881	4,725,649

Note 9. Net position of transaction services business – funds in trust

	Consolidated 2017	Consolidated 2016
	$	$
Flexewallet Pty Ltd (Flexepin)		
Cash and cash equivalents held in trust	405,410	30,661
Accounts receivable	49,493	20,819
Accrued revenue - Flexepin	213,014	15,716
Accounts payable	(361,712)	(43,425)
Accrued expenses - Flexepin	(281,562)	(26,787)
Unearned revenue - Flexepin	(14,702)	-
Total Flexewallet Pty Ltd (Flexepin)	**9,941**	**3,016**
Remittance		
Cash and cash equivalents held in trust	1,056	-
Accounts receivable	1,303	-
E-Wallet remittance balance	8,590	-
Accrued Expenses - TransferBridge Remittance	26,386	2,132
Intercompany loan - TransferBridge Novatti, Airtime Top up	(20,030)	-
	17,305	2,132

Note 10. Current assets - trade and other receivables

	Consolidated 2017	Consolidated 2016
	$	$
Trade receivables	947,184	341,262

Impairment of receivables

The Group's trade and other receivables have been reviewed for indicators of impairment. Trade receivables were not found to be impaired and a provision has not been recorded. There are no other impaired trade receivables in any of the Group's subsidiaries.

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated 2017	Consolidated 2016
	$	$
Current	438,384	95,928
0 to 3 months overdue	49,067	10,075
3 to 6 months overdue	459,733	235,259
Over 6 months overdue	-	-
	947,184	341,262
Other receivables		
Accrued Revenue	591,132	1,200,696
Total trade and other receivables	1,538,316	1,541,958

Management are of the opinion that these receivables are reflective of fair value and should not be impaired.

Note 11. Financial Assets

	Consolidated 2017	Consolidated 2016
	$	$
Security term deposit	32,554	31,837
Total financial assets	32,554	31,837

Note 12. Other Current Assets

	Consolidated 2017	Consolidated 2016
	$	$
Prepayments	63,670	46,970
Other	8,590	5,610
Loan – High Impact*	13,233	-
	85,493	52,580

*Short term loan agreement of US$10,000 provided to High Impact on commercial terms, entered into on 27 March 2017, interest calculated daily at 6% per annum.

Note 13. Non-current assets – property, plant and equipment

	Consolidated 2017	Consolidated 2016
	$	$
Plant and equipment - at cost	436,513	431,440
Less: accumulated depreciation	(420,297)	(402,349)
	16,216	29,091
Leasehold fixtures and fittings - at cost	14,922	14,922
Less: accumulated depreciation	(11,478)	(5,182)
	3,444	9,740
Fixtures and fittings	26,083	26,083
Less: accumulated depreciation	(19,352)	(18,557)
	6,731	7,526
Total property, plant and equipment	26,391	46,357

Reconciliations

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

2017	Plant & Equipment at cost	Fixtures & Fittings at cost	Leasehold Fixtures & Fittings at cost	Total
	$	$	$	$
Gross carrying amount				
Balance 1 July 2016	431,440	26,083	14,922	472,445
Additions	10,289	-	-	10,289
Disposals	(5,216)	-	-	(5,216)
Balance 30 June 2017	436,513	26,083	14,922	477,518
Accumulated depreciation and impairment				
Balance 1 July 2016	**(402,349)**	**(18,557)**	(5,182)	(426,088)
Disposals	2,892	-	-	2,892
Depreciation expense	(20,840)	(795)	(6,296)	(27,931)
Balance 30 June 2017	(420,297)	(19,352)	(11,478)	(451,127)
Net book value				
As at 1 July 2016	29,091	7,526	9,740	46,357
Balance 30 June 2017	16,216	6,731	3,444	26,391

2016	Plant & Equipment at cost	Fixtures & Fittings at cost	Leasehold Fixtures & Fittings at cost	Total
	$	$	$	$
Gross carrying amount				
Balance 1 July 2015	395,469	18,133	2,330	415,932
Additions	35,971	7,950	12,592	56,513
Disposals	-	-	-	-
Balance 30 June 2016	431,440	26,083	14,922	472,445
Accumulated depreciation and impairment				
Balance 1 July 2015	**(386,176)**	**(18,133)**	(2,330)	(406,639)
Depreciation expense	(16,173)	(424)	(2,852)	(19,449)
Balance 30 June 2016	(402,349)	(18,557)	(5,182)	(426,088)
Net book value				
As at 1 July 2015	9,293	-	-	9,293
Balance 30 June 2016	29,091	7,526	9,740	46,357

Note 14. Intangibles

	Consolidated 2017	Consolidated 2016
	$	$
Intangible assets - at cost	4,482,292	1,787,110
Less: Accumulated amortisation	(1,813,678)	(1,787,110)
	2,668,614	-

2017	Intangible Assets
	$
Gross carrying amount	
Balance 1 July 2016	1,787,110
Additions	-
Intellectual property – Business acquisition	847,000
Goodwill	2,000
Customer list	1,846,182
Disposals	-
Balance 30 June 2017	**4,482,292**
Accumulated amortisation	
Balance 1 July 2016	(1,787,110)
Amortisation expense	(27,015)
Foreign exchange*	447
Balance 30 June 2017	(1,813,678)
Net book value	
As at 1 July 2016	2,668,614
Balance 30 June 2017	2,668,614

2016	Intangible Assets
	$
Gross carrying amount	
Balance 1 July 2015	1,787,110
Additions	-
Disposals	-
Balance 30 June 2016	1,787,110
Accumulated amortisation	
Balance 1 July 2015	(1,787,110)
Amortisation expense	-
Balance 30 June 2016	(1,787,110)
Net book value	
As at 1 July 2015	-
Balance 30 June 2016	-

*In accordance with AASB 121 the foreign exchange variance between accumulated amortization for the period and the amortization expense on Intangible assets of AUD 447, is a result of the conversion of the amortization on Customer Lists from USD 13,970 to AUD 18,646, using an exchange rate average over the period of AUD 0.7492 to USD 1.

Note 15. Current liabilities - trade and other payables

	Consolidated 2017	Consolidated 2016
	$	$
Trade payables	700,348	463,421
Unearned Income	565,272	182,646
Accrued Expenses	1,037,003	1,232,652
	2,302,623	1,878,719

Note 16. Provision for employee benefits

	Consolidated 2017	Consolidated 2016
	$	$
Current		
Employee benefits	479,605	152,232
Non-current		
Employee benefits	19,124	118,569

Note 17. Equity - issued capital (current)

	Consolidated 2017	Consolidated 2016
	$	$
87,883,826 Fully paid ordinary shares as at 30 June 2016	-	11,940,604
107,972,647 Fully paid ordinary shares as at 30 June 2017	14,296,835	-
Total	14,296,835	11,940,604

Movements in ordinary share capital

Details	Date	No of shares	Issue price	Consolidated 2017
			$	$
Balance – Novatti Pty Ltd	01 Jul 2015	338,760	-	3,458,122
Balance – Novatti Group Ltd – Issued capital preacquisition	01 Jul 2015	1,250,000	-	-
Novatti Group Ltd acquired all the shares in Novatti Pty Ltd on a scrip for scrip basis on 28 September 2015	28 Sep 2015	40,000,000	-	3,458,122
20 million Performance Shares was provided to the original shareholders of Novatti Pty Ltd as part of the acquisition of Novatti Pty Ltd by Novatti Group. Each Performance Share was convertible to one ordinary share when the Terms and Conditions as disclosed in the Replacement Prospectus at 13.2 were achieved	28 Sep 2015	-	-	3,458,122
Novatti Pty Ltd shares eliminated on completion of reverse acquisition that is not a Business	28 Sep 2015	(338,760)	-	-
Deemed Consideration on reverse acquisition that is not a Business	28 Sep 2015	-	-	225,000
Loans provided by Novatti Group Ltd directors, Peter Cook, Brandon Munro and Peter Pawlowitsch to Novatti Pty Ltd converted into shares within Novatti Group Limited at $0.16 per share	31 Oct 2015	3,125,000	0.16	500,000
Loan provided by Novatti Pty Ltd shareholder to Novatti Pty Ltd converted into shares within Novatti Group Limited at $0.16 per share	31 Oct 2015	3,555,206	0.16	568,833
$250,000 in non-current liabilities and $132,579 in trade payables to director related Coomar Pty Ltd outstanding as at 30 June 2015 was assigned to director related Corangamite Pty Ltd in accordance with a Deed of Assignment of Debt dated 31 October 2015 between the two parties and was converted to equity at $0.16 per share	31 Oct 2015	2,391,120	0.16	382,579
Issue of shares at $0.16 per share as Pre IPO capital received by Novatti Group Ltd	23 Nov 2015	2,562,500	0.16	410,000
Issue of 35 million Shares from IPO at $0.20 per share	18 Jan 2016	35,000,000	0.20	7,000,000
Capital Raising Costs	31 Jan 2016	-	-	(592,105)
Capital Raising Costs	29 Feb 2016	-	-	(6,875)
Capital Raising Costs	30 Apr 2016	-	-	(4,950)
Balance 30 June 2016 – Novatti Pty Ltd	30 Jun 2016	87,883,826		11,940,604
Balance – Novatti Group Ltd – Issued capital	1 July 2017	87,883,826		11,940,604
5 million Performance Shares were converted to Ordinary Shares on a one for one basis at a nominal value of $1 upon the achievement of Milestone 1, as announced to the ASX on 16 September 2016. There is no change in the value of 'Issued Capital'	16 Sep 2016	5,000,000	-	-
Balance of Performance Shares (15 million) redeemed by Novatti Group on 16 September 2016 upon the lapsing of Milestones 2 – 4.			-	-
11.9 million Shares issued pursuant to one for four accelerated pro-rata non-renounceable Entitlement Offer – Institutional Component[18]	16 May 2017	11,910,051	0.14	1,667,407
3.1 million pursuant to one for four accelerated pro-rata non-renounceable Entitlement Offer – Retail Component[19]	29 May 2017	3,178,770	0.14	445,028
1.5 million fully paid ordinary shares issued pursuant to the shortfall facility of the Retail Entitlement Offer[20]	30 June 2017		0.14	215,500
Capital Raising Costs	30 June 2017			(36,722)
Corporate Advisor Management Fee[21]	30 June 2017		0.14	65,018
Closing Balance – Novatti Group Ltd	30 June 2017	107,972,647		14,296,835

[18] For further details on the Capital Raising – one for four pro-rata non-renounceable entitlement offer, please refer to 'Significant Changes in State of affairs' – Directors Report page 14.

[19] ibid.

[20] The Funds from the Shortfall facility of the Retail Offer were received prior to 30 June 2017, the ordinary shares were distributed subsequent to year end.

[21] The balance of the shares to be distributed to the Corporate Advisor, of 464,419 ordinary shares, will be distributed upon successful completion of the equity raising.

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

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

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

Options and Performance Shares
Information is set out in Note 35 relating to options and performance shares issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year.

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

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

Note 18. Equity – reserve

	Consolidated 2017	Consolidated 2016
	$	$
Option reserve	1,128,479	713,465
Foreign currency reserve	(44,169)	849
	1,084,310	714,314

Option reserve
The option reserve is used to record the fair value of options issued to employees and directors as part of their remuneration. It is also used to record the fair value of options issued. The balance is transferred to Issued Capital when options are granted and balance is transferred to retained earnings when options lapse.

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Note 19. Equity - retained profits

	Consolidated 2017	Consolidated 2016
	$	$
Retained losses at the beginning of the financial year	(8,391,156)	(3,423,436)
Losses after income tax expense for the year	(4,717,729)	(4,967,720)
Retained losses at the end of the financial year	(13,108,885)	(8,391,156)

Note 20. Financial instruments

Financial risk management objectives

The Group is exposed to risks that arise from the use of its financial instruments. This Note describes Novatti Group's objectives, policies and processes for managing those risks and the methods used to measure them. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this Note.

The Board assumes the role of the Group's Audit, Risk & Compliance Committee and oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Principal financial instruments

The principal financial instruments used by Novatti Group, from which financial instrument risk arises, are as follows:

- Cash at bank and on deposit,
- Trade receivables,
- Trade and other payables, and
- Intercompany receivables.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and whilst retaining ultimate responsibility for them, has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit risk

Credit risk arises from the Group's trade receivables, other receivables, receivables from subsidiaries and cash at bank and on deposit. The maximum amount of credit risk is the statement of financial position carrying values.

Trade receivables

Clients of the Group range from financial service providers, telecommunication operators to airline companies. New client contracts may require Customers to pay fees based on 'Project Milestone arrangements' in accordance with agreed upon contract terms. Moving from milestone to milestone requires the payment of each to move onto the next. In addition, companies may be charged for on-going service and maintenance contracts on a monthly or quarterly basis based on the initial contract value and last up to 5 - 10 years.

Transactional sales obligations are settled generally on 21-day terms and after receipt from distributors.
The Group undertakes transactions with a large number of customers and regularly monitors payments in accordance with credit terms, the financial assets that are neither past due nor impaired, are expected to be received in accordance with the credit terms.

The Group does not have any material credit risk exposure for other receivables or other financial instruments.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least three months.

The Group also seeks to reduce liquidity risk by ensuring that its cash deposits are earning interest at the best rates. At balance date, these reports indicate that the Group is expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

As at 30 June 2017, financial liabilities have contractual maturities, which are summarised below:

Consolidated				
	Current		Non-current	
2017	Within 6 months $	6 to 12 month $	1 to 5 years $	Later than 5 years $
Trade payables	700,348	-	-	-
Accrued expenses	1,037,003	-	-	-
Other payables	-	-	-	-
Total	1,737,351	-	-	-

Consolidated				
	Current		Non-current	
2016	Within 6 months $	6 to 12 month $	1 to 5 years $	Later than 5 years $
Trade payables	463,421	-	-	-
Accrued expenses	1,232,652	-	-	-
Other payables	-	-	-	-
Total	1,696,073	-	-	-

The contractual amounts of financial liabilities in the tables above are equal to their carrying values.

Interest rate risk

The Group invests surplus cash in major Australian, Canadian, US and European banks and in doing so is exposed to fluctuations in interest rates that are inherent in such a market. The Company and Group have no borrowings.

The Group's interest rate risk arises from:

- Bank balances which give rise to interest at floating rates; and
- Cash on term deposit, which are at floating rates.

The amounts subject to cash flow interest rate risk are in the statement of financial position carrying amounts of these items.
The Group's policy is to minimise cash flow interest rate risk exposures on surplus funds by ensuring

deposits attract the best available rate.

Cash flow interest rate sensitivity

The following table illustrates the sensitivity of the net result for the year and equity to a reasonable possible change in interest rates of +/-100 basis points, with effect from the beginning of the year. These changes are considered reasonably possible based on observation of current market conditions.

The calculations are based on the Group's financial instruments held at each reporting date.

	Consolidated 2017		Consolidated 2016	
	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
Cash and cash equivalents	6,541	(6,541)	43,293	(43,293)
Net result	6,541	(6,541)	43,293	(43,293)

Currency risk

The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group. In order to monitor the continuing effectiveness of this policy, the Board receives a monthly forecast, analysed by the geographical region's cash balances, commitments and receipts, converted to the Group's main functional currency, Australian Dollars (AUD).

The Group is exposed to currency risk on cash at bank and on deposit in Canadian Dollars (CAD) to fund its Canadian operations, Euro (EUR) and Great British Pounds (GBP) to service its European Operations in the UK and also US Dollars (USD).

Currency risk sensitivity analysis – Other currencies (CAD)

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated	2017
Nominal amounts	**CAD**
Cash at bank and on term deposit	**318,013**

Consolidated	2016
Nominal amounts	**CAD**
Cash at bank and on term deposit	**4,138**

The following tables below illustrate the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities compared with the currency on deposit and AUD exchange rate. It assumes a +/- 5% change in the exchange rate for the year ended at 30 June 2017. This percentage has been determined based on average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date. This assumes that other variables, in particular interest rates, remain constant.

If the Australian dollar had strengthened against the CAD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	**(15,194)**	**(210)**
Other Equity	-	-

If the Australian dollar had weakened against the CAD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	**(16.799)**	**(233)**
Other Equity	-	-

Exposures to foreign exchange rates vary during the year depended on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

Currency risk sensitivity analysis – Other currencies (USD)
Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated	2017
Nominal amounts	**USD**
Cash at bank and on term deposit	**102,544**

Consolidated	2016
Nominal amounts	**USD**
Cash at bank and on term deposit	**254,199**

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

If the Australian dollar had strengthened against the USD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	**(6,271)**	**(15,999)**
Other Equity	-	-

If the Australian dollar had weakened against the USD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	**7,145**	**18,302**
Other Equity	-	-

Currency risk sensitivity analysis – Other currencies (EUR)
Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated	2017
Nominal amounts	**EUR**
Cash at bank and on term deposit	**15,892**

Consolidated	2016
Nominal amounts	**EUR**
Cash at bank and on term deposit	-

If the Australian dollar had strengthened against the EUR by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	**(1,635)**	-
Other Equity	-	-

If the Australian dollar had weakened against the EUR by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	**1,897**	-
Other Equity	-	-

Currency risk sensitivity analysis – Other currencies (GBP)
Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated	2017
Nominal amounts	GBP
Cash at bank and on term deposit	960

Consolidated	2016
Nominal amounts	GBP
Cash at bank and on term deposit	-

If the Australian dollar had strengthened against the GBP by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	(77)	-
Other Equity	-	-

If the Australian dollar had weakened against the GBP by 5% then this would have had the following impact on profit and other equity:

Consolidated	2017 $	2016 $
Profit after tax	86	-
Other Equity	-	-

Price risk
The Group is not exposed to any significant price risk.

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

Note 21. 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 2017	Consolidated 2016
	$	$
Short-term employee benefits	1,083,097	980,407
Post-employment benefits	64,882	53,238
Long-term benefits	3,937	916
Share-based payments	294,820	245,749
	1,454,930	1,280,310

Note 22. Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by William Buck, the auditor of the Group, its network firms and unrelated firms:

	Consolidated 2017	Consolidated 2016
	$	$
Audit services - William Buck		
Audit or review of the 30 June financial statements	26,750	24,000
Review of the 31 December financial statements	13,000	5,000
	39,750	29,000
Other services - William Buck		
Preparation of the tax return and associated tax services	9,850	3,500
Investigative Accountant's Report	-	8,000
	49,600	40,500

Note 23. Commitments

	Consolidated 2017	Consolidated 2016
	$	$
Capital commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	146,791	181,889
One to five years	1,155,783	751,453
More than five years	-	-
	1,302,574	933,342

Lease commitments within the above figures include contracted amounts for offices in Melbourne, the United Kingdom and South Australia. On renewal, the terms of the leases are re-negotiated. Commitments includes services provided by the basis2 vendor for offices and other anciliary services.

This note includes all capital commitments for the group.

Note 24. Related party transactions

Key management personnel
Disclosures relating to key management personnel are set out in the remuneration report and also within Note 32.

Parent and ultimate controlling party
Novatti Group Ltd was incorporated on June 19 2015. As outlined in Note 1 of the financial statements, for accounting purposes, Novatti Pty Ltd was identified as the accounting acquirer and Novatti Group Ltd was identified as the accounting subsidiary. The shares in Novatti Pty Ltd were acquired by the Novatti Group on a scrip for scrip basis.

Loans from Directors
There are no loans that were entered into or, outstanding with the Directors of Novatti Group Ltd as at 30 June 2017.

In FY 16, Novatti Pty Ltd had the following loans outstanding with the Directors of the Group:

Date entered into:	Loan value:	Loan rate	Loan expense	Details:
	$	%	$	
12 Sep 2015	150,000	12	989	Agreed loan rate, not market rate. Interest paid in cash and calculated daily.
14 Sep 2015	200,000	6	1,584	Agreed loan rate, not market rate. Interest paid in cash and calculated daily.
16 Sep 2015	50,000	6	379	Agreed loan rate, not market rate. Interest paid in cash and calculated daily.
16 Sep 2015	50,000	6	379	Agreed loan rate, not market rate. Interest paid in cash and calculated daily.
8 Oct 2015	50,000	12	396	Agreed loan rate, not market rate. Interest paid in cash and calculated daily.
	500,000		3,727	

- Novatti Pty Ltd entered into $500,000 of convertible loans with Peter Cook, Brandon Munro and Peter Pawlowitsch. The convertible loans were convertible into ordinary shares in Novatti Group Limited with a face value conversion at $0.16 per share. On 31 October 2015, the total $500,000 convertible loans on issue were converted into 3,125,000 ordinary shares.

- $250,000 in non-current liabilities and $132,579 in trade payables within Novatti Pty Ltd to Coomar Pty Ltd, outstanding as at 30 June 2015, was assigned to Corangamite Pty Ltd in accordance with a Deed of Assignment of Debt dated 31 October 2015 between the two parties. This debt was subsequently settled through the issue of 2,391,120 ordinary shares at $0.16 each to Coomar Pty Ltd. Coomar Pty Ltd and Corangamite Pty Ltd are associated with Peter Cook.

Current and non-current liabilities to a Director
There are no other current or non-current liabilities outstanding to Directors of the Group as at 30 June 2017

Director related services
There are no Director related services that have been provided to the Group outside of the Directors normal fiduciary duties and responsibilities as Directors of Novatti Group.

Loans to/from related parties
There is a loan provided to High Impact. See Note 12 for additional information.
There were no other loans to or from related parties at the current reporting date.
There were loans from directors in the prior year.

Terms and conditions
All transactions were made on normal commercial terms and conditions and not at market rates.

Note 25. Parent entity information

Set out below is the supplementary information of the 'legal' parent entity, Novatti Group Ltd. Novatti Group Ltd entered into a Share Purchase Agreement with the equity holders of Novatti Pty Ltd to acquire all the shares in Novatti Pty Ltd on 28 September 2015.

	Parent 2017	Parent 2016[22]
	$	$
Loss after income tax	(901,206)	(910,161)
Total comprehensive loss	(901,206)	(910,161)

Statement of financial position

	Parent 2016	Parent 2015
	$	$
Total current assets	380,581	3,987,990
Total assets	17,494,331	15,322,391
Total current liabilities	248,400	61,480
Total liabilities	248,400	61,480
Equity		
Issued capital	17,213,839	14,657,607
Performance Share Reserve	600,000	800,000
Reserves	1,128,479	713,465
Accumulated losses – Opening 1 July 2017	(910,161)	(910,161)
Option adjustment	114,980*	-
Losses incurred for the year ended 30 June 2017	(901,206)	-
	(1,696,387)	(910,161)
Total equity	17,245,931	15,260,911

*An adjustment was made in the current financial period for the transfer of Option Expense from the parent to subsidiary Novatti Pty Ltd

[22] Note 25 displays the summary financial statements of the 'legal' parent entity, Novatti Group Ltd. Novatti Group Ltd entered into a Share Purchase Agreement with the equity holders of Novatti Pty Ltd to acquire all the shares in Novatti Pty Ltd on 28 September 2015.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2017.

Capital commitments - Property, plant and equipment
The legal parent entity had no capital commitments for property, plant and equipment as at 30 June 2017.

Significant accounting policies
The accounting policies of the legal parent entity Novatti Group Ltd are consistent with those of the Group, as disclosed in Note 1, with exception to the following that are not relevant at the Group level:

- 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.

Note 26. Interests in subsidiaries

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

	Principal place of business / Country of incorporation	Ownership interest 2017	Ownership interest 2016
Name			
Novatti Group Ltd Subsidiaries			
Novatti Pty Limited	Australia	100%	100%
Flexe Payments Limited	United Kingdom	100%	100%
Flexe Payments Pty Ltd	South Africa	100%	-
Novatti Technologies Limited	United Kingdom	100%	100%
Novatti Inc.	United States of America	100%	-
Novatti Pty Ltd Subsidiaries			
Flexewallet Pty Limited	Australia	100%	100%
TransferBridge Pty Limited	Australia	100%	100%

Note 27. Business combination

On the 26 of May 2017, Novatti Group Limited acquired 100% of the business assets in basis2 from Prophecy International Pty Ltd (ASX:PRO) ('Prophecy') .

The revenues generated from the acquisition are expected to be a significant contributor to Novatti's targeted profitability in FY18.

Details of the purchase consideration, net assets and goodwill are as follows:
Purchase consideration (refer below):

	Consolidated 2017
	$
Cash consideration	2,321,238

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value 2017
	$
Prepaid expenses	8,375
Plant and Equipment	7,089
Intangible assets: Intellectual Property – basis2 software^	847,000
Intangible assets: customer contracts^	1,901,000
Employee Entitlements	(169,735)
Deferred Revenue	(517,335)
Net identifiable assets acquired	2,076,394
Add: Goodwill*	2,000
Net assets acquired	2,078,394

* Goodwill is attributable to the acquired business. It will not be deductible for tax purposes.
^ The assets and liabilities provided by the vendor were taken as at 25 May 2017. An independent valuation was conducted to ascertain the fair value of Intellectual Property and Customer Contracts.

There were no acquisitions in the year ended 30 June 2016.

Summary of acquisition

Conditions subsequent

The seller will use all reasonable endeavours to assign or novate or procure the assignment or novation of the Contracts to the Group within 60 days of Completion.

If one named material contracts is not able to be assigned or novated to the satisfaction of the Group within 60 days, the Group has the right to rescind the contract created by this document, with the effect that:

- the agreement would be null and void;
- the Seller would immediately reimburse to the Buyer the Purchase Price;
- the Contracts would be re-assigned to the Seller;
- any requirement of the Buyer to have performed the Seller's obligations under the Contracts shall cease immediately; and
- the Buyer would have required to indemnify and keep the Seller indemnified from and against, any liability incurred under, and fully reimburse to the Seller any payment that was received in respect of such Contracts for the period from Completion to the date such notice has been given.

As the initial 60 days condition subsequent period had passed on 25 July 2017, a 90 day extension has been agreed to in order to continue to assign or novate the assignment of the contracts from the vendor to the Group.

Adjustment period

The purchase was subject to a 60-day adjustment period, which concluded on the 25 July 2017.

Revenue and profit contribution

The acquired business contributed revenues of approximately $192,197 and net loss of $31,024 to the group for the period from 26 May 2017 to 30 June 2017.

Contingency – Employee personal leave

Personal leave entitlement days' accrued whilst in the employ of the vendor, where carried over to Novatti. Where, in the first two years, an employee draws down personal leave entitlements in excess of their personal leave entitlements whilst accrued under Novatti, they will be entitled to draw down against the personal leave days brought over from the vendor and Novatti will be entitled to charge back that expense to the vendor.

Contingency – New client acquisition

Where Novatti enters into an agreement to License the basis2 product to a specific named potential client within the first two years of the completion date, May 26 2017, Novatti will pay 10% of the Licence fee to the Vendor.

If the acquisition had occurred on 1 July 2016 consolidated pro-forma revenue and profit for the year ended 30 June 2017 would have been $1,695,000 and $1,089,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the group and the subsidiary and
- the additional depreciation and amortization that would have been charged assuming the fair value adjustments to plant and equipment and intangible assets had applied from 1 July 2016 to 30 June 2017, together with the consequential tax effects.

Purchase consideration

Outflow of cash to acquire the assets of basis2, net of cash acquired

	2017
	$
Cash consideration	2,750,000
Less:	
Deferred Revenue – Annual Maintenance*	428,672
Net outflow of cash	2,321,328

* As part of the contract on settlement, $428,672 of annual maintenance revenue was paid to Novatti Group in consideration for income received in advance by Prophecy for the period subsequent to the date of settlement of 25 May 2017.

Acquisition related costs

Acquisition related costs of $33,550 for legal fees were incurred by the Group in connection to the purchase of basis2 and are included in other expenses in the profit and loss and in operating cash flows in the statement of cash flows.

Note 28. Interests in Joint Ventures

Interests in Joint Ventures are accounted for using the equity method of accounting. Information relating to Joint Ventures that are material to the Group are set out below:

	Principal place of business	Ownership interest 2017	Ownership interest 2016
Name	Country of incorporation		
High Impact Joint Venture	South Africa	50%	50%
ATX Malaysia Joint Venture	Malaysia	50%	50%

Summarised financial information

	High Impact	Malaysia ATX	High Impact	Malaysia ATX
	2017	2017	2016	2016
	$	$	$	$
Summarised statement of financial position				
Current assets	39,547	73,037	59,400	25,221
Non-current assets	-	-	-	-
Total assets	39,547	73,037	59,400	25,221
Current liabilities	11,707	68,674	255,516	10,320
Non-current liabilities	209,242	-	-	-
Total liabilities	220,949	68,674	255,516	10,320
Net assets	(181,402)	4,363	(196,116)	14,901
Expenses	(12,833)	(9,125)	(23,855)	(1,912)
Loss before income tax	(35,404)	(9,125)	(23,855)	(1,912)
Income tax expense	-	-	-	-
Loss after income tax	(35,404)	(9,125)	(23,855)	(1,912)
Other comprehensive income	-	-	-	-
Total comprehensive loss	(35,404)	(9,125)	(23,855)	(1,912)
Reconciliation of the Group's carrying amount				
Opening carrying amount – Equity in Joint Venture	-	14,901	67,168	16,813
Foreign exchange adjustment on opening balance		(1,413)	-	-
Prior year losses incurred on behalf of Joint Venture:				
- Expensed as at 30 June 2014	-	-	(84,193)	-
- Expensed as at 30 June 2015	-	-	(20,593)	-
Expenses incurred on behalf of Joint Venture as at 30 June 2016	-	-	(12,399)	-
Losses incurred in excess of Joint Venture Equity interest. Adjustment entry recognised as at 30 June 2016	-	-	50,017	-
Loan balance of Novatti Group recognised by the Joint Venture as at 30 June 2016	-	-	235,044	-
Loan to Joint Venture in excess of Joint Venture Equity Interest	-	-	-	-
Share of Losses incurred on behalf of Joint Venture as at 30 June 2017	-	(8,511)	-	-
Write-off of Loan and Investment in High Impact	-	-	(235,044)	-
Foreign Exchange closing balance as at 30 June 2017		(614)	-	-
Share of Losses after income tax	-	(9,125)	(197,426)	(1,912)
Closing carrying amount	-	4,363	-	14,901

Per AASB 128, when the share of losses in a joint venture equals or exceeds its investment, the entity stops recognising its share of further losses and considers whether there are any long-term interests that in substance forms part of Novatti's net investment in the joint venture. In this case, there was high uncertainty by the Board regarding the likelihood of future returns from the Joint Venture and so the High Impact Joint Venture was written off as at 30 June 2016. Please also refer to Note 5.

In accordance with AASB 128 Novatti Group Limited will periodically review the status of its Joint Venture in High Impact. Subsequently where the Joint Venture entity reports a profit, Novatti will resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Contingent liabilities
The Associated entities had no contingent liabilities as at 30 June 2017.

Commitments
The Associated entities had no commitments as at reporting date, not recognised as liabilities payable.

Note 29. Events after the reporting period

In accordance with the terms of agreement signed between Novatti Group Limited and Prophecy International Pty Ltd, 60 days following the date acquisition of basis2 the net adjustment amount owed to Novatti Group Limited was paid by Prophecy International Pty Ltd on 26 July 2017.

There are no other matters or circumstances that have arisen since 30 June 2017 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.

Note 30. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2017	Consolidated 2016
	$	
Loss after income tax expense for the year	(4,717,729)	(4,967,720)
Adjustments for:		
Depreciation and amortisation	54,946	19,449
Joint Venture – High Impact written off as at 30 June 2016	-	197,425
Non-cash option expense	410,457	541,684
Deem equity consideration on Reverse Acquisition that is not a Business	-	224,875
Unrealised Foreign Exchange Gain	14,493	(22,791)
Loss on disposal of fixed assets	224	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(277,849)	(298,145)
Increase/(decrease) in trade and other payables	(36,614)	1,410,547
Increase/(decrease) in deferred income	382,626	56,725
Increase in employee benefits	227,927	97,911
Net cash from operating activities	(3,941,519)	(2,740,040)

Note 31. Earnings per share

	Consolidated 2017	Consolidated 2016
	$	$
Loss after income tax	4,717,729	4,967,720
Loss after income tax attributable to the owners of Novatti Group Limited	4,717,729	4,967,720

	No of ordinary shares 2017	No of ordinary shares 2016
	$	$
Weighted average number of ordinary shares outstanding during the year:		
Number used in calculating Earnings Per Share	93,765,798	54,806,390
Number of potential ordinary shares that are considered to be antidilutive	34,609,355	73,196,940

	2017	2016
	Cents	Cents
Basic and diluted earnings per share	(5.03)	(9.06)

Note 32. Share-based payments

Options

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Board, grant options over ordinary shares in the Group to certain key management personnel and staff of the Group.

The Employee Share Option Plan is designed to provide long-term incentives for Senior Management (including Directors') and Staff to deliver long-term shareholder returns. Options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

The following share based payment arrangements were in existence during the current financial year and are supported by the tables below:

- On the 21 July 2016, 1,000,000 Options were issued to a key senior manager of the Group of which will vest in three equal portions each year from the first year of vesting over 36 months.

Grant date	Vesting date	Expiry date	Ex price	Exp'd volatility	Risk free Rate	Exp'd dividend yield	Bal at Start	Granted during year	Ex during yr	Forfeited during yr	Bal at yr end
12 Nov 15	12 Nov 15	30 Jun 19	$0.20	53.90%	2.32%	0%	13,750,000		-	-	13,750,000
12 Nov 15	1 Jul 16	30 Jun 19	$0.20	53.90%	2.32%	0%	1,150,000	-	-	-	1,150,000
12 Nov 15	1 Jul 17	30 Jun 19	$0.20	53.90%	2.32%	0%	1,150,000	-	-	-	1,150,000
12 Nov 15	1 Jul 18	30 Jun 19	$0.20	53.90%	2.32%	0%	1,150,000	-	-	-	1,150,000
8 Jan 16	8 Jan 16	30 Jun 19	$0.20	53.90%	2.32%	0%	2,859,250	-	-	-	2,859,250
3 Feb 16	3 Feb 17	30 Jun 19	$0.20	53.90%	2.32%	0%	1,750,000	-	-	1,000,000[23]	750,000
3 Feb 16	3 Feb 18	30 Jun 19	$0.20	53.90%	2.32%	0%	1,750,000	-	-	1,750,000[24]	-
3 Feb 16	3 Feb 19	30 Jun 19	$0.20	53.90%	2.32%	0%	1,750,000	-	-	1,750,000[25]	-
8 Feb 16	8 Feb 16	30 Jun 19	$0.20	53.90%	2.32%	0%	4,000,000	-	-	-	4,000,000
31 May 16	31 May 17	30 Jun 19	$0.25	57.74%	2.13%	0%	750,000	-	-	-	750,000
31 May 16	31 May 18	30 Jun 19	$0.25	57.74%	2.13%	0%	750,000	-	-	-	750,000
24 Jun 16	24 Jun 17	30 Jun 19	$0.20	57.74%	2.13%	0%	1,212,328	-	-	176,667[26]	1,035,661
24 Jun 16	24 Jun 18	30 Jun 19	$0.20	57.74%	2.13%	0%	1,212,328	-	-	176,667[27]	1,035,661
24 Jun 16	24 Jun 19	30 Jun 19	$0.20	57.74%	2.13%	0%	1,212,344	-	-	176,666[28]	1,035,660
21 Jul 16	21 Jul 17	31 Dec 19	$0.20	57.74%	2.13%	0%	-	333,333	-	-	333,333
21 Jul 16	21 Jul 18	31 Dec 19	$0.20	57.74%	2.13%	0%	-	333,333	-	-	333,333
21 Jul 16	21 Jul 19	31 Dec 19	$0.20		2.13%	0%	-	333,334	-	-	333,334
Total							34,446,250	1,000,000	-	5,030,000-	30,416,250
Weighted Average Exercise Price						$0.202	-	-	$0.202		

[23] Paolo Montessori's options were cancelled upon his resignation as an employee on the 27 January 2017.

[24] Ibid.

[25] Ibid.

[26] Four employees resigned during the period ended 30 June 2017. Of the 635,000 Options that lapsed, 290,000 relates to the former three employees and the balance of 345,000 are options that lapsed for two former contractors that were employed by the Group. Under the Terms and Conditions of the Employee Share Option Plan (ESOP), the option entitlement for employees will lapse when the employee ceases to be employed by the group for a period over three months.

[27] Ibid.

[28] Ibid.

Entitlement
The Options will entitle the holder to subscribe for one Share upon the exercise of each Option that has vested in the holder. If the Options are subject to a vesting period, where the relevant person is no longer employed or engaged, as the case may be, by the Group on a vesting date, the Options will not vest to that holder. Options that have previously vested in the holder shall be retained by the holder.

Shares Issued on exercise
Shares issued on exercise of the Options will rank equally with the other issued Shares.

If there is any reconstruction of the issued share capital of the Group, the rights of the Option holder may be varied to comply with the Listing Rules that apply to the reconstruction at the time of the reconstruction.

There are no participation rights or entitlements inherent in the Options and the holder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. The fair value of the options is valued at "grant date" using the Black-Scholes model.

Performance shares
The granting of Performance Shares in the 30 June 2016 year was not related to the executive's short term or long-term incentives as an executive of the Novatti Group. Participation in being granted Performance Shares was provided to the original shareholders of Novatti Pty Ltd as part of the acquisition of Novatti Pty Ltd by Novatti Group Ltd as an incentive for the original shareholders of Novatti Pty Ltd to further grow the revenue of Novatti Pty Ltd. The granting of the Performance Shares was subject to milestones.

Outcome of milestone events:
For the 2015/2016 financial year, Novatti Pty Ltd achieved invoiced or invoiceable revenue greater than $3.5 million but less than $4.0 million and thereby satisfied the requirements of milestone one.

As announced to the ASX on 16 September 2016, 5,000,000 Performance Shares vested in accordance with the Terms and Conditions set out within 13.2 of 8 of December 2015 Replacement Prospectus.

Milestones two, three and four were not satisfied and so the Performance Shares have been redeemed by the Group for a total nominal sum of $1.00.

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Peter Pawlowitsch
Chairman

31 August 2017
Melbourne

Novatti Group Limited
Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Novatti Group Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:
(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the then year ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

CHARTERED ACCOUNTANTS & ADVISORS
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Melbourne VIC 3000
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">SHARE BASED PAYMENTS</th></tr>
<tr><th>Area of focus
Refer also to notes 1 , 2 and 32</th><th>How our audit addressed it</th></tr>
<tr><td>The Group has entered into the following share-based payment arrangements during the year:

- The issue of performance rights to the Managing Director at a nominal consideration; and
- The issue of options that included performance and service conditions to key management personnel and senior employees

Each of these arrangements required significant judgments and estimations by management, including the following:

- The evaluation of the grant date of each arrangement, and the evaluation of the fair value of the underlying share price of the company as at that grant date;
- The evaluation of the vesting charge taken to the profit or loss in-respect of the accrual of service and performance conditions attached to those share-based payment arrangements; and
- The evaluation of key inputs into the Black-Scholes option pricing model, including the significant judgment of the forecast volatility of the share option over its exercise period.

The results of these share-based payment arrangements materially affect the disclosures</td><td>Our audit procedures included:
- Evaluating the fair values of share-based payment arrangements by agreeing assumptions to third party evidence. In determining the grant dates, we evaluated what were the most appropriate dates based on the terms and conditions of the share-based payment arrangements.
- In evaluating the progress of the vesting of share-based payments with performance milestones, we evaluated the directors' assessment of the likely success or failure of achieving those milestones. In assessing the vesting of service conditions, we considered that the expensing of each share-based payment tranche granted to the arrangement's beneficiaries, evenly over the term of the tranche to be the most appropriate.
- For the specific application of the Black-Scholes model, we assessed the experience of the external expert used to advise the value of the arrangement. We retested some of the assumptions used in the model and recalculated those fair values using the skill and know-how of our Corporate Advisory team. We considered that the forecast volatility applied in the model to be appropriately reasonable and within industry norms.
- We also reconciled the vesting of these share-based payment arrangements to disclosures made in both the key management personnel compensation note and the disclosures in the Remuneration Report.</td></tr>
</table>

<table>
<tr><th colspan="2">BUSINESS COMBINATIONS</th></tr>
<tr><th>Area of focus
Refer also to notes 1 and 27</th><th>How our audit addressed it</th></tr>
<tr><td>The Group acquired basis2 for $2,750,000, on 26 May 2017. In addition, the Group entered into a Transition Services and License Agreement with the Vendor in which the Vendor is to provide accommodation and administration services and technical services. This transaction is considered a significant purchase for the Group.

A critical condition of the acquisition agreement is the transfer of the most significant client of basis2. This condition has not yet been satisfied.

Accounting for this transaction is complex and required significant judgements and estimates by management:

— to determine the date of acquisition;
— to determine the fair value of assets and liabilities acquired;
— to determine the fair value of deferred consideration;
— to allocate the purchase consideration to goodwill and separately identifiable intangible assets; and
— to determine the Transition Services Agreement is accounted for appropriately.</td><td>Our audit procedures included:

— Review of the Business Sale Agreement and the Transition Services and License Agreement to understand the key terms and conditions of the acquisition;

— Assessment of the intangible assets identified by management for their separability and basis to allow recognition and assessed whether the measurement basis and assumptions underlying the estimate of fair values were appropriate;

— Testing the Group's determination of fair values with reference to work performed by external valuation expert and our Corporate Advisory division;

— Testing the appropriateness of the deferred consideration;

— Reviewing whether the conditions precedent have been satisfied: and

— Understanding Novatti's rights to rescind the contract in the event that the conditions precedent have not been satisfied.

We also assessed the adequacy of the Group's disclosures in respect of the acquisition and related Transition Services Agreement.</td></tr>
</table>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Director's for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Novatti Group Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN: 59 116 151 136

J. C. Luckins
Director

Melbourne, 31 August 2017

Additional disclosures

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	No of holders of ordinary shares	No of ordinary shares
1 to 1,000	6	935
1,001 to 5,000	73	270,763
5,001 to 10,000	119	1,032,117
10,001 to 100,000	325	12,766,242
100,001 and over	64	96,443,652
	587	110,513,709
Holding less than a marketable parcel	6	935
Change in operating assets and liabilities:		

Equity security holders

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

	Number held 18 Aug 2017	Percent of total shares issued
BRAYTER LIMITED	46,631,506	42.20
CORANGAMITE PTY LTD	11,107,904	10.05
CHI WAI KENNETH LAI	10,335,000	9.35
MR KENNETH LAI	2,583,750	2.34
HALF FULL PTY LTD	1,961,876	1.78
BNP PARIBAS NOMINEES PTY LTD	1,959,152	1.77
PACIFIC NOMINEES LIMITED	1,852,500	1.64
SQUITCHY LANE HOLDINGS PTY LTD	1,440,090	1.30
MOSCH PTY LTD	1,171,875	1.06
GOLDFIRE ENTERPRISES PTY LTD	937,500	0.85
JASPER SUPERANNUATION PTY LTD	875,000	0.79
SEQUOI NOMINEES PTY LTD	781,250	0.71
ACQUISITIVE PTY LTD	781,250	0.71
HAVEN SUPER PTY LTD	781,250	0.71
NAMIB NOMINEES PTY LTD	781,250	0.71
SEAFIELD SUPERANNUATION PTY LTD	750,000	0.68
MR TREVOR PRESSOR & MS HELEN PRESSOR	714,285	0.65
VIENNA HOLDINGS PTY LTD	541,250	0.49
HIMSTEDT & CO PTY LTD	500,000	0.45
MR GEORGE ANTHONY VENUTI & MRS CAROLYN ANNE VENUTI	495,000	0.45
P & D WILLIAMSON SUPER PTY LTD	460,881	0.42
BEZIQUE PTY LIMITED	400,000	0.36
COLDFIRE ENTERPRISES PTY LTD	390,625	0.35
VAULT (WA) PTY LTD	390,625	0.35
	88,583,820	80.16

Unquoted equity securities

	No on issue	No of holders
Options over ordinary shares issued	30,416,250	58

There are no holders of unquoted equity securities holding 20% or greater of the number of unquoted equity securities on issue.

Substantial holders

Substantial holders in the Group are set out below:

	Number held 18 Aug 2017	Percent of total shares issued
BRAYTER LIMITED	46,631,506	42.20
CHI WAI KENNETH LAI	12,918,750	11.69
CORANGAMITE PTY LTD	11,107,904	10.05

Securities subject to escrow

	No of ordinary shares
Ordinary Shares escrowed 24 months from quotation	20,774,705
Unlisted options exercisable at 20 cents expiring 30/6/2019 escrowed 24 from quotation	2,859,250
Unlisted options exercisable at 20 cents expiring 30/6/2019 escrowed 24 months from quotation	7,000,000

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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

There are no other classes of equity securities.

Use of funds

Since admission, the Group has used its cash in a way consistent with business objectives.