

Novatti

Digital Banking



**Annual Report
FY2019-20**

PERFORMANCE HIGHLIGHTS

\$2b+

Value of transactions processed annually

+60%

Processing revenue increase on previous financial year

+50%

Approximate average total revenue increase each year across past three years

+33%

Total revenue increase on previous financial year



After partnering with Visa in 2019, Novatti now issues physical and digital Visa payment cards, enabling consumers to make digital payments.

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CORPORATE DIRECTORY

Directors	Peter Pawlowitsch (Non-Executive Chairman) Peter Cook (Managing Director and Chief Executive Officer) Kenneth Lai (Non-Executive Director) Paul Burton (Non-Executive Director) Steven Zhou (Non-Executive Director)
Company secretary	Ian Hobson
Registered office and principal place of business	Level 3 461 Bourke Street Melbourne VIC 3000 +61 3 9011 8490
Share register	Automic Registry Services 267 St Georges Terrace Perth WA 6000 +61 8 9324 2099
Auditor	William Buck Level 20 181 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.novattigroup.com
Corporate Governance Statement	www.novattigroup.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

ABOUT

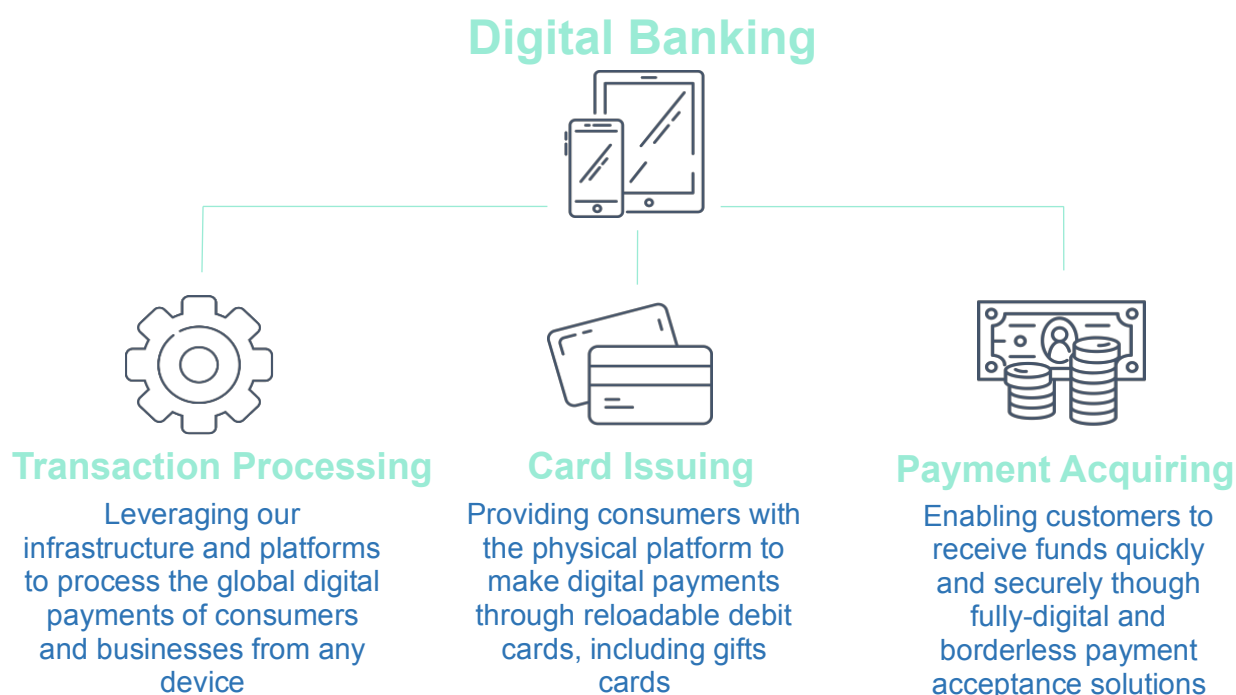
Who we are?

Novatti is a leading digital banking and payments company.

Through our innovative technology, and a global network, we enable every person to transact from any device, anywhere. In doing so, we position our customers to thrive as we shift to a digital, cashless society.

In recent years, Novatti has been methodically developing and acquiring the complementary capabilities to provide consumers with a fully-digital banking service. Novatti now processes more than \$2 billion of transactions annually.

In addition to creating a complete business based on digital banking, each of Novatti's business units operate successfully on their own, providing a sustainable and scalable growth platform.

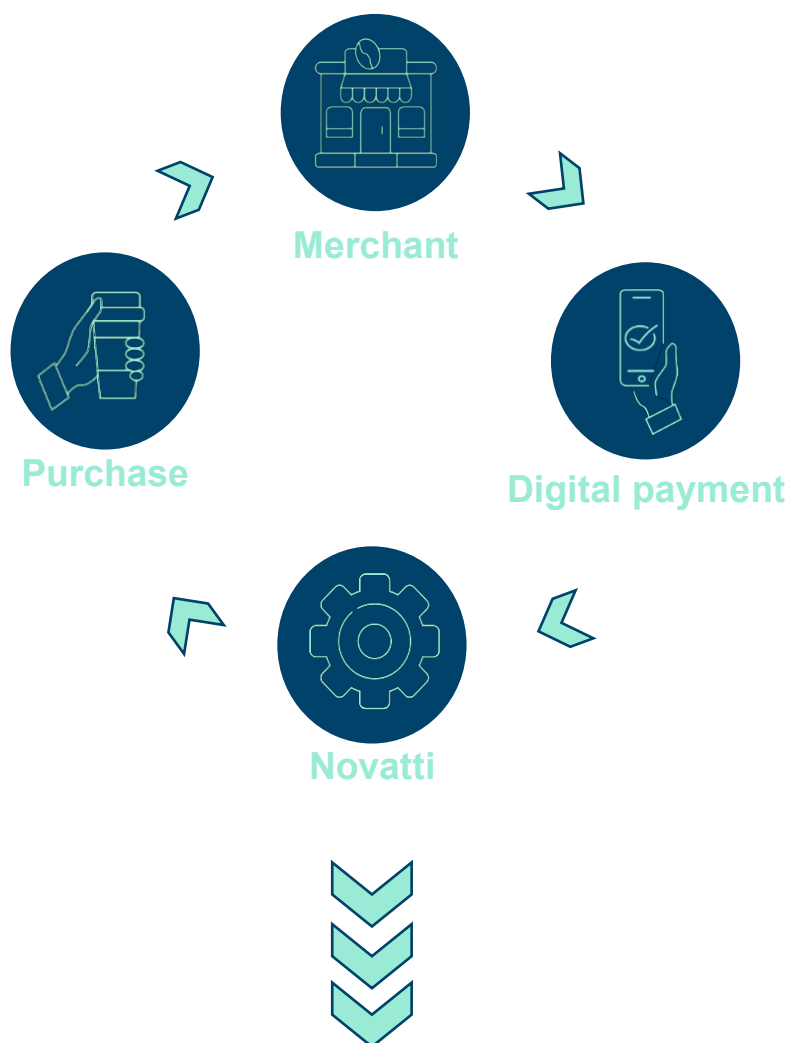


What is digital banking?

Digital banking is all about connection. In the 1800s, this was done through railways. In the 1900s, the telephone took charge. In the 2000s, the internet took over to truly connect the world.

The same revolution is currently taking place in the way we pay for things. Technology has enabled consumers to make purchases digitally, without cash, instantly, seamlessly, and securely. In doing so, this revolution is connecting all of us financially, wherever we are in the world.

Novatti is a leader in this revolution, providing the technology platforms and services that enable digital transactions to take place, on any device, anywhere in the world.



Revenue streams include:

- Payment card issuing
- Payment processing
- Payment acceptance
- International payments
- Technology licensing
- Subscription billing

CHAIRMAN'S REPORT

Over the past financial year, Novatti has continued to grow strongly. This is particularly notable given the challenges and disruption the community faced during COVID-19. Despite these challenges, Novatti continues to make excellent progress against its long-term growth plan.

Novatti recorded total revenue of \$11.86 million for FY20, an increase of more than 33% on the previous financial year. Importantly, Novatti continues to deliver consistent, long-term growth, with total revenue now growing by an average of approximately 50% each year for the past three financial years.


Further, Novatti's core processing business remained particularly resilient, increasing 60% on the previous financial year.

Across the financial year we sought to strengthen our business through a number of strategic activities, including

- acquiring and successfully integrating Emersion, a leading business process integration platform, with performance beating expectations;
- launching Novatti's new payment card issuing business after being awarded a Principal Issuer Licence by Visa;
- submitting Novatti's final Restricted Authorised Deposit Taking Institution (RADI) licence application to the Australian Prudential Regulation Authority;
- securing \$10.2 million in new funds through a share placement to fully fund and accelerate Novatti's current growth strategy.

We strongly believe that the shift to a cashless society will only accelerate going forward, particularly with an increase in working and operating remotely following COVID-19. With Novatti already fully-digital, we are in a strong position to capitalise on this rapidly expanding market and will pursue larger, more strategic growth opportunities in the year ahead.

On behalf of the Board, I thank all the Novatti team for their efforts during the year, particularly in remaining positive during the challenges of COVID-19. To all our shareholders, I look forward to continuing our journey to deliver long-term growth together.



Peter Pawlowitsch
Chairman



MANAGING DIRECTOR'S REPORT

In the years ahead, when we reflect on the previous financial year, no doubt a key discussion point will be the impact that COVID-19 had on our community.

From a global level to a local level, COVID-19 was felt by all. For Novatti, some of the very real challenges included shifting our workforce to working safely remotely while working constructively with Australia's banking regulator as it paused the issuing of new banking licences.

Despite these challenges, our entire team adapted quickly, maintaining the safety of our workforce, continuing to provide innovative solutions to our customers, and always maintaining a focus on our long-term growth strategy. I'm incredibly proud of our entire team for the way they responded.

This positive response helped us achieve a number of strategic goals for the year, including maintaining our record of continuous annual total revenue growth, completing our latest strategic acquisition, Emersion, securing new funding for our current growth strategy, while also beginning a refresh of our corporate brand.

For the financial year ahead, we will aim to:

- Drive further payments processing growth.
- Continue our strong total revenue growth.
- Deliver new strategic partnerships.
- Build payments banking services.

While COVID-19 has had many negative impacts on our community, it has also accelerated the shift to a cashless economy, a shift that Novatti is ready for and that will deliver long-term value for our shareholders.

I thank you for your ongoing engagement over the past financial year and look forward to another exciting year ahead.



Peter Cook
Managing Director



DIRECTOR PROFILES

Peter Pawlowitsch

Non-Executive Chairman

BCom, CPA, MBA, FGIA

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.

Peter Cook

Managing Director and Chief Executive Officer

BSc, Grad Dip Computing, Grad Dip Securities, GAICD

Peter has over 25 years of experience as a director and executive with companies including Coopers & Lybrand (now PWC), Catsco Pty Ltd and Advanced Network Management Pty Ltd (Telstra joint venture company) and many start-up technology companies. 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.

Paul Burton

Non-Executive Director

Chartered Accountant

Paul has over 14 years of leadership experience in the payments industry and was 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.

Kenneth Lai

Non-Executive Director

Bachelor of Science – Majoring in Computer Science

Kenneth is the managing director and wholly owner of Prestige Team Limited, an investment company which, together with its subsidiaries, holds an investment portfolio in Hong Kong and Southeast Asia. Prestige Team Limited has interests in real estate, payment processing, digital marketing and information technology support services. Kenneth has funded and invested in various Silicon Valley technology funds focusing on business opportunities within Asia. He also co-founded Legend World Development Technology Limited, a limited liability company incorporated in Hong Kong, which provides information technology solutions and integrated marketing solutions to business setups, and in which he is a shareholder and advisor.

Steven Zhou

Non-Executive Director

Steven Zhou is an experienced executive with payments industry experience in both China and Australia. Steven has recently aided Novatti in a number of deals involving new business operations between Australia and China.

REVIEW OF OPERATIONS

Overview

In recent years, Novatti has also been methodically developing and acquiring the complementary capabilities to provide consumers with a fully digital banking service.

The 2019-20 financial year saw Novatti continue to deliver on this objective, while maintaining strong results within its existing business.

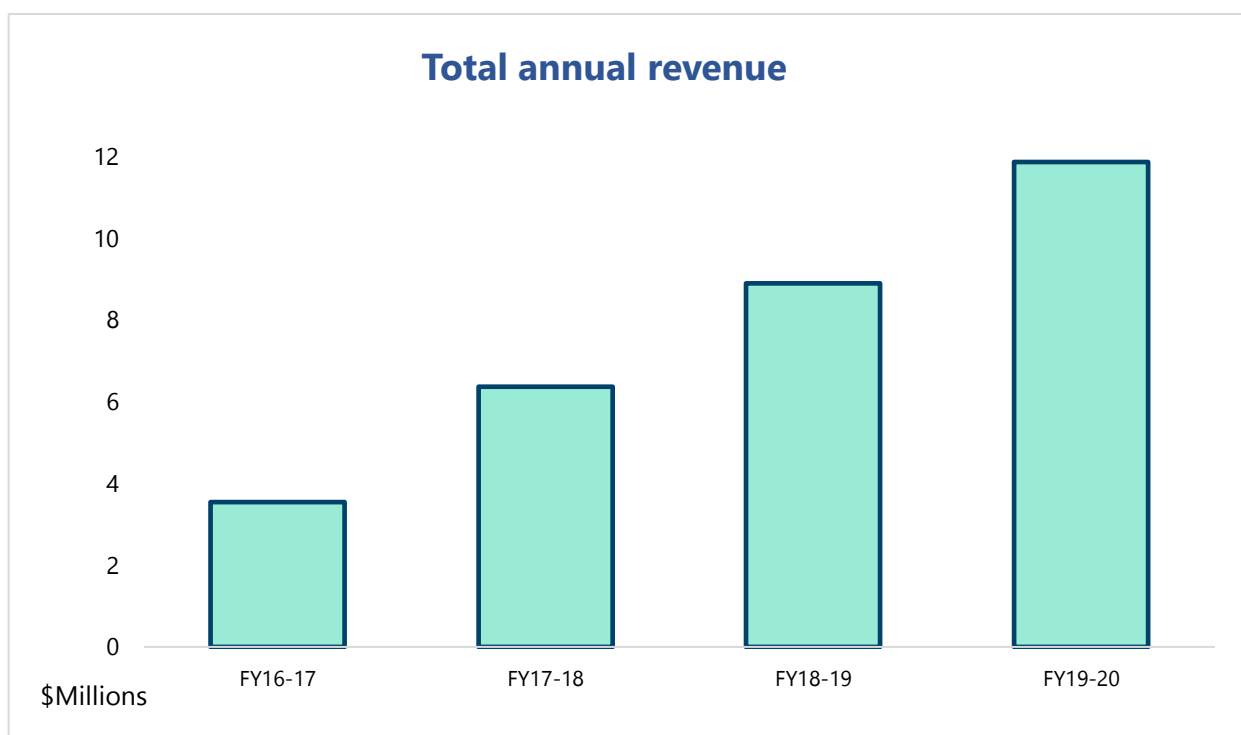
Financial results

Revenue

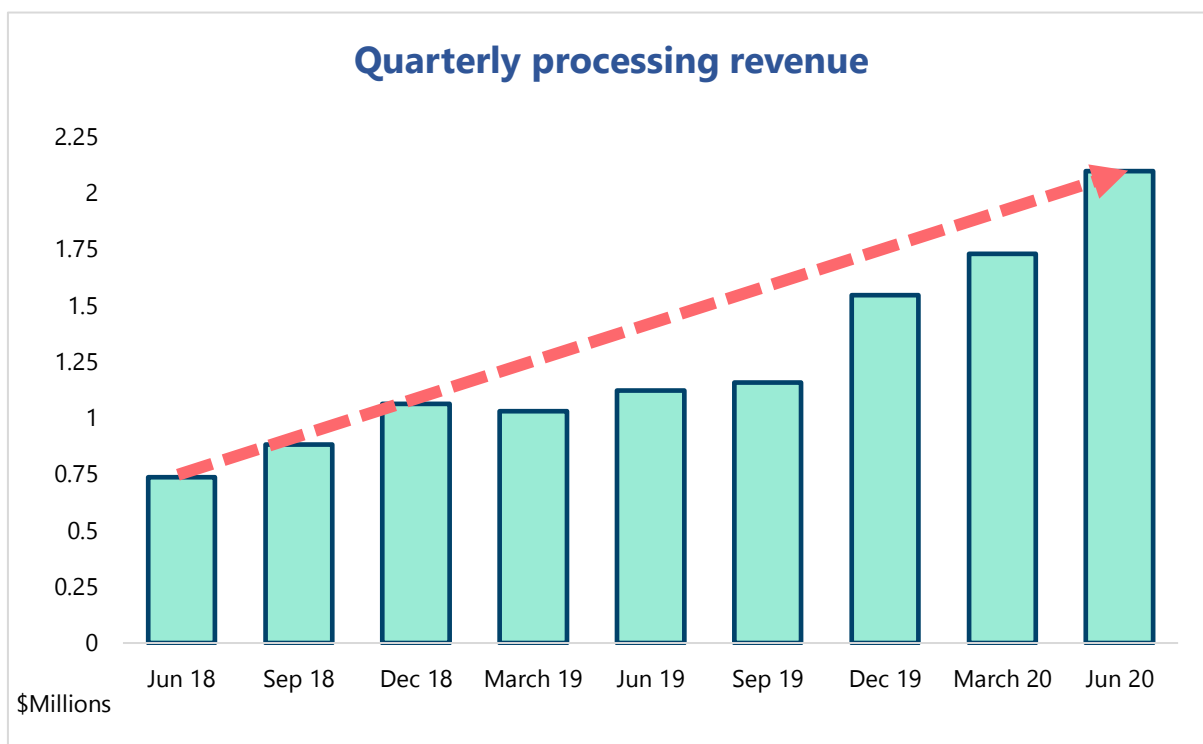
Over the past financial year, Novatti continued to experience strong revenue growth, with an ongoing focus on delivering transactional and recurring revenues.

Novatti recorded total revenue of \$11.86 million for the financial year, an increase of more than 33% on the previous financial year's result of \$8.9 million.

Across the last three financial years, Novatti has now grown total revenue by an average of approximately 50% each year, delivering consistent and sustained growth.



Novatti's core processing business recorded revenue of \$6.53 million for the financial year, an increase of more than 60% on the previous financial year result of \$4.1 million. Importantly, this core business achieved record growth in each quarter.



Cash flow

Novatti's cash flow continued to strengthen across the financial year, with a focus on revenue growth and cost base management. This approach enables Novatti to continue to prioritise cashflow for its long-term growth strategy.

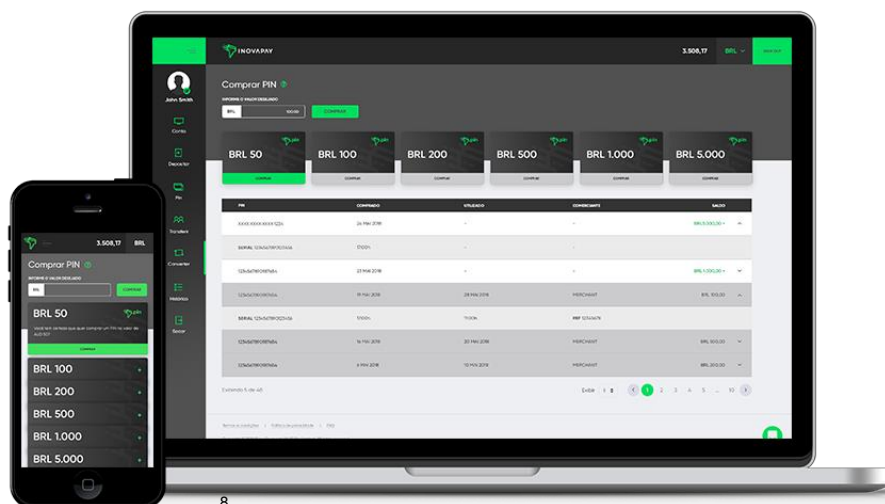
A continued focus on cost efficiencies delivered savings. Notably, product manufacturing and operating costs as a percentage of receipts from customers reduced from 75.9% in FY2018-19 to 68.5% in FY2019-20, enabling Novatti to deliver increased processing revenue from lower direct costs.

While Novatti was almost cashflow positive in the June quarter, with net cash used in operations for the quarter narrowing to just \$16,000, the priority remains leveraging cash for future growth.

Novatti held \$2.6 million in cash at the end of the financial year. However, this does not include the \$10.2 million raised through a share placement announced at the end of the June quarter.

Going forward, Novatti's management will continue to prudently balance cashflow to navigate the challenges of COVID-19 while pursuing its growth strategy.

Inovapay is a new international wallet designed for the Brazilian market that will enable secure transfers and payments.



Novatti Group Limited
Review of Operations
30 June 2020

Fundraising

At the end of the June quarter, Novatti announced that it had secured \$10.2 million in new funds through a share place. This share placement, to be completed in the 2020-21 financial year, will enable Novatti to accelerate its current growth strategy, including:

- increasing business development resources;
- acquiring new Visa card issuing programs;
- securing new strategic, global partnerships; and
- fast-tracking Novatti's integration into other payment networks.



Business operations

Across the financial year, Novatti's operational performance was also strong, with a number of significant achievements. A number of these were particularly notable given the broader disruption to the economy caused by COVID-19.

These achievements included:

- Acquiring and successfully integrating Emersion, with performance beating expectations.
- Launching Novatti's new payment card issuing business after being awarded a Principal Issuer Licence by Visa.
- Securing new tier-one partnerships for further growth.
- Submitting Novatti's final Restricted Authorised Deposit Taking Institution (RADI) licence application to the Australian Prudential Regulation Authority.

Acquisition and successful integration of Emersion

In April, Novatti announced the acquisition of Emersion, a leading business process integration platform. Through Emersion's platform, businesses are able to combine diverse applications, including subscription billing, payments and provisioning, into existing business platforms, saving time and energy.

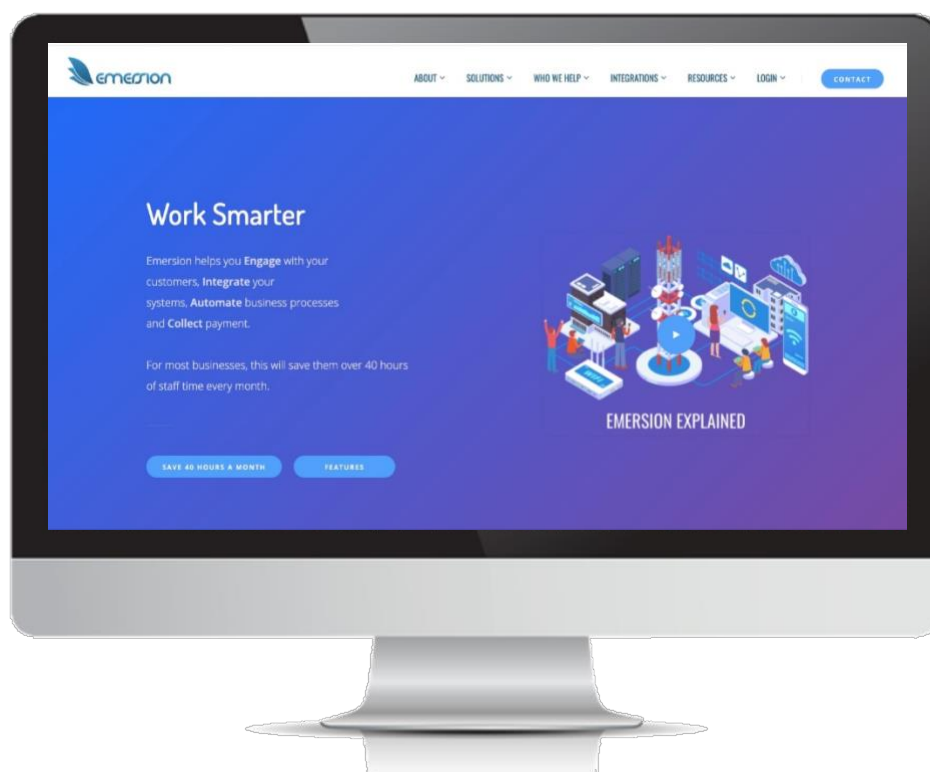


Emersion integrates with more than 70 software platforms, including majors such as Salesforce, Xero, and ConnectWise, providing a strong platform for ongoing sales.

Within the June quarter, Novatti swiftly and smoothly integrated Emersion, with immediate positive impacts, including strengthened revenue.

FY21 is expected to be a strong year for Emersion with further plans for international expansion and ongoing demand for customer engagement, integration, automation and payment services post-COVID-19.

Emersion is a leading business process integration platform that enables businesses to combine diverse applications, including subscription billing, payments and provisioning, into existing business platforms, saving time and energy.



Launch of Visa issuing business

Novatti launched its Visa issuing business after partnering with leading European payments processor, Decta Limited, to develop new business in the Asia-Pacific region.

The launch of this business was the culmination of a multi-year campaign to develop the required infrastructure and resources to operate in this area.

In 2018, Novatti acquired Vasco Pay, which provided Novatti with the capabilities to produce reloadable debit cards.

In September 2019, Novatti was provided with the platform to leverage these capabilities by being awarded with a Principal Issuer Licence by Visa, one of the world's largest payments technology companies, enabling Novatti to issue and distribute both physical and digital Visa cards.

In launching this new business, Novatti will specifically provide Decta Limited with payment processing support, particularly leveraging its anti-fraud and pre-paid card management capabilities and experience.

More broadly, going forward Novatti's Visa issuing business will provide support to industries that require flexible but secure banking products, including fintech and neobank projects, retail chains and large membership organisations.

New tier-one partnerships

During the financial year, Novatti secured a number of partnerships with tier-one players, which continues to validate the quality of Novatti's product and service offering. These partnerships not only create new revenue opportunities for Novatti, they also create opportunities for significant scale and growth in new and expanding markets.

Marqeta

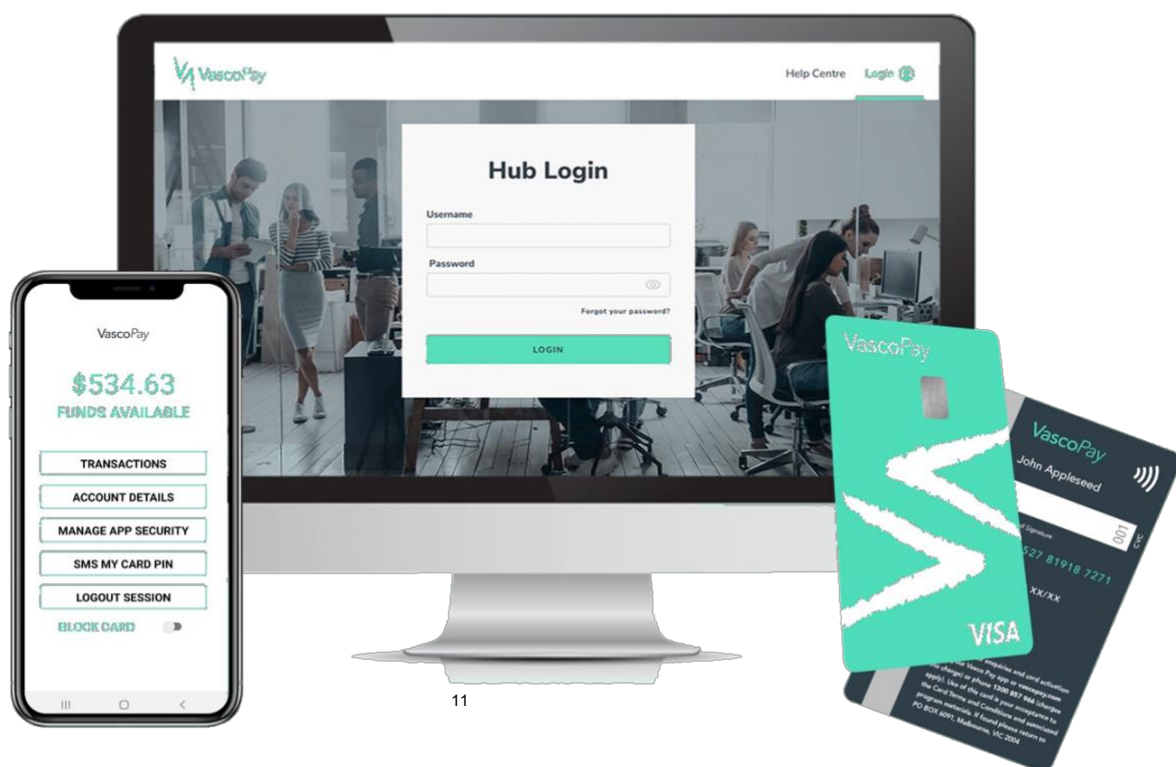
Global payments leader Marqeta chose Novatti as its partner to launch its prepaid card business in Australia.

Marqeta is already a partner of Afterpay, Square, Uber, Affirm, Instacart and DoorDash and has issued around 140 million payment cards globally. It was recently named in the Forbes 2020 Fintech 50 and the CNBC 2020 Disrupter 50 lists.

Novatti will support Marqeta by utilising the capabilities of its Visa card issuing licence and platform and will receive fees for project implementation, ongoing services, and also project performance.



After partnering with Visa in 2019, Novatti now issues physical and digital Visa payment cards, enabling consumers to make digital payments.



Alipay

Novatti's China-focused, cross-border payments platform, ChinaPayments, was successfully integrated directly into the main page of Alipay's app.



ChinaPayments will provide substantial value-add to Alipay's users by enabling them to pay more than 35,000 different Australian Bpay billers directly using Chinese currency. Novatti will receive a fee per any transaction going forward.

Alipay is a leading open digital lifestyle platform operated by Ant Group. It serves more than 1.2 billion users worldwide together with its global e-wallet partners.

Rent.com.au

Novatti partnered with Rent.com.au to redevelop the rental payments platform, RentPay.



RentPay was developed to provide an automated rental payments platform for both tenants and agents. In addition to administering rental payments and value added market place services for tenants, the platform also enables administrative support for agents, including automated missed-payment communications.

Novatti will receive \$250,000 for access to its technology and will provide paid processing services for three years, with automatic renewal. Novatti also invested directly in RentPay to gain exposure to the rental payments industry.



ChinaPayments enables Chinese residents to pay more than 35,000 different Australian BPAY billers using Chinese currency. In June 2020, the business was further validated with a partnership announced with Alipay.

Development of a digital payments bank

The culmination of all Novatti's capabilities will be a fully-digital banking service. This will enable consumers to obtain the full benefits of a cashless economy, with a flexible product that suits their lifestyle.

Novatti is currently developing a borderless, digital-only neobank that will leverage more than 100,000 customers through Novatti's partners.

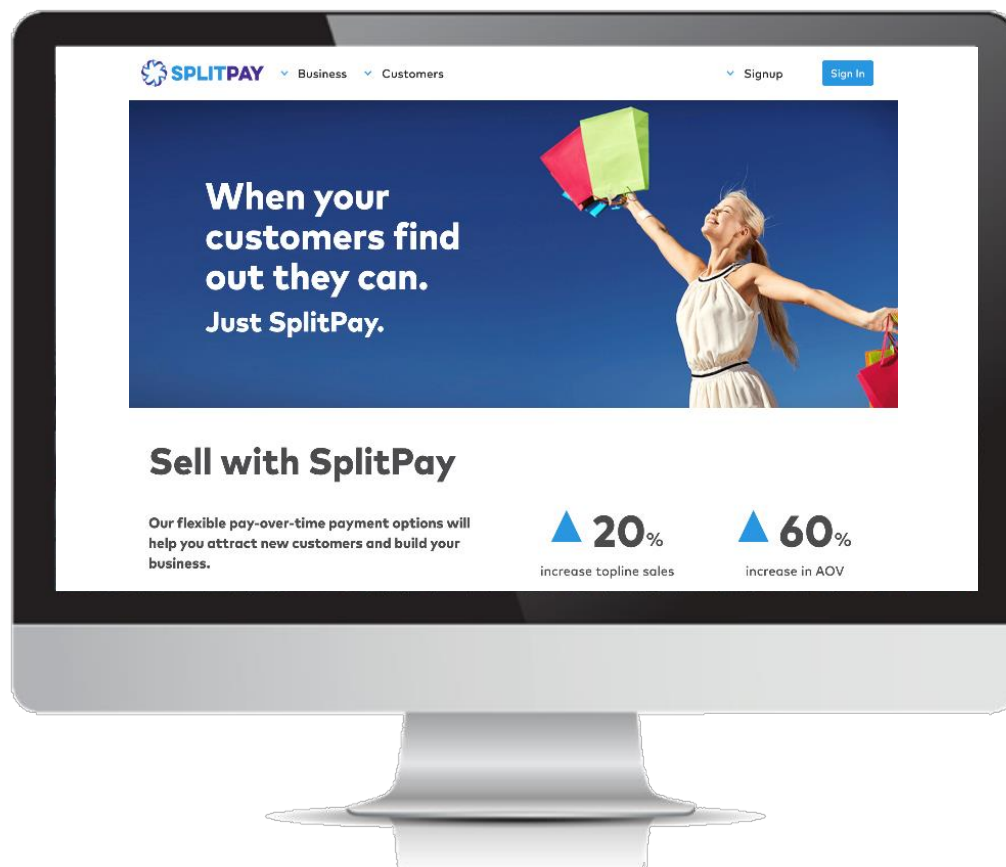
In November 2019, Novatti submitted its final application for a Restricted Authorised Deposit Taking Institution licence to the Australian Prudential Regulation Authority (APRA), the regulator of Australia's banking sector.

In April 2020, Novatti received guidance from APRA that it would be placing a temporary hold on the issuing of new banking licences during COVID-19. However, following the conclusion of the financial year, APRA announced that it will recommence issuing banking licences in two phases, with licensing of new operations, such as Novatti's, to begin from March 2021.

In the meantime, APRA has noted that Novatti's application will continue to be assessed, minimising any potential delays. While this process takes place, Novatti continues to make great progress in building its new banking business, including developing a strong customer and partner base to be ready for launch. Novatti also continues to actively engage with potential new investment partners for the new banking business following a restructure of its investment partners earlier in the financial year.

This new banking business is a key part of Novatti's long-term growth strategy.

Novatti provides the platform to power SplitPay, a new Buy-Now-Pay-Later provider in the United Kingdom.



DIRECTORS' REPORT

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 'Company', 'Novatti' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

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 (Non-Executive Chairman)
 Peter Cook (Managing Director and Chief Executive Officer)
 Kenneth Lai (Non-Executive Director)
 Paul Burton (Non-Executive Director)
 Steven Zhou (Non-Executive Director)
 Brandon Munro (Non-Executive Director) (resigned on 5 August 2020)

Principal activities

During the financial year the principal continuing activities of the consolidated entity are the provision of payment services by way of financial transaction processing, subscriber billing, card issuing, merchant acquiring services and payment network integration.

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$10,960,326 (30 June 2019: \$4,954,313).

The Group's net deficit position as at 30 June 2020 was \$485,563 with \$2,599,878 held in cash and cash equivalents.

	2020	2019	Change	Change
	\$	\$	\$	%
Net loss from operations	<u>(10,960,326)</u>	<u>(4,954,313)</u>	<u>(6,006,013)</u>	121%
Add:				
Interest	(8,745)	(10,282)	1,537	(15%)
Less:				
Depreciation and amortisation	904,815	389,337	515,478	132%
Finance charges	1,366,425	75,664	1,290,761	1706%
Indirect tax expenses	158,987	245,006	(86,019)	(35%)
EBITDA	<u>(8,538,844)</u>	<u>(4,254,588)</u>	<u>(4,284,256)</u>	101%
Add back/(less):				
Vesting of share-based payments	1,332,486	386,085	946,401	245%
Due diligence costs	-	497,853	(497,853)	(100%)
Loss on embedded derivative	726,942	-	726,942	-
Impairment of capitalised bank licensing costs	3,012,715	-	3,012,715	-
Underlying EBITDA*	<u>(3,466,701)</u>	<u>(3,370,650)</u>	<u>(96,051)</u>	3%
Cash	2,599,878	1,806,924	792,954	44%
Operating cash flow	(1,237,067)	(2,103,520)	866,453	(41%)

Novatti Group Limited
Directors' report
30 June 2020

- * AASB 16 Leases was adopted for the first time requiring capitalisation and amortisation of the Group's Right of Use Assets, as outlined in note 1 of the financial statements. The modified retrospective approach was used and as such the comparatives have not been restated. Therefore, the current and comparative EBITDA is not directly comparable.

In March 2020, the World Health Organisation declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread globally as well as in Australia. The spread of COVID-19 has caused significant volatility in Australian and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19 and therefore the Group has taken precautionary measures by temporarily closing the Company's offices (for all but essential services) and having arranged for its the employees to work remotely, as well as curtailing travel. At the date of this report, the impact of these measures is not expected to significantly affect Novatti's business operations.

Significant changes in the state of affairs

During the financial year, the Group impaired the previously capitalised costs associated with the Restricted Authorised Deposit-taking Institution (RAD) license of \$2.9M and the previously capitalised costs associated with the Electronic Money Issuing license (EMI) of \$120K.

On 7 November 2019, the Group raised \$2.275 million in convertible notes secured against its US subsidiary Novatti Inc. These funds have been allocated to working capital and funding of a collateral deposit of approximately \$147K.

In addition, Novatti B Holding Company Pty Ltd, the Parent entity's wholly owned subsidiary and head of its banking services unit entered into a convertible note loan arrangement with an Australian based investment group. The investment has raised \$1.1 million into Novatti B Holding Company Pty Ltd via a non-interest bearing converting note at a \$20M pre-money valuation.

In February 2020, the Group, entered into an agreement with investors for an extension on its convertible note facility. A further \$1.225 million was raised, bringing the total funds in from the parent entity's convertible note facility to \$3.5 million. The terms and conditions of the extension is identical to those of the original convertible note taken up on 15 November 2019.

On 2 April 2020, The Group announced the acquisition of the business assets as a going concern from Emersion Software Systems Pty Ltd, a leading business process integration platform. The acquisition extends the Group's capability offering and strengthens core payments business.

The consideration for the acquisition comprises a \$1 million cash component and a shares component comprising 16,725,000 Novatti fully paid ordinary shares, all of which will be subject to voluntary escrow until 31 March 2021.

On 29 June 2020, the Group announced it had secured the funds for its next growth phase, with binding commitments from institutional and sophisticated investors for a \$10.2 million capital raising.

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

Matters subsequent to the end of the financial year

On 3 July 2020, the Group issued 875,000 fully paid ordinary shares on conversion of 175,000 Novatti Group Limited Convertible Notes (4 for 1) and the exercise of 175,000 unlisted options exercisable at \$0.25 per share, expiring 30 November 2022. Following this conversion, the Novatti Group Limited Convertible Note facility is now \$3.325 million.

On 7 July 2020, the Group issued 40,000,000 ordinary shares at \$0.25 per share to institutional and sophisticated investors in a placement as announced on 29 June 2020, raising \$10 million. An additional 800,000 shares totalling \$200,000 will be issued to Directors Peter Pawlowitsch and Peter Cook, for which shareholder approval was granted on 19 August 2020, at the General Meeting of Shareholders.

On 8 July 2020, the Group announced that it had exited its investment in cross-border payments provider, SendFX, and ended its provision of ongoing technology and compliance services. Under its exit, the Group will receive \$900,000 in cash representing payment for the buy-back of Novatti's shareholding, plus repayment of loan funds from an aggregate cash investment by Novatti of \$400,000. The funds will be paid in three equal tranches over six months.

Novatti Group Limited
Directors' report
30 June 2020

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity'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, transactions and billing services.

The Group will use the \$10.2 million received from recent placement to accelerate Novatti's growth strategy, including:

- increasing business development resources;
- acquiring new Visa card issuing programs;
- securing new strategic, global partnerships; and
- fast-tracking Novatti's integration into other payment networks

This next growth phase will continue Novatti's recent expansion and strategic achievements, that included:

- Partnering with Alipay to integrate Novatti's China-focused, cross-border payments platform, ChinaPayments, into Alipay's app.
- Being chosen by global payments leader Marqeta as its partner to launch its prepaid card business in Australia.
- Launching the new Visa card issuing business after being awarded a Principal Issuer Licence by Visa Worldwide Pty Limited.
- Maintained record quarterly operating revenue of \$3.05 million (for the June 2020 quarter), slightly higher than its March 2020 quarter result.
- Cashflow continued to strengthen over the FY20 year. Product manufacturing and operating costs as a percentage of receipts from customers reduced from 75.9% in FY19 to 68.5% in FY20, reflecting the lower direct costs to deliver its increased processing revenue.
- Successfully navigating the challenges of COVID-19, including integrating the recent acquisition of the assets of Emersion Software Systems Pty Ltd, with performance beating expectations.

Environmental regulation

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

Information on directors

Name:	Peter Pawlowitsch
Title:	Non-Executive Chairman
Qualifications:	BCom, CPA, MBA, FGIA
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:	Non-Executive Chairman, Family Zone Cyber Safety Ltd (ASX: FZO) Non-Executive Director, VRX Silica Ltd (ASX: VRX) Non-Executive Director, Dubber Corporation Ltd (ASX: DUB) Non-Executive Director, Knosys Ltd (ASX: KNO)
Former directorships (last 3 years):	Non-Executive Director, Rewardle Holdings Limited (ASX: RXH)
Special responsibilities:	Member of Audit, Risk and Compliance Committee
Interests in shares:	3,182,662 fully paid ordinary shares
Interests in options:	3,000,000 unlisted options

Novatti Group Limited
Directors' report
30 June 2020

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 with companies including Coopers & Lybrand (now PWC), Catsco Pty Ltd and Advanced Network Management Pty Ltd (Telstra joint venture company) and many start-up technology companies. Peter's career has been largely based on founding and leading multiple telecommunications and payments companies. Integrapay Pty Ltd, 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: Non-Executive Director, P2P Transport Limited (ASX: P2P)
Former directorships (last 3 years): None
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: 11,107,904 fully paid ordinary shares
Interests in options: 5,000,000 unlisted options

Name: Kenneth Lai
Title: Non-Executive Director
Qualifications: BSc Majoring in Computer Science
Experience and expertise: Kenneth is the managing director and wholly owner of Prestige Team Limited, an investment company which, together with its subsidiaries, holds an investment portfolio in Hong Kong and Southeast Asia. Prestige Team Limited has interests in real estate, payment processing, digital marketing and information technology support services. Kenneth has funded and invested in various Silicon Valley technology funds focusing on business opportunities within Asia. He also co-founded Legend World Development Technology Limited, a limited liability company incorporated in Hong Kong, which provides information technology solutions and integrated marketing solutions to business setups, and in which he is a shareholder and advisor.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: 13,116,118 fully paid ordinary shares
Interests in options: 1,000,000 unlisted options

Name: Paul Burton
Title: Non-Executive Director
Qualifications: B.Com, B.Accounting Science (honours), 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: Chair of Audit, Risk and Compliance Committee
Interests in shares: 263,158 fully paid ordinary shares
Interests in options: 1,000,000 unlisted options

Name: Steven Zhou
Title: Non-Executive Director
Qualifications: BSc, Grad Dip Computing, Grad Dip Securities, GAICD
Experience and expertise: Steven is an experienced executive with payments industry experience in both China and Australia. Steven has recently aided Novatti in a number of deals involving new business operations between Australia and China.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: None
Interests in options: 1,000,000 unlisted options

Novatti Group Limited
Directors' report
30 June 2020

Name: Brandon Munro
Title: Non-Executive Director (resigned on 4 August 2020)
Qualifications: BEco, LLB, Grad Dip 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 leading ASX listed companies. He brings regulatory, governance, mergers and acquisitions and capital markets knowledge to the team.
Other current directorships: Managing Director, Bannerman Resources Limited (ASX: BMN)
Former directorships (last 3 years): None
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: 1,669,348 fully paid ordinary shares on the date of resignation
Interests in options: 1,500,000 unlisted options on the date of resignation

'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

Ian 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 company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board		Audit, Risk and Compliance Committee	
	Attended	Held	Attended	Held
Peter Pawlowitsch	5	5	2	2
Peter Cook	5	5	2	2
Kenneth Lai	4	5	1	2
Paul Burton	5	5	1	2
Steven Zhou	5	5	1	2
Brandon Munro	5	5	2	2

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

Remuneration report (audited)

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

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.

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

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

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity 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.

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

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

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

Non-executive directors remuneration

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. For the FY20 financial period there was no advice from independent remuneration consultants. 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. The current level of fees was approved at the Group's 27 November 2018 Annual General Meeting.

Executive remuneration

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

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 with the targets outside of the Chief Executive Officer being set by the Managing Director.

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

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The executive remuneration and reward framework can have four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

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

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 or the Managing Director 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
- 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 or the Managing Director as the case may be.

Long Term Incentive program (LTI)

LTI awards are reviewed 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 Company'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.

In addition, the Managing Director has performance options that are tied to total shareholder return with that being measured by providing share price targets.

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 and or rights or the issue of options), are made in accordance with thresholds as set out in the executive remuneration policy. 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.

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Consolidated entity performance and link to 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 global software technology, utility billing and payment services. Through technology and services, Novatti helps economies, corporations and consumers digitise cash transactions.

Align the interest of executives with shareholders	Attract, motivate and retain high performing individuals
- The remuneration strategy incorporates "at-risk" components, with short-term paid in cash 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 Company 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 nonmonetary 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.

Voting and comments made at the company's 2019 Annual General Meeting ('AGM')

At the 2019 AGM, 99.7% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2019. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

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

- Peter Pawlowitsch (Non-Executive Chairman)
- Peter Cook (Managing Director and Chief Executive Officer)
- Kenneth Lai (Non-Executive Director)
- Paul Burton (Non-Executive Director)
- Steven Zhou (Non-Executive Director)
- Brandon Munro (Non-Executive Director) (resigned on 4 August 2020)

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Other key management personnel:

- Alan Munday (Group Chief Operating Officer)
- Steven Stamboultgis (Chief Financial Officer)

Amounts of remuneration

	Short-term benefits			Long-term benefits	Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Non-monetary	Annual leave	Long service leave	Super-annuation	Equity-settled	
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Peter Pawlowitsch	-	-	-	-	10,845	248,322*	259,167
Kenneth Lai	-	-	-	-	-	73,434*	73,434
Paul Burton	-	-	-	-	-	85,934*	85,934
Steven Zhou	45,662	-	-	-	4,338	35,934	85,934
Brandon Munro	45,662	-	-	-	4,338	45,233	95,233
<i>Executive Directors:</i>							
Peter Cook	286,029	37,318	38,613	6,753	17,768	311,500	697,981
<i>Other Key Management Personnel:</i>							
Alan Munday	250,500	-	23,742	5,224	20,531	47,435	347,432
Steven Stamboultgis	183,691	-	13,327	3,720	17,451	37,948	256,137
	<u>811,544</u>	<u>37,318</u>	<u>75,682</u>	<u>15,697</u>	<u>75,271</u>	<u>885,740**</u>	<u>1,901,252</u>

* Director fees were paid through the issue of shares, see Share Based Payments Section below for further information.

** FY20 share-based payments charge includes \$288,368 of equity instruments issued in prior financial years.

	Short-term benefits			Long-term benefits	Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Non-monetary	Annual leave	Long service leave	Super-annuation	Equity-settled	
2019	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Peter Pawlowitsch	104,560	-	-	-	6,940	131,833	243,333
Kenneth Lai	-	-	-	-	-	52,733	52,733
Paul Burton	-	-	-	-	-	52,733	52,733
Steven Zhou	33,485	-	-	-	3,181	52,733	89,399
Brandon Munro	38,814	-	-	-	3,687	79,100	121,601
<i>Executive Directors:</i>							
Peter Cook	335,432	45,568	31,223	7,180	19,000	131,833	570,236
<i>Other Key Management Personnel:</i>							
Alan Munday	261,196	-	(9,207)	4,956	20,531	-	277,476
Steven Stamboultgis	191,781	-	3,930	2,854	18,219	-	216,784
	<u>965,268</u>	<u>45,568</u>	<u>25,946</u>	<u>14,990</u>	<u>71,558</u>	<u>500,965</u>	<u>1,624,295</u>

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The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Peter Pawlowitsch	4%	46%	-	-	96%	54%
Kenneth Lai	-	-	-	-	100%	100%
Paul Burton	58%	-	-	-	42%	100%
Steven Zhou	58%	41%	-	-	42%	59%
Brandon Munro	53%	35%	-	-	47%	65%
<i>Executive Directors:</i>						
Peter Cook	55%	77%	-	-	45%	23%
<i>Other Key Management Personnel:</i>						
Alan Munday	86%	100%	-	-	14%	-
Steven Stamboultgis	85%	100%	-	-	15%	-

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.
Details:	Base salary of \$400,000 (including statutory superannuation). 2.5M incentive options exercisable at \$0.19 upon the achievement of three milestones.

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 KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.

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.

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Name: Alan Munday
Title: Group Chief Operating Officer
Agreement commenced: 20 November 2015
Term of agreement: The term is not fixed.
Details: Base salary of \$304,468 (including statutory superannuation).

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 KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.

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 month's 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.
Details: Base salary of \$213,368 (including statutory superannuation).

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 KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.

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 executive on one month's 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.

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

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation, in lieu of cash salary, during the year ended 30 June 2020 are set out below:

Name	Date	Shares	Issue price	\$
Peter Pawlowitsch	9 June 2020	600,816	\$0.190	114,155
Paul Burton	9 June 2020	263,158	\$0.190	50,000
Kenneth Lai	9 June 2020	197,368	\$0.190	37,500

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Options

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 are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Peter Pawlowitsch	166,666	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.106
Peter Pawlowitsch	166,666	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.086
Peter Pawlowitsch	166,667	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.074
Peter Cook	833,333	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.106
Peter Cook	833,333	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.086
Peter Cook	833,333	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.074
Brandon Munro	166,666	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.106
Brandon Munro	166,666	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.086
Brandon Munro	166,667	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.074
Peter Pawlowitsch	833,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Peter Pawlowitsch	833,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.086
Peter Pawlowitsch	833,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Peter Cook	833,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Peter Cook	833,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.086
Peter Cook	833,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Brandon Munro	500,000	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.086
Brandon Munro	500,000	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Kenneth Lai	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Kenneth Lai	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.086
Kenneth Lai	333,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Paul Burton	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Paul Burton	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.086
Paul Burton	333,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Steven Zhou	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Steven Zhou	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.086
Steven Zhou	333,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Alan Munday	375,000	19 December 2019	31 December 2019	19 December 2022	\$0.200	\$0.104
Alan Munday	187,500	19 December 2019	31 December 2020	19 December 2022	\$0.200	\$0.087
Alan Munday	187,500	19 December 2019	31 December 2021	19 December 2022	\$0.200	\$0.063
Steven Stamboultgis	300,000	19 December 2019	31 December 2019	19 December 2022	\$0.200	\$0.104
Steven Stamboultgis	150,000	19 December 2019	31 December 2020	19 December 2022	\$0.200	\$0.087
Steven Stamboultgis	150,000	19 December 2019	31 December 2021	19 December 2022	\$0.200	\$0.063

Options granted carry no dividend or voting rights.

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The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Number of options granted during the year 2020	Number of options granted during the year 2019	Number of options vested during the year 2020	Number of options vested during the year 2019
Peter Pawlowitsch	500,000	2,500,000	-	833,334
Peter Cook	2,500,000	2,500,000	-	833,334
Brandon Munro	500,000	1,500,000	-	500,000
Kenneth Lai	-	1,000,000	-	333,334
Paul Burton	-	1,000,000	-	333,334
Steven Zhou	-	1,000,000	-	333,334
Alan Munday	750,000	-	375,000	250,000
Steven Stamboultgis	600,000	-	300,000	200,000

Additional information

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2020	2019	2018	2017	2016
Share price at financial year end (\$)	0.310	0.165	0.225	0.115	0.140
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(6.398)	(3.098)	(1.530)	(5.030)	(9.060)

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Participation of share placement	Exercise of options	Balance at the end of the year
<i>Ordinary shares</i>					
Peter Pawlowitsch	2,343,750	600,816	238,096	-	3,182,662
Peter Cook	11,107,904	-	-	-	11,107,904
Brandon Munro	1,562,500	-	-	106,848	1,669,348
Kenneth Lai	12,918,750	197,368	-	-	13,116,118
Paul Burton	-	263,158	-	-	263,158
Alan Munday	50,000	-	-	-	50,000
Steven Stamboultgis	20,000	-	-	-	20,000
	<u>28,002,904</u>	<u>1,061,342</u>	<u>238,096</u>	<u>106,848</u>	<u>29,409,190</u>

* Mr Steven Zhou does not hold any fully paid ordinary shares.

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Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Peter Pawlowitsch	2,500,000	500,000	-	-	3,000,000
Peter Cook	2,500,000	2,500,000	-	-	5,000,000
Brandon Munro	1,500,000	500,000	(500,000)	-	1,500,000
Kenneth Lai	1,000,000	-	-	-	1,000,000
Paul Burton	1,000,000	-	-	-	1,000,000
Steven Zhou	1,000,000	-	-	-	1,000,000
Alan Munday	-	750,000	-	-	750,000
Steven Stamboultgis	-	600,000	-	-	600,000
	<u>9,500,000</u>	<u>4,850,000</u>	<u>(500,000)</u>	-	<u>13,850,000</u>

Loans to key management personnel and their related parties

Novatti Group Ltd entered into a loan agreement on 10 June 2019, for \$600,000 with an entity associated with Peter Pawlowitsch. The loan drawn down as at 30 June 2019 was \$400,000. The interest rate payable on the loan facility is 12% per annum. The loan was fully repaid during the 2020 financial year.

Novatti Group Ltd entered into a loan agreement on 12 February 2020, for \$400,000 with an entity associated with Peter Pawlowitsch. The interest rate payable on the loan facility is 12% per annum. The loan was fully repaid on 27 March 2020.

Other transactions with key management personnel and their related parties

Services

No other payments were made to Directors outside of their normal duties as Directors for Novatti Group Ltd.

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 30th June 2020.

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	Exercise price	Number under option
27 November 2018	30 November 2022	\$0.196	9,000,000
15 November 2019	30 October 2022	\$0.250	3,325,000
25 November 2019	30 November 2023	\$0.200	3,500,000
19 December 2019	19 December 2022	\$0.200	5,370,000
10 July 2020	10 July 2023	\$0.200	850,000
10 July 2020	1 March 2024	\$0.200	441,667
10 July 2020	1 March 2025	\$0.200	441,667
10 July 2020	1 March 2026	\$0.200	66,666
10 July 2020	31 December 2022	\$0.200	3,200,000
			<u>26,195,000</u>

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

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Shares issued on the exercise of options

The following ordinary shares of Novatti Group Limited were issued during the year ended 30 June 2020 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
21 July 2016	\$0.200	200,000
27 November 2018*	\$0.190	106,848
20 October 2019	\$0.250	<u>175,000</u>
		<u><u>481,848</u></u>

* On 24 June 2020, Mr Brandon Munro exercised 500,000 unlisted options using the cashless exercise facility contained in the option terms. 106,848 fully paid ordinary shares were issued.

Shares issued on conversion of convertible notes

On 3 July 2020, the Group issued 700,000 ordinary shares on conversion of 175,000 convertible notes (4 for 1).

As at the date of this report, the Group has 3,325,000 convertible notes on issue.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

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 24 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.

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of 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 (including Independence Standards) 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 company, acting as advocate for the company or jointly sharing economic risks and rewards.

Novatti Group Limited
Directors' report
30 June 2020

Officers of the company who are former partners of William Buck

There are no officers of the company who are former partners of William Buck.

Auditor's independence declaration

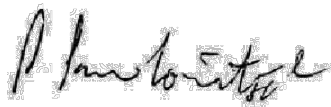
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

William Buck continues in office in accordance with section 327 of the Corporations Act 2001.

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

27 August 2020

**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 2020 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



N. S. Benbow
Director

Dated this 27th day of August, 2020

ACCOUNTANTS & ADVISORS

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Melbourne VIC 3000

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Novatti Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Revenue	4	11,003,666	8,416,464
Other income		853,469	473,938
Expenses			
Client hosting fees and other direct services		(3,134,471)	(1,879,065)
Employee benefits		(11,234,811)	(7,684,661)
Depreciation and amortisation expense		(904,815)	(389,337)
Occupancy		(144,720)	(336,365)
Finance charges		(1,366,425)	(75,664)
Foreign currency translation (losses)/gains		(181,631)	(248,644)
Travel expenses		(248,043)	(478,069)
Marketing and selling expenses		123,213	(602,196)
Insurance		(179,191)	(157,977)
Data management expenses		(254,766)	(226,394)
Share of net profit of joint ventures accounted for using the equity method		17,322	(40)
Accounting fees		(290,985)	(160,167)
Due diligence costs		-	(497,853)
Public company running costs		(190,383)	(246,957)
Gain/(loss) on embedded derivative - convertible note facility into Novatti Group Ltd the parent entity		(726,942)	-
Impairment of capitalised bank licensing costs	13	(3,012,715)	-
Other expenses		(1,041,307)	(831,567)
Loss before income tax expense		(10,913,535)	(4,924,554)
Income tax expense	5	(46,791)	(29,759)
Loss after income tax expense for the year attributable to the owners of Novatti Group Limited		(10,960,326)	(4,954,313)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		90,343	102,049
Other comprehensive income for the year, net of tax		90,343	102,049
Total comprehensive income for the year attributable to the owners of Novatti Group Limited		<u>(10,869,983)</u>	<u>(4,852,264)</u>
		Cents	Cents
Basic earnings per share	31	(6.398)	(3.098)
Diluted earnings per share	31	(6.398)	(3.098)

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

Novatti Group Limited
Statement of financial position
As at 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	6	2,599,878	1,806,924
Trade and other receivables	7	2,784,991	4,287,947
Financial assets - funds in trust	8	17,452,001	3,754,633
Other investments	10	560,000	-
Other current assets	9	360,133	512,772
Total current assets		<u>23,757,003</u>	<u>10,362,276</u>
Non-current assets			
Investments accounted for using the equity method		22,456	5,224
Other investments	10	300,000	800,000
Plant and equipment	11	572,509	623,124
Right-of-use assets	12	2,244,594	-
Intangible assets	13	5,703,440	4,645,343
Other non-current assets		239,567	99,739
Total non-current assets		<u>9,082,566</u>	<u>6,173,430</u>
Total assets		<u>32,839,569</u>	<u>16,535,706</u>
Liabilities			
Current liabilities			
Trade and other payables	14	5,854,239	4,641,419
Settlement and remittance funds payable	15	17,452,001	3,754,633
Loans		-	402,506
Lease liabilities	16	245,027	-
Unearned revenue	17	860,863	937,160
Convertible note facilities	18	1,100,000	-
Employee benefits		920,714	508,095
Total current liabilities		<u>26,432,844</u>	<u>10,243,813</u>
Non-current liabilities			
Lease liabilities	16	2,233,365	117,334
Convertible note facilities	18	4,544,578	-
Employee benefits		114,345	51,502
Total non-current liabilities		<u>6,892,288</u>	<u>168,836</u>
Total liabilities		<u>33,325,132</u>	<u>10,412,649</u>
Net assets/(liabilities)		<u>(485,563)</u>	<u>6,123,057</u>
Equity			
Issued capital	19	26,684,947	24,074,324
Reserves	20	2,376,730	2,180,965
Accumulated losses		(29,547,240)	(20,132,232)
Total equity/(deficiency)		<u>(485,563)</u>	<u>6,123,057</u>

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

Novatti Group Limited
Statement of changes in equity
For the year ended 30 June 2020

Consolidated	Issued capital \$	Share based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	22,234,239	1,265,108	427,723	(15,177,919)	8,749,151
Loss after income tax expense for the year	-	-	-	(4,954,313)	(4,954,313)
Other comprehensive income for the year, net of tax	-	-	102,049	-	102,049
Total comprehensive income for the year	-	-	102,049	(4,954,313)	(4,852,264)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued during the period net of transaction costs	1,840,085	-	-	-	1,840,085
Vesting of share-based payments	-	386,085	-	-	386,085
Balance at 30 June 2019	<u>24,074,324</u>	<u>1,651,193</u>	<u>529,772</u>	<u>(20,132,232)</u>	<u>6,123,057</u>

Consolidated	Issued capital \$	Share-based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 July 2019	24,074,324	1,651,193	529,772	(20,132,232)	6,123,057
Adjustment on initial application of AASB 16–Leases, (note 1)	-	-	-	53,940	53,940
Balance at 1 July 2019 - restated	24,074,324	1,651,193	529,772	(20,078,292)	6,176,997
Loss after income tax expense for the year	-	-	-	(10,960,326)	(10,960,326)
Other comprehensive income for the year, net of tax	-	-	90,343	-	90,343
Total comprehensive income for the year	-	-	90,343	(10,960,326)	(10,869,983)
<i>Transactions with owners in their capacity as owners:</i>					
Vesting of share-based payments	143,000	1,279,484	-	-	1,422,484
Issue of shares as consideration for acquisition of assets from Emersion Software Systems Pty Ltd	2,207,700	-	-	-	2,207,700
Issue of shares to Directors in lieu of fees	201,655	-	-	-	201,655
Issue of shares for the settlement of convertible note debt	58,268	(14,518)	-	-	43,750
Lapse of expired share options	-	(1,491,378)	-	1,491,378	-
Issue of options from convertible notes	-	293,847	-	-	293,847
Issue of convertible notes	-	37,987	-	-	37,987
Balance at 30 June 2020	<u>26,684,947</u>	<u>1,756,615</u>	<u>620,115</u>	<u>(29,547,240)</u>	<u>(485,563)</u>

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

Novatti Group Limited
Statement of cash flows
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		28,972,915	27,464,350
Payments to suppliers and employees (inclusive of GST)		(31,377,788)	(30,380,369)
Interest received		36,599	(35,496)
Receipt of research and development grant		1,021,818	923,660
Receipt of Government Stimulus		270,615	-
Interest and other finance costs paid		(161,226)	(75,665)
		<u> </u>	<u> </u>
Net cash used in operating activities	30	<u>(1,237,067)</u>	<u>(2,103,520)</u>
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	27	(190,000)	-
Payments for acquisition of investment partnership		-	(200,000)
Loans to investment business		-	(200,000)
Payments for plant and equipment	11	(51,477)	(527,511)
Payments for intangible assets	13	(1,138,788)	-
Payments for security deposits		(146,952)	-
Payments for banking licence		-	(1,662,628)
Proceeds from disposal of plant and equipment		850	-
		<u> </u>	<u> </u>
Net cash used in investing activities		<u>(1,526,367)</u>	<u>(2,590,139)</u>
Cash flows from financing activities			
Proceeds from issue of shares		133,750	1,972,094
Proceeds from related party borrowing		400,000	400,000
Repayment of borrowings		(800,000)	-
Interest and other finance costs paid		(2,506)	-
Proceeds from issue of convertible note facility		4,600,000	-
Cost of debt - convertible note facilities		(353,360)	-
Share issue transaction costs		-	(132,009)
Repayment of lease liabilities		(239,865)	-
		<u> </u>	<u> </u>
Net cash from financing activities		<u>3,738,019</u>	<u>2,240,085</u>
Net increase/(decrease) in cash and cash equivalents		974,585	(2,453,574)
Cash and cash equivalents at the beginning of the financial year		1,806,924	4,509,142
Effects of exchange rate changes on cash and cash equivalents		(181,631)	(248,644)
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year	6	<u><u>2,599,878</u></u>	<u><u>1,806,924</u></u>

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

Note 1. Significant accounting policies

Statement of Compliance

The consolidated financial statements are general-purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

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 financial year ended 30 June 2020.

Disclosures required by these standards that are deemed material have been included in this financial report on the basis that they represent a significant change in the information from that previously made available.

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 year ended 30 June 2020.

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 16 Lease

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	1 July 2019 \$
Assets	
Right-of-use assets	2,460,324
Liabilities	
Lease liabilities	<u>(2,514,264)</u>
Total adjustment on equity	
Reduction in opening accumulated losses as at 1 July 2019*	<u><u>(53,940)</u></u>

*The adjustment to opening accumulated losses arises from lease incentive liability on the date of AASB 16 adoption.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

Note 1. Significant accounting policies (continued)

	1 July 2019 \$
Operating lease commitments as at 1 July 2019	3,343,032
Discounted operating lease commitments using weighed average incremental borrowing rate of 5.25% at 1 July 2019	(793,419)
Less:	
Commitments relating to short-term leases	<u>(35,349)</u>
Lease liabilities as at 1 July 2019	<u><u>2,514,264</u></u>

The short term leases which were exempted from AASB 16 have been expensed in the statement of profit or loss and comprehensive income. \$135,699 was recognised and disclosed in occupancy expenses for the year ending 30 June 2020.

Right-of-use assets

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

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

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

Lease liabilities

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

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

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on the historical cost convention. Unless otherwise stated the carrying amounts of financial assets and liabilities reflect their fair value.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its 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.

Note 1. Significant accounting policies (continued)

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 27.

Principles of consolidation

These are the financial statements of Novatti Group Limited (the 'Company') and its controlled entities (the 'Group') as at 30 June 2020.

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
- The ability to use its power over the investee to affect its returns

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

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

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

Operating segments

Operating segments are presented 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.

Note 1. Significant accounting policies (continued)

Revenue recognition

The Group recognises revenue as follows:

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 that are recognised at the stage of performance completion and the revenue for ongoing maintenance and support, recognised on a straight-line basis, monthly over the subscription term.

Billing solutions

Provision of technologically advanced billing and customer information system platforms for the utilities industry. Yearly licence fees are amortised over the relevant year and professional services revenue is recognised in the month the service is provided at that point in time.

Transaction sales

Included within transaction sales are:

- Fees for software as a service
- Fees for the facilitation of top up vouchers
- Settlement Services of financial transactions
- Fees from 'Prepaid' reloadable cards

Revenue from transaction sales are recognised at the point in time for which the transaction takes place.

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 performance obligations and have outstanding services owing for the financial year ended 30 June 2020.

Other revenue

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

Accrued revenue

Accrued revenue includes revenue from the sales of services unbilled as at 30 June 2020.

Government grants

Government grants, including Research and Development revenues, are recognised at the point in time 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 rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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.

Note 1. Significant accounting policies (continued)

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.

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 allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Investments and other financial assets

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

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

Financial assets at amortised cost

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

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are measured at amortised cost. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Note 1. Significant accounting policies (continued)

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.

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:

Plant and equipment	2 years
Leasehold fixtures and fittings at cost	10 years

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

An item of 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.

The estimated useful lives for intangibles for the current period are:

Product Development: Technology	5 years
Customer lists	5 - 10 years
Intellectual Property: Technology - Billing Software	10 years
Vasco Pay brand	10 years

Intangible assets acquired in a business combination

Intangible assets, including customer lists, intellectual property and brand 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.

Note 1. Significant accounting policies (continued)

Impairment of tangible and intangible assets

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.

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.

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.

Convertible note facilities

During the year the Group issued convertible note tranches with conversion clauses that were both fixed and variable. For convertible notes with variable conversion terms, at initial recognition an embedded derivative is recognised on the statement of financial position at fair value and that embedded derivative is subsequently recorded at its fair value thereafter, with changes in fair value going through to the statement of profit or loss and other comprehensive income. The difference between the consideration received (net of costs) and the embedded derivative is reflected in the principal value of the convertible note liability.

For convertible notes with fixed conversion terms, at initial recognition the separate debt component of the note is recorded at its fair value (net of costs of the note) with the residual difference between the note and equity taken to a convertible note reserve in equity.

Over the duration of the maturity of the convertible note, the discount applied to the note at initial recognition is unwound through a finance charge using the effective interest rate up to the face value of the note at maturity. Costs directly attributable to the issue of the convertible notes are amortised over the life of the underlying note.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

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

Note 1. Significant accounting policies (continued)

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

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

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

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

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

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

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

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

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

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.

Issued capital

Ordinary shares are classified as equity.

Note 1. Significant accounting policies (continued)

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.

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.

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.

Note 1. Significant accounting policies (continued)

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

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

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

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 consolidated entity for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

Note 2. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Black-Scholes or Binomial models 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.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

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

Fair value measurement hierarchy

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

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

The financial asset investments have been classified by the Group in level 3 (refer note 10). These investments are in private entities where obtaining input values is not readily possible. Input values recognised were based on judgement and most recent transaction values.

Estimation of useful lives of finite life intangible assets

The Group determines the valuation, estimated useful lives and related amortisation charges for its finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The amortisation charge will increase where the useful lives are less than previously estimated lives, or, technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The directors have determined that the losses to date do not validate the requirement to book any DTA for carry forward losses and will consider the recognition of DTAs in future periods.

Lease term

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

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Assessment of the conversion features of the convertible notes

During the year the Group issued convertible note tranches with conversion clauses that were both fixed and variable. For the convertible note tranches with variable conversion terms, at initial recognition an embedded derivative is recognised on the statement of financial position at fair value and that embedded derivative is subsequently recorded at its fair value thereafter, with changes in fair value going through to the statement of profit or loss and other comprehensive income. The difference between the consideration received (net of costs) and the embedded derivative is reflected in the principal value of the convertible note liability.

The fixed component of the convertible note tranches in accordance with AASB 132 Financial instruments, are classified as equity.

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

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Operating segments

Identification of reportable operating segments

The Group is organised into five operating business segments:

- (1) Novatti Platform, incorporating enterprise sales and Maintenance & Support via the Novatti Platform
- (2) Billing Solutions, incorporating Basis2 operating under Novatti Incorporated
- (3) Transaction Services incorporating Flexewallet Pty Ltd, Flexe Payments (South Africa) Pty Ltd, Flexe Payments Ltd, Vasco Pay Pty Ltd and Emersion Software Systems Pty Ltd.
- (4) Banking, incorporating the banking services under Novatti IBA Pty Ltd. Novatti B Holding Company Pty Ltd hold the financial assets as its parent entity
- (5) Novatti Group Limited, 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.
Billing Solutions	Basis2 trading under Novatti Inc. provides a technologically advanced billing and CIS solution to service providers in the utilities industry.
Transaction Processing	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. Emersion Software Systems Pty Ltd integrates diverse business applications, such as subscription billing, payments and provisioning, into existing business platforms such as Customer Relationship Management Software.
Banking Services	Vasco Pay Pty Ltd: Provides a payment system centred around reloadable prepaid cards that meets the needs and wants of international and local university and college students. Novatti IBA Pty Ltd, on approval as a Restricted Authorised Deposit-Taking Institution ('RADI') or its banking licence by APRA, Novatti IBA Pty Ltd will offer new banking services to Australian customers with a focus on the migrant demographic.

Intersegment transactions

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

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Note 3. Operating segments (continued)

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 \$	Banking Services \$	Novatti Group Limited \$	Total \$
Consolidated - 2020						
Revenue						
Sales to external customers	2,271,796	2,214,263	6,517,607	-	-	11,003,666
Other revenue	175,807	-	42,823	45,500	580,594	844,724
Total revenue	<u>2,447,603</u>	<u>2,214,263</u>	<u>6,560,430</u>	<u>45,500</u>	<u>580,594</u>	<u>11,848,390</u>
EBITDA	(2,241,059)	294,662	(94,420)	(4,669,248)	(1,828,778)	(8,538,844)
Depreciation and amortisation	(325,929)	(211,742)	(212,927)	(12,785)	(141,433)	(904,815)
Interest revenue	4,556	-	3,799	2	388	8,745
Finance costs	(194,367)	(2,839)	(79,947)	(38,143)	(605,701)	(920,997)
Other costs	(43,385)	(22,976)	(45,836)	(139,700)	(305,727)	(557,624)
Profit/(loss) before income tax expense	<u>(2,800,184)</u>	<u>57,105</u>	<u>(429,331)</u>	<u>(4,859,874)</u>	<u>(2,881,251)</u>	<u>(10,913,535)</u>
Income tax expense						(46,791)
Loss after income tax expense						<u>(10,960,326)</u>
Assets						
Segment assets	4,292,554	1,779,062	24,112,444	33,721	2,621,788	32,839,569
Total assets						<u>32,839,569</u>
Liabilities						
Segment liabilities	4,874,838	545,241	21,218,049	1,804,496	4,882,508	33,325,132
Total liabilities						<u>33,325,132</u>
Employee Benefits	5,628,300	34,856	2,664,075	1,236,320	1,671,260	11,234,811
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	2,405,024	-	3,546,928	30,620	-	5,982,572

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Note 3. Operating segments (continued)

	Novatti Platform \$	Billing Solutions \$	Transaction Services \$	Banking Services \$	Novatti Group Limited \$	Total \$
Consolidated - 2019						
Revenue						
Sales to external customers	2,289,873	2,224,146	3,902,445	-	-	8,416,464
Other revenue	-	-	-	-	463,656	463,656
Total revenue	2,289,873	2,224,146	3,902,445	-	463,656	8,880,120
EBITDA						
Depreciation and amortisation	(1,771,002)	248,963	(1,793,756)	(66,231)	(872,562)	(4,254,588)
Interest revenue	(43,021)	(198,153)	(63,509)	-	(84,654)	(389,337)
Finance costs	4,760	-	15	-	5,507	10,282
Other costs	(29,637)	(795)	(39,508)	-	(5,724)	(75,664)
	(9,899)	(28,849)	(176,499)	-	-	(215,247)
Profit/(loss) before income tax expense	(1,848,799)	21,166	(2,073,257)	(66,231)	(957,433)	(4,924,554)
Income tax expense						(29,759)
Loss after income tax expense						(4,954,313)
Assets						
Segment assets	2,112,875	2,872,489	7,124,600	1,782,082	2,643,660	16,535,706
Total assets						16,535,706
Liabilities						
Segment liabilities	2,427,419	472,741	6,204,495	-	1,307,994	10,412,649
Total liabilities						10,412,649
Employee Benefits	4,678,844	42,287	2,397,542	-	565,988	7,684,661
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	518,568	-	8,942	-	1,662,628	2,190,138

For the breakdown of operating segment revenue into disaggregated revenue components, refer to Note 4.

Revenue from Australian customers is \$3,549,440 (FY19: \$2,038,278).

Revenue from customers in other countries is \$7,454,226 (FY19: \$6,378,186).

Revenue from a single customer in a country other than Australia is \$3,497,650 (FY19: \$1,959,434), generated from Billing Solution and Transactional Services segments.

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Note 4. Revenue

	Timing of revenue recognition Services provided at point in time \$	Timing of revenue recognition Services provided over time \$	Consolidated 2020 \$
2020			
Sales revenue:			
Platform sales	-	2,271,796	2,271,796
Billing Solutions	1,287,820	926,442	2,214,262
Transaction processing	6,517,608	-	6,517,608
	<u>7,805,428</u>	<u>3,198,238</u>	<u>11,003,666</u>
	Timing of revenue recognition Services provided at point in time \$	Timing of revenue recognition Services provided over time \$	Consolidated 2019 \$
2019			
Sales revenue			
Platform sales	-	2,289,873	2,289,873
Billing Solutions	1,418,910	805,236	2,224,146
Transaction processing	3,902,445	-	3,902,445
	<u>5,321,355</u>	<u>3,095,109</u>	<u>8,416,464</u>

Note 5. Income tax expense

	Consolidated	
	2020 \$	2019 \$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(10,913,535)	(4,924,554)
Tax at the statutory tax rate of 27.5%	(3,001,222)	(1,354,252)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Adjustment for tax rate differences in foreign jurisdictions	40,806	23,800
Adjustment for income tax payable in foreign jurisdictions	46,791	27,395
Adjustment for tax exempt research and development tax	(155,462)	(126,695)
Adjustments from prior periods	390,490	20,546
Share-based payments	366,434	107,563
Adjustment for R&D accounting expense included within R&D incentive	357,384	291,252
Other non-deductible expenses	67,435	21,075
	(1,887,344)	(992,774)
Current year tax losses not brought to account	2,353,782	814,248
Current year temporary differences not brought to account	328,227	520,084
Adjustments in respect of current income tax of previous year	(747,874)	(311,799)
Income tax expense	<u>46,791</u>	<u>29,759</u>

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Note 5. Income tax expense (continued)

	Consolidated	
	2020	2019
	\$	\$
<i>Deferred tax assets not brought to account:</i>		
Unused tax losses for which no deferred tax asset has been recognised	18,906,227	10,982,770
Potential tax benefit @ 27.5%	5,199,212	3,020,262

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
Cash on hand	595	7,910
Cash at bank	2,599,283	1,799,014
	<u>2,599,878</u>	<u>1,806,924</u>

Note 7. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Trade receivables	2,376,159	3,787,197
Less: Allowance for expected credit losses	(87,086)	-
	<u>2,289,073</u>	<u>3,787,197</u>
Accrued revenue	495,918	500,750
	<u>2,784,991</u>	<u>4,287,947</u>

Allowance for expected credit losses

The consolidated entity has recognised a loss of \$87,086 (2019: Nil) in statement of profit or loss and other comprehensive income in respect of the expected credit losses for the year ended 30 June 2020.

Other than the provision noted above, management are of the opinion that these receivables are reflective of fair value and should not be impaired.

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

	Consolidated	
	2020	2019
	\$	\$
Trade receivables		
Current	1,319,909	1,462,811
3 to 6 months overdue	93,985	467,979
Over 6 months overdue	875,179	1,856,407
Other receivables		
Accrued revenue	495,918	500,750
	<u>2,784,991</u>	<u>4,287,947</u>

Note 8. Current assets - financial assets - funds in trust

	Consolidated	
	2020	2019
	\$	\$
Settlement funds*	9,102,731	1,934,582
Remittance funds*	8,349,270	1,820,051
	<u>17,452,001</u>	<u>3,754,633</u>

* Refer to Note 15 Current liabilities – Settlement and Remittance funds payable

Note 9. Current assets - other current assets

	Consolidated	
	2020	2019
	\$	\$
Prepayments	115,553	144,184
Loan to unlisted entity*	200,000	200,610
Other	44,580	167,978
	<u>360,133</u>	<u>512,772</u>

*Terms of loan agreement include:

Borrower: SendFX

Principal amount: \$200,000

Term: 12 months from the first drawdown. The loan was first drawn down on 20 May 2019.

Interest: 6%

Repayment: The principal is repayable at the expiry of the term. The borrower may extend the date for repayment by up to 6 months. The borrower may repay all or any portion of the principal and interest prior to the end of the loan term.

Conversion: Where the principal amount and interest has not been repaid within 6 months after the end of term, as may be extended, the lender may convert some or all of the monies outstanding into fully paid ordinary shares in the borrower.

Security: The borrower charges in favour of the lender all its right, title and interest in present and after acquired property including any interest to grant a security interest. The charge continues to real property. The borrower has no power to create any security in the collateral ranking in priority or equal rank to the agreement without obtaining the lender's prior written consent.

On 8 July 2020, the Group announced that, by mutual agreement, it had exited its investment in SendFX and ended its provision of ongoing technology and compliance services. Under the terms of the exit agreement, the Group will receive \$900,000 in cash representing payment for the buy-back of the Group's shareholding (refer note 10) and repayment of the outstanding loan balance as at 30 June 2020.

Note 10. Other investments

	Consolidated	
	2020	2019
	\$	\$
Current		
Investment in SendFX*	560,000	-
Non-current		
Investment in SendFX*	-	560,000
Investment in Slice Payments*	300,000	240,000
	<u>860,000</u>	<u>800,000</u>

* These investments are in private entities where obtaining input values is not readily possible. Input values recognised were based on judgement and most recent transaction values (refer note 2).

Note 11. Non-current assets - plant and equipment

	Consolidated	
	2020	2019
	\$	\$
Leasehold fixture and fittings - at cost	534,436	495,636
Less: Accumulated depreciation	<u>(102,504)</u>	<u>(27,636)</u>
	<u>431,932</u>	<u>468,000</u>
Plant and equipment - at cost	708,684	626,781
Less: Accumulated depreciation	<u>(568,107)</u>	<u>(471,657)</u>
	<u>140,577</u>	<u>155,124</u>
	<u><u>572,509</u></u>	<u><u>623,124</u></u>

Reconciliations

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

Consolidated	Plant & Equipment at cost \$	Leasehold Fixtures & Fittings at cost \$	Total \$
Balance at 1 July 2018	136,571	5,936	142,507
Additions	57,957	469,553	527,510
Depreciation expense	<u>(39,404)</u>	<u>(7,489)</u>	<u>(46,893)</u>
Balance at 30 June 2019	155,124	468,000	623,124
Additions	38,604	12,873	51,477
Disposals	(743)	-	(743)
Depreciation expense	<u>(52,408)</u>	<u>(48,941)</u>	<u>(101,349)</u>
Balance at 30 June 2020	<u><u>140,577</u></u>	<u><u>431,932</u></u>	<u><u>572,509</u></u>

Note 12. Non-current assets - right-of-use assets

	Consolidated	
	2020	2019
	\$	\$
Buildings - right-of-use	2,525,761	-
Less: Accumulated depreciation	<u>(281,167)</u>	<u>-</u>
	<u><u>2,244,594</u></u>	<u><u>-</u></u>

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Note 12. Non-current assets - right-of-use assets (continued)

Reconciliations

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

Consolidated	Buildings - Right-of-use \$
Recognition on adoption of AASB 16 (note 1)	2,460,324
Additions	30,270
Exchange differences	35,167
Depreciation expense	<u>(281,167)</u>
Balance at 30 June 2020	<u><u>2,244,594</u></u>

Note 13. Non-current assets - intangible assets

	Consolidated	
	2020	2019
	\$	\$
Brand Asset	567,630	567,630
Less: Accumulated amortisation	<u>(116,183)</u>	<u>(59,637)</u>
	451,447	507,993
Intellectual property - at cost	847,000	847,000
Less: Accumulated amortisation	<u>(262,542)</u>	<u>(177,657)</u>
	584,458	669,343
Customer Lists	3,784,726	2,017,760
Less: Accumulated amortisation	<u>(723,679)</u>	<u>(423,221)</u>
	3,061,047	1,594,539
Licences	-	1,661,863
Other intangible assets	<u>45,592</u>	<u>211,605</u>
Product development	1,642,764	-
Less: Accumulated amortisation	<u>(81,868)</u>	<u>-</u>
	1,560,896	-
	<u><u>5,703,440</u></u>	<u><u>4,645,343</u></u>

Novatti Group Limited
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Note 13. Non-current assets - intangible assets (continued)

Reconciliations

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

Consolidated	Brand Asset \$	Intellectual Property \$	Customer Lists \$	Licences \$	Other Intangible Assets \$	Product Development \$	Total \$
Balance at 1 July 2018	-	753,997	1,703,724	208,840	779,235	-	3,445,796
Reclassification of Brand Asset and Other Intangible Assets	567,630	-	-	-	(567,630)	-	-
Additions	-	-	-	1,453,023	-	-	1,453,023
Exchange differences	-	-	88,968	-	-	-	88,968
Amortisation expense	(59,637)	(84,654)	(198,153)	-	-	-	(342,444)
Balance at 30 June 2019	507,993	669,343	1,594,539	1,661,863	211,605	-	4,645,343
Additions	-	-	-	1,138,788	-	-	1,138,788
Additions through business combinations (note 27)	-	-	1,727,841	-	43,592	1,642,764	3,414,197
Exchange differences	-	-	36,517	2,459	-	-	38,976
Impairment of assets*	-	-	-	(2,803,110)	(209,605)	-	(3,012,715)
Amortisation expense	(56,546)	(84,885)	(297,850)	-	-	(81,868)	(521,149)
Balance at 30 June 2020	<u>451,447</u>	<u>584,458</u>	<u>3,061,047</u>	<u>-</u>	<u>45,592</u>	<u>1,560,896</u>	<u>5,703,440</u>

*During November 2018, Novatti's management team submitted an application to the Australian Prudential Authority (APRA) for a Restricted Authorized Deposit-taking Institution license (ADI license). Due to the difficulty in assessing the potential financial impact of the granting of the license and notwithstanding the uncertainty as to when the licence will be granted by APRA, the Directors have determined that the costs in relation to its license should be impaired from the statement of financial position. The full impact of this impairment charge has been recorded as a charge to the statement of profit or loss and other comprehensive income.

Note 14. Current liabilities - trade and other payables

	Consolidated	
	2020	2019
	\$	\$
Trade payables	3,018,037	3,592,651
Accrued expenses	1,914,520	1,038,221
Amounts payable to Emersion Software Systems Pty Ltd (note 27)	810,000	-
Other payables	111,682	10,547
	<u>5,854,239</u>	<u>4,641,419</u>

Note 15. Current liabilities - settlement and remittance funds payable

	Consolidated	
	2020	2019
	\$	\$
Settlement funds payable*	9,102,731	1,934,582
Remittance funds payable*	8,349,270	1,820,051
	<u>17,452,001</u>	<u>3,754,633</u>

* Client Funds held for Settlement and Remittance, refer to Note 8.

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

Note 16. Lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Current		
Office lease liabilities for Melbourne, United Kingdom and Malta	245,027	-
Non-Current		
Lease incentive liability - Melbourne office	-	117,334
Office lease liabilities for Melbourne, United Kingdom and Malta	2,233,365	-
	<u>2,478,392</u>	<u>117,334</u>

Note 17. Current liabilities - unearned revenue

	Consolidated	
	2020	2019
	\$	\$
Revenue billed in advance	<u>860,863</u>	<u>937,160</u>

Reconciliation of the values at the beginning and end of the current and previous financial year:

	Consolidated	
	2020	2019
	\$	\$
Opening balance	937,160	660,532
Amounts billed in advance (ex GST)	3,131,941	3,008,561
Less revenue recognised over a period of time	(3,198,238)	(2,731,933)
Closing balance	<u>860,863</u>	<u>937,160</u>

Note 18. Convertible note facilities

	Consolidated	
	2020	2019
	\$	\$
Current		
Loan payable - Convertible note facility for \$1.1M at 0% pa	1,100,000	-
Non-current		
Loan payable - Convertible note facility for \$2,275M and \$1.225M at 9% pa	2,817,927	-
Embedded derivative - Convertible note facility	1,726,651	-
	<u>5,644,578</u>	<u>-</u>

\$2.275 million 9% convertible note facility

- Proceeds from issue \$2,275,000, less transaction costs of \$150,150.

On 7 November 2019, Novatti Group issued convertible notes for the amount of \$2.275 million to professional and sophisticated investors.

The primary terms of the convertible note facility are:

Issuer: Novatti Group Ltd

Face value: \$2.275M (\$1 per note) Interest: 9% pa – payable quarterly based on the face value

Term: 15 November 2019 to 30 July 2021

Conversion price:

Lesser of

i. \$0.25 and

ii. lowest share issue price under any capital raising by Novatti Group Ltd between the date of issue of the notes and the date of receipt of conversion notice.

Bonus options issued as attaching to the convertible notes: 2.275 million options exercisable at \$0.25 per share fixed price exercisable any time before 30 October 2022. The value attached to the options is \$188,735, classified in equity reserve.

\$1.225 million 9% convertible note facility

- Proceeds from issue \$1,225,000, less transaction costs of \$63,500.

On 18 February 2020, Novatti Group issued an additional convertible note facility for the amount of \$1.225 million to professional and sophisticated investors under the same terms as the \$2.275 million notes noted above.

The primary terms of the convertible note facility are:

Issuer: Novatti Group Ltd

Face value: \$1.225M (\$1 per note) Interest: 9% pa – payable quarterly based on the face value

Term: 18 February 2020 to 30 July 2021

Conversion price:

Lesser of

i. \$0.25 and

ii. lowest share issue price under any capital raising by Novatti Group Ltd between the date of issue of the notes and the date of receipt of conversion notice.

Bonus options issued as attaching to the convertible notes: 1.225 million options exercisable at \$0.25 per share fixed price exercisable any time before 30 October 2022. The value attached to the options is \$105,112, classified in equity reserve.

Note 18. Current liabilities - convertible note facilities (continued)

\$1.1million convertible note facility

- Proceeds from issue \$1,100,000 less transaction costs of \$139,710.

On the 8 November 2019, Novatti B Holding Company Pty Ltd (NBHC) the Group's wholly owned subsidiary and head of its banking services unit, issued a \$1.1 million convertible note to Australian Fintech Investment Group Pty Ltd (AFIG).

The primary terms of the convertible note facility are:

Issuer: NBHC

Holder: AFIG

Face value: \$1.1M

Interest: nil

Term: 8 November 2019 to 31 March 2020*.

Conversion formula: If NBHC obtains its Restricted Authorised Deposit-taking Institution (RADI) license from the Australian Prudential Regulation Authority (APRA), the facility automatically converts into the number of NBHC shares equal to 5.5% of its issued capital, (1,100,000 NBHC shares based on 20M shares on issue at the time of agreement).

The value attached to the conversion of notes into NBHC shares is equal to \$37,987, classified in equity reserve.

* The Group had held multiple discussions with AFIG on possible options including extending the term of the convertible note. As at the date of this report, no agreement has been reached and AFIG continues to await the outcome of NBHC's application of RADI license.

As financial instruments, the Group's convertible note facilities are initially measured at fair value. The loan component, or the financial liability of the convertible notes are accounted for at amortised cost using the effective interest method in accordance with AASB 9.

As part of its convertible note, Novatti Group's embedded derivative is subsequently valued at fair value with gains or losses recognised in the statement of profit or loss and other comprehensive income.

The three convertible notes are measured at level two of the fair value hierarchy as these have been calculated utilising market observable factors.

The convertible notes are unsecured.

Note 19. Equity - issued capital

	Consolidated			
	2020	2019	2020	2019
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>185,210,500</u>	<u>166,879,214</u>	<u>26,684,947</u>	<u>24,074,324</u>

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Note 19. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	\$
Balance	1 July 2018	157,508,333	22,234,239
Fully paid ordinary shares on exercise of options	28 February 2019	84,500	21,954
Placement to further the Company's application for a restricted banking licence	29 March 2019	9,286,381	1,950,140
Placement fee to corporate adviser for share placement		-	(132,009)
			<hr/>
Balance	30 June 2019	166,879,214	24,074,324
Take up of fully paid ordinary shares	25 November 2019	238,096	50,000
Fully paid ordinary shares on exercise of options	31 December 2019	200,000	40,000
Issue of shares as consideration for acquisition of assets from Emersion Software Systems Pty Ltd	2 April 2020	16,725,000	2,207,700
Issue of shares to Directors in lieu of fees	9 June 2020	1,061,342	201,655
Conversion of 500,000 director options	24 June 2020	106,848	53,000
Issue of shares for the settlement of convertible note debt*		-	58,268
			<hr/>
Balance	30 June 2020	<u>185,210,500</u>	<u>26,684,947</u>

*On 3 July 2020, the Group issued 875,000 fully paid ordinary shares for the settlement of convertible note debt.

Ordinary shares

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

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

Share buy-back

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

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 20. Equity - reserves

	Consolidated	
	2020	2019
	\$	\$
Foreign currency reserve	620,115	529,772
Share-based payments reserve	1,756,615	1,651,193
	<hr/>	<hr/>
	<u>2,376,730</u>	<u>2,180,965</u>

Note 20. Equity - reserves (continued)

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. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments 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 exercised and balance is transferred to retained earnings when options lapse.

The following options form part of the reserve for the year ended 30 June 2020:

On the 25 November 2019, 5,370,000 unlisted options were granted to staff and contractors under the Group's Employee Share Option Plan (ESOP). The options issued have an exercise price of \$0.20 each. The options will vest in three tranches:

- 50% of options provided to employees will vest on grant date
- A further 25% will vest 12 months from grant date, on the 25 November 2020
- The remaining 25% will vest 24 months from grant date on the 25 November 2021

All unexercised options will lapse 36 months after grant date on the 25 November 2022.

The fair value of these options are valued at "grant date" using the Black-Scholes option pricing model.

At the FY19 AGM of shareholders, 3.5 million unlisted incentive options were approved to be issued to Group Directors at an exercise price of \$0.22 per share.

In accordance with Resolution 9 of the AGM the incentive options will be issued free of charge and within one month after the date of the meeting, options issued to directors will be exercisable upon the successful completion of three milestones:

- Options that are linked to a specific milestone will not "vest" unless and until the relevant milestone has been achieved within the prescribed timeframe or a "Change of Control Event" occurs during that period. If neither of these events occurs within the prescribed timeframe, then the relevant number of Incentive Options will automatically lapse.
- In addition, all "unvested" Options will be forfeited and automatically lapse upon the recipient terminating or being removed from their role with the Company, unless the Board determines otherwise.

See the terms and conditions in Schedule 3 of the Notice of 2019 AGM for further details.

Details of these milestones and timeframes for achievement are as follows:

Milestone 1: The 20-day VWAP achieving a price greater than or equal to 130% of the November 2019 20- day VWAP at any time during the period commencing 1 December 2019 and ending 30 November 2020 (inclusive).

Milestone 2: The 20-day VWAP achieving a price greater than or equal to 160% of the November 2019 20- day VWAP at any time during the period commencing 1 December 2019 and ending 30 November 2021 (inclusive).

Milestone 3: The 20-day VWAP achieving a price greater than or equal to 190% of the November 2018 20- day VWAP at any time during the period commencing 1 December 2019 and ending 30 November 2022 (inclusive).

The exercise price for the Incentive Options will be equal to the November 2019 20-day VWAP. The Incentive Options will expire on 30 November 2023 after which date all of the Incentive Options not yet exercised automatically lapse.

As part of the Group's convertible note facility issued during the year ended 30 June 2020:

- (1) the bonus options exercisable for a fixed number of shares (3,500,000 shares) for a fixed price (\$0.25 per share) has been categorised as equity.
- (2) The conversion of the 1.1 million convertible note resulting in a fixed number of shares (1,100,000 million Novatti B Holding Company shares) for a fixed price (\$1 per share) has been classed as equity under the 'fixed' test guidelines of AASB 132 Financial Instruments Presentation (2014)

Note 20. Equity - reserves (continued)

Accordingly, the equity component of the financial instrument is never remeasured in subsequent reporting periods. Please see note 18 for further information on the terms of the convertible notes

Note 21. Equity - dividends

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

Note 22. 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
- Lease liabilities
- Convertible note facilities

Client funds held for settlement and remittance are not recognised as financial instruments as the net value of the two net off in total.

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.

Note 22. Financial instruments (continued)

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and other financial assets. The Group's exposure to credit risk arises from potential default by the counter-party, with maximum exposure equal to the carrying amount of these instruments. Exposure at the reporting date is addressed in each applicable note.

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. Refer to Note 7 trade and other receivable for the ageing analysis.

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

Market risk

Foreign 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, accounts receivable and payable accounts and on its financial assets 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).

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2020	2019	2020	2019
	\$	\$	\$	\$
Canadian dollars	3,463,134	3,108,184	(692,804)	(1,327,733)
US dollars	1,052,126	2,323,458	(226,950)	(135,958)
Euros	9,217,938	1,067,922	(188,433)	(819,300)
GBP	35,113	14,300	(36,090)	(37,965)
	<u>13,768,311</u>	<u>6,513,864</u>	<u>(1,144,277)</u>	<u>(2,320,956)</u>

The following tables below illustrate the sensitivity of the net result for the year and equity in regard 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 2020. 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.

Note 22. Financial instruments (continued)

Consolidated - 2020	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Canadian dollars	5%	(131,920)	-	5%	145,807	-
US dollars	5%	(39,294)	-	5%	43,430	-
Euros	5%	(429,976)	-	5%	475,237	-
GBP	5%	47	-	5%	(51)	-
		<u>(601,143)</u>	<u>-</u>		<u>664,423</u>	<u>-</u>

Consolidated - 2019	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Canadian dollars	5%	(84,783)	-	5%	93,708	-
US dollars	5%	(104,167)	-	5%	115,132	-
Euros	5%	(11,839)	-	5%	13,085	-
GBP	5%	1,127	-	5%	(1,246)	-
		<u>(199,662)</u>	<u>-</u>		<u>220,679</u>	<u>-</u>

Price risk

The Group is exposed to other price risk on its investments in unlisted entities. These investments are classified on the statement of financial position as investment assets initially recorded at cost and are subsequently measured at fair value through the statement of profit or loss and other comprehensive income. The investments are in two different entities. The assets and liabilities within these investments indirectly expose the Group to equity price risks. It is not considered practicable to 'look through' the investments to analyse these risks in detail. These investments were acquired in the FY19 year.

If the fair value of investments increased by 10% this would have increased other income for both the Group by \$86,000. A decrease of 10% would have reduced other income by the same amount.

Investments measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – a valuation technique is applied using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices)
- Level 3 – a valuation technique is applied using inputs that are not based on observable market data (unobservable inputs)

2020	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Shares in unlisted entities	-	-	860,000	860,000

2019	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Shares in unlisted entities	-	-	800,000	800,000

These investments are in private entities where obtaining input values is not readily possible. Input values recognised were based on judgement and most recent transaction values.

Note 22. Financial instruments (continued)

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 2020, the financial liabilities of the Group include:

- Trade and other payables. For further details including breakdown of balances, refer to trade and other payables in Note 14 for a breakdown of account balances
- Lease liabilities. Refer to Note 16 for a summary of the outstanding lease liabilities
- Convertible note facilities. Refer to Note 18 for a summary of terms and conditions

The contractual amounts of financial liabilities are equal to their carrying values.

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

Consolidated - 2020	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables and other payables	-	5,854,239	-	-	-	5,854,239
<i>Interest-bearing - fixed rate</i>						
Convertible note facilities	9.00%	1,100,000	4,544,578	-	-	5,644,578
Lease liabilities	5.21%	245,027	2,233,365	-	-	2,478,392
Total non-derivatives		7,199,266	6,777,943	-	-	13,977,209
Consolidated - 2019						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables and other payables	-	4,641,419	-	-	-	4,641,419
Lease liabilities	-	117,334	-	-	-	117,334
Total non-derivatives		4,758,753	-	-	-	4,758,753

Note 23. Key management personnel disclosures

Compensation

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

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	924,544	1,036,782
Post-employment benefits	75,271	71,558
Long-term benefits	15,697	14,990
Share-based payments	885,740	500,965
	<u>1,901,252</u>	<u>1,624,295</u>

Note 24. Remuneration of auditors

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

	Consolidated	
	2020	2019
	\$	\$
<i>Audit services - William Buck</i>		
Audit or review of the financial statements	<u>90,500</u>	<u>79,540</u>
<i>Other services - William Buck</i>		
Preparation of the tax return and associated tax services (including R&D)	72,635	58,905
Investigative consulting	<u>-</u>	<u>11,970</u>
	<u>72,635</u>	<u>70,875</u>
	<u>163,135</u>	<u>150,415</u>

Note 25. Related party transactions

Parent entity

Novatti Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Transactions with related parties

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

Receivable from and payable to related parties

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

Novatti Group Limited
Notes to the financial statements
30 June 2020

Note 25. Related party transactions (continued)

Loans from Directors

Current and non-current liabilities to a Director

There were no other Director related services that have been provided to the Group outside of the Directors normal fiduciary duties and responsibilities as Directors of Novatti Group other than as outlined in this report.

Loans to/from related parties

Loan provided to the Group's joint venture partner, Hi Impact. This loan agreement is for a total of USD 18,335 (AUD 26,611) as at 30 June 2020 (FY19, USD 18,335 (AUD 29,940)). The loan is on commercial terms and interest has been calculated daily at 6% per annum.

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

Terms and conditions

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2020	2019
	\$	\$
Loss after income tax	(2,812,836)	(964,177)
Total comprehensive income	(2,812,836)	(964,177)

Statement of financial position

	Parent	
	2020	2019
	\$	\$
Total current assets	31,081,847	1,172,317
Total assets	32,115,258	27,413,112
Total current liabilities	629,064	1,307,994
Total liabilities	5,173,642	1,307,994
Equity		
Issued capital	29,601,950	26,991,327
Share-based payments reserve	2,318,628	2,251,193
Accumulated losses	(4,978,962)	(3,137,402)
Total equity	<u>26,941,616</u>	<u>26,105,118</u>

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

There exists a bank guarantee for offices leased in Melbourne. As at 30 June 2020, this totalled \$79,169 (FY19: \$78,031). No other guarantees exist.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 (2019: Nil).

Novatti Group Limited
Notes to the financial statements
30 June 2020

Note 26. Parent entity information (continued)

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 (2019: Nil).

Significant accounting policies

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

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

Note 27. Business combinations

Acquisition of Emersion Software Systems Pty Ltd

On 2 April 2020, Novatti Group Limited announced the acquisition of business assets from Emersion Software Systems Pty Ltd, a leading business process integration platform. The acquisition extends the Group's capability offering and strengthens core payments business. The acquisition has been accounted as a Business Combination under AASB 3. The goodwill of \$43,592 was primarily related to the Company's growth expectations through customer expansion. The acquired business contributed revenues of \$479,295 and loss after tax of \$258,963 to the consolidated entity for the period from 2 April 2020 to 30 June 2020. If the acquisition occurred on 1 July 2019, the full year contributions would have been revenues of \$1,891,632 and loss after tax of \$373,829.

The fair values of the identifiable net assets acquired are detailed below:

	Fair value \$
Prepayments	6,735
Customer Lists	1,727,841
Product Development	1,642,764
Employee benefits	<u>(213,232)</u>
Net assets acquired	3,164,108
Goodwill	<u>43,592</u>
Acquisition-date fair value of the total consideration transferred	<u><u>3,207,700</u></u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	3,207,700
Less: shares issued by company as part of consideration	<u>(2,207,700)</u>
Net cash used	<u><u>1,000,000</u></u>

*The \$1 million in cash is payable over monthly instalments of varying amounts until June 2021. The Group paid \$190,000 prior to 30 June 2020, with the remaining balance of \$810,000 to be paid in 2021 financial year (refer note 14).

The share consideration was issued to the Seller and third party nominees of the Seller (including to holders of outstanding convertible notes in the Seller) in two tranches, the first being 7,493,256 shares at completion and the balance of 9,231,744 shares on 29 May 2020 upon receiving shareholder approval from a general meeting. Neither the Seller nor any of the third-party nominees are related to Novatti.

Novatti Group Limited
Notes to the financial statements
30 June 2020

Note 28. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Novatti Group Ltd Subsidiaries		-	-
Novatti Pty Ltd	Australia	100%	100%
Flexe Payments Ltd	United Kingdom	100%	100%
Flexe Payments Pty Ltd	South Africa	100%	100%
Flexe Payments (MLT) Ltd	Malta	100%	100%
Novatti Commerce Solutions Inc.	Canada	100%	100%
Novatti Commerce Solutions (MLT) Ltd	Malta	100%	100%
Novatti Technologies Ltd	United Kingdom	100%	100%
Novatti Inc.	United States of America	100%	100%
Vasco Pay Pty Ltd	Australia	100%	100%
Novatti B Holding Pty Ltd	Australia	100%	100%

Note 28. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Novatti IBA Pty Ltd	Australia	100%	100%
Novatti Billing Solutions Pty Ltd	Australia	100%	100%
Flexe Payments (AUS) Pty Ltd	Australia	100%	100%
UAB Novtec Global	Lithuania	100%	100%
Emersion Systems Pty Ltd	Australia	100%	-
Novatti Pty Ltd Subsidiaries		-	-
Flexewallet Pty Ltd	Australia	100%	100%
Flexewallet (NZ) Ltd	New Zealand	100%	100%
TransferBridge Pty Ltd	Australia	100%	100%

Note 29. Events after the reporting period

On 3 July 2020, the Group issued 875,000 fully paid ordinary shares on conversion of 175,000 Novatti Group Limited Convertible Notes (4 for 1) and the exercise of 175,000 unlisted options exercisable at \$0.25 per share, expiring 30 November 2022. Following this conversion, the Novatti Group Limited Convertible Note facility is now \$3.325 million.

On 7 July 2020, the Group issued 40,000,000 ordinary shares at \$0.25 per share to institutional and sophisticated investors in a placement as announced on 29 June 2020, raising \$10 million. An additional 800,000 shares totalling \$200,000 will be issued to Directors Peter Pawlowitsch and Peter Cook, for which shareholder approval was granted on 19 August 2020.

On 8 July 2020, the Group announced that it had exited its investment in cross-border payments provider, SendFX, and ended its provision of ongoing technology and compliance services. Under its exit, the Group will receive \$900,000 in cash representing payment for the buy-back of Novatti's shareholding, plus repayment of loan funds from an aggregate cash investment by Novatti of \$400,000. The funds will be paid in three equal tranches over six months.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Novatti Group Limited
Notes to the financial statements
30 June 2020

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

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax expense for the year	(10,960,326)	(4,954,313)
Adjustments for:		
Depreciation and amortisation	904,815	389,337
Share-based payments	1,601,659	391,138
Equity investments received for services rendered	(60,000)	-
Share of joint venture profit	(17,322)	(40)
Unrealised foreign exchange gain	201,017	248,644
Impairment of capitalised bank licensing costs	3,010,255	-
Non-cash finance changes	1,900,119	5,054
Gain on convertible notes	(726,942)	-
Movements in reserves	374,596	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(12,666,053)	(2,398,156)
Increase in trade and other payables	15,015,183	3,760,425
Increase in employee benefits	262,229	177,763
Increase/(decrease) in deferred income	(76,297)	276,628
Net cash used in operating activities	<u>(1,237,067)</u>	<u>(2,103,520)</u>

Note 31. Earnings per share

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax attributable to the owners of Novatti Group Limited	<u>(10,960,326)</u>	<u>(4,954,313)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>171,307,937</u>	<u>159,902,694</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>171,307,937</u>	<u>159,902,694</u>
	Cents	Cents
Basic earnings per share	(6.398)	(3.098)
Diluted earnings per share	(6.398)	(3.098)

As at 30 June 2020, the Group has 21,370,000 unlisted options on issue. These options are considered to be non-dilutive whilst the Group is in a loss position.

Note 32. Share-based payments

Options issued under employee share option plan

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 Company to certain key management personnel and staff of the Group.

Novatti Group Limited
Notes to the financial statements
30 June 2020

Note 32. Share-based payments (continued)

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 options granted in FY20 were calculated based on the Binomial model method of calculation for share-based payments.

The following Share-based payment arrangements were in existence during the current financial year and are supported by the table below.

Options issued to senior management and staff of the Group vest in three equal portions each year from the first year of vesting over 36 months.

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

2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
21/07/2016	31/12/2019	\$0.200	333,333	-	-	(333,333)	-
21/07/2016	31/12/2019	\$0.200	333,333	-	-	(333,333)	-
21/07/2016	31/12/2019	\$0.200	333,334	-	-	(333,334)	-
27/11/2018	30/11/2022	\$0.190	9,500,000	-	(500,000)	-	9,000,000
25/11/2019	30/11/2023	\$0.200	-	3,500,000	-	-	3,500,000
19/12/2019	19/12/2022	\$0.200	-	5,370,000	-	-	5,370,000
			10,500,000	8,870,000	(500,000)	(1,000,000)	17,870,000
Weighted average exercise price			\$0.191	\$0.200	\$0.190	\$0.200	\$0.185

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
12/11/2015	30/06/2019	\$0.200	13,750,000	-	-	(13,750,000)	-
12/11/2015	30/06/2019	\$0.200	1,150,000	-	-	(1,150,000)	-
12/11/2015	30/06/2019	\$0.200	1,150,000	-	-	(1,150,000)	-
12/11/2015	30/06/2019	\$0.200	1,150,000	-	-	(1,150,000)	-
08/01/2016	30/06/2019	\$0.200	2,859,250	-	-	(2,859,250)	-
03/02/2016	30/06/2019	\$0.200	750,000	-	-	(750,000)	-
08/02/2016	30/06/2019	\$0.200	2,005,750	-	(84,500)	(1,921,250)	-
31/05/2016	30/06/2019	\$0.250	750,000	-	-	(750,000)	-
31/05/2016	30/06/2019	\$0.250	750,000	-	-	(750,000)	-
24/06/2016	30/06/2019	\$0.200	259,489	-	-	(259,489)	-
24/06/2016	30/06/2019	\$0.200	741,217	-	-	(741,217)	-
24/06/2016	30/06/2019	\$0.200	1,035,628	-	-	(1,035,628)	-
21/07/2016	31/12/2019	\$0.200	333,333	-	-	-	333,333
21/07/2016	31/12/2019	\$0.200	333,333	-	-	-	333,333
21/07/2016	31/12/2019	\$0.200	333,334	-	-	-	333,334
27/11/2018	30/11/2022	\$0.190	-	9,500,000	-	-	9,500,000
			27,351,334	9,500,000	(84,500)	(26,266,834)	10,500,000
Weighted average exercise price			\$0.203	\$0.190	\$0.200	\$0.203	\$0.191

* Refer to Note 2 'Critical accounting estimates' for share-based payment assumptions and Note 20 'Share based payments reserve' for details on the option vesting conditions.

Novatti Group Limited
Notes to the financial statements
30 June 2020

Note 32. Share-based payments (continued)

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
25/11/2019	30/11/2023	\$0.215	\$0.200	100.00%	-	0.82%	\$0.106
25/11/2019	30/11/2023	\$0.215	\$0.200	100.00%	-	0.82%	\$0.086
25/11/2019	30/11/2023	\$0.215	\$0.200	100.00%	-	0.82%	\$0.074
19/12/2019	19/12/2022	\$0.195	\$0.200	80.00%	-	0.98%	\$0.104
19/12/2019	19/12/2022	\$0.195	\$0.200	80.00%	-	0.98%	\$0.087
19/12/2019	19/12/2022	\$0.195	\$0.200	80.00%	-	0.98%	\$0.063

The options granted on 25 November 2019 were valued using the Binomial valuation model, which took into account the following market performance vesting conditions:

- Milestone 1: The 20-day VWAP achieving a price greater than or equal to 130% of the November 2019 20-day VWAP at any time during the period commencing 1 December 2019 and ending 30 November 2020 (inclusive).
- Milestone 2: The 20-day VWAP achieving a price greater than or equal to 160% of the November 2019 20-day VWAP at any time during the period commencing 1 December 2019 and ending 30 November 2021 (inclusive).
- Milestone 3: The 20-day VWAP achieving a price greater than or equal to 190% of the November 2019 20-day VWAP at any time during the period commencing 1 December 2019 and ending 30 November 2022 (inclusive).

Options issued for convertible notes

The Group issued 3,500,000 bonus options to the convertible note holders as part of the convertible note facility arrangement. These options were valued using on the Binomial model method of calculation for share-based payments.

Set out below are summaries of options granted to convertible note holders:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
15/11/2019	30/10/2022	\$0.25	-	2,275,000	-	-	2,275,000
18/02/2020	30/10/2022	\$0.25	-	1,225,000	-	-	1,225,000
			-	3,500,000	-	-	3,500,000
Weighted average exercise price			-	\$0.250	-	-	\$0.250

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
15/11/2019	30/10/2022	\$0.210	\$0.250	80.00%	-	0.74%	\$0.085
18/02/2020	30/10/2022	\$0.200	\$0.250	80.00%	-	0.59%	\$0.087

Novatti Group Limited
Directors' declaration
30 June 2020

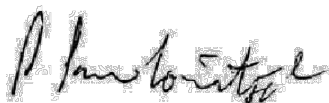
In the directors' opinion:

- 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 consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

27 August 2020

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 controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other 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 2020 and of its financial performance for the year ended on that date; 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

ACCOUNTANTS & ADVISORS

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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.

REVENUE RECOGNITION	
Area of focus	How our audit addressed it
<p>Consistent with the prior year the Group continues to enter agreements with new trading partners for generating new sources of income and include the following:</p> <ul style="list-style-type: none"> - Platform sales; - Software as a Service fees (Saas); - Support and maintenance fees; and - Licence fees. <p>The Group continues to expand its product and service offerings and geographical reach; this has necessitated transacting with customers to which the Group has limited or no trading history. As a consequence, some of these customers have long payment terms which have impacted the age of the Group's book of debtors.</p> <p>Each revenue stream requires a bespoke revenue recognition model to ensure that revenue is only recognised:</p> <ol style="list-style-type: none"> a) when a performance milestone is achieved; b) can be reliably measured; and c) there is a low likelihood for dispute by the customer for revenues that are recognised which are beyond that originally scoped at the inception of the engagement. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> - Determining whether revenue recognised is in-compliance with the Group's accounting policies; - Identifying and verifying the achievement of performance milestones and recognition of revenue relative to the accretion of that achievement; - Agreeing revenue streams to a sample of underlying contracts with third parties; - Examining the existence of the revenue, both by testing to contract and to subsequent receipt of invoicing of the revenue to the customer; - Examining significant aged debtors for evidence of collectability and/or dispute with the services provided; and - Analytically reviewing the reasonableness of accrued revenue and billings-in-advance accounts. <p>We also assessed the appropriateness of disclosures attached to revenues and expected credit losses on receivables, particularly those mandatorily required by the Accounting Standard AASB 15 and AASB 9.</p>

ACQUISITION OF EMERSON SOFTWARE	
Area of focus	How our audit addressed it
<p>On 2 April 2020 the Group completed an acquisition of Emerson Software. This acquisition was material to the results of the Group in the following respects:</p> <ul style="list-style-type: none"> - Intangible assets totalling \$3,414,197 were capitalised to the Statement of Financial Position; and - New revenues streams totalling \$479,295 were recognised in the Statement of Profit or Loss and Other Comprehensive Income. <p>The Group's Directors have assessed that Emerson met the definition of a business under AASB 3 <i>Business Combinations</i> owing to strength of Emerson's existing trading relationships with its suppliers and customers and its workforce.</p> <p>We note that at reporting date the fair value attribution accounting is complete (which under Accounting Standards they are afforded 12 months from the date of acquisition), including:</p> <ul style="list-style-type: none"> a) the attribution of provisional goodwill calculations to identifiable intangible assets; b) the setting of tax cost bases for calculating deferred tax assets and liabilities; and c) identifying any vendor guarantees or contingent liabilities that may be separately fair valued as part of the business purchase. 	<p>Our audit procedures involved the following:</p> <ul style="list-style-type: none"> - A detailed review of the Emerson Software asset sale agreement, and concurring with management, notwithstanding the legal nature of the transaction as an asset purchase, that from an accounting perspective the acquisition met the definition of a business; - Consulting our Group Technical Team on the accounting treatment of the acquisition; - Comparing the completion accounting to independent purchase price allocation reports; - Assessing the impact of the acquisition on the results of the Group; - Consulting our tax team for any indirect tax obligations arising from the purchase, including any possible stamp duty and goods and services tax; and - Vouching the accounting treatment of the transaction to the date of execution of the sale to ensure that the results of the Emerson business were appropriately consolidated into the results of the Group from that date. <p>We also considered the adequacy of the Group's disclosures in relation to the business combination.</p>

ISSUE OF CONVERTIBLE NOTES	
Area of focus	How our audit addressed it
<p>The Group has issued three convertible notes during the year to meet its working capital needs and to continue to finance its project of applying for an ADI licence from APRA.</p> <p>Two of these convertible notes have variable equity conversion formulae, entitling the investor to the lesser of a 25 cent price conversion or the lowest share price between the date of issue and the date of the conversion notice.</p> <p>Because of this variable feature, the right of conversion has been recorded as a derivative liability in the Statement of Financial Position.</p> <p>In-addition to this, bonus call options were issued to investors in order to incentivise their investment in the convertible notes. The fair value of these call options has been accounted for as an amortised cost of the convertible note.</p> <p>In accounting for these convertible notes and in-particular, measuring the fair value of the convertible note conversion feature, the Group contracted an external expert.</p>	<p>Our audit procedures involved the following:</p> <ul style="list-style-type: none"> - A detailed review of the terms and conditions of the convertible notes; - Corroborating the accounting treatment of the notes with our Group Technical Team; - Examining the skill and experience of the expert contracted by the Group; and - Recalculating the value of the derivative liability, attaching options and amortised cost value of the convertible notes, both at initial recognition and at report date. - We also reviewed the disclosures of the convertible notes made in the financial statements to ensure that they were appropriate and complete.
ISSUE OF SHARES AND MANAGEMENT OF AVAILABLE WORKING CAPITAL	
Area of focus	How our audit addressed it
<p>On 29 June 2020, in order to continue to finance its organic and transactional growth strategy the Group announced an intention to issue 40,800,000 shares at 25 cents per share to raise \$10,200,000.</p> <p>40,000,000 of these shares were subsequently issued and quoted on 7 July 2020.</p> <p>As at 30 June 2020 the Group was in the process of fundraising for the issue of those shares, and any proceeds from the raise were held in trust.</p> <p>The cash raised from the fundraising and the access to working capital it delivered will clearly allow the Group to execute its strategic and operational goals over the next 12 months.</p>	<p>Our audit procedures involved the following:</p> <ul style="list-style-type: none"> - Tracing to bank funds raised from the successful fundraising; - Accounting for the cut-off of the fundraising – that is, funds and shares issued are accounted for as a non-adjusting subsequent event, disclosed in the financial statements; and - Examining the latest cashflow forecast of the Group as at report date, to ensure that those funds would be sufficient for the Group’s working capital needs for the period of 12 months from the date of this report.

IMPAIRMENT OF BANKING LICENCE	
Area of focus	How our audit addressed it
<p>As recorded in the interim December 2019 financial statements and in response to the difficulty in assessing the financial impact and uncertainty of when APRA may grant an ADI licence to Novatti, the Group impaired licences, website and software totalling \$3,012,715.</p> <p>This impairment charge significantly impacts upon the profit or loss result of the Group for the financial year ended 30 June 2020.</p>	<p>In testing this impairment charge we performed the following:</p> <ul style="list-style-type: none"> — We corroborated our understanding of the progress of the licence project with discussions with management, legal counsel and market announcements; — We reviewed key file documentation discussing the delays in granting the licence by APRA and management’s assessment thereon as to how those delays may impact the capitalised value of the licence; and — We vouched charges made to the profit or loss in-respect of the licence to the carrying value subtracted from the value of the Group’s intangible assets. <p>We also assessed the adequacy of the Group’s disclosures in respect of the impairment of the licence.</p>

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 2020, 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.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

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 2020.

In our opinion, the Remuneration Report of Novatti Group Limited, for the year ended 30 June 2020, 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 Audit (Vic) Pty Ltd
ABN: 59 116 151 136


N. S. Benbow
Director

Melbourne, dated this 27th day of August, 2020

Novatti Group Limited
Shareholder information
30 June 2020

The shareholder information set out below was applicable as at 17 August 2020.

Distribution of equitable securities

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

Ordinary shares

	Number of holders of ordinary shares	Number of ordinary shares	% of ordinary shares
1 to 1,000	27	5,396	0.01
1,001 to 5,000	440	1,431,077	0.63
5,001 to 10,000	306	2,568,223	1.14
10,001 to 100,000	824	30,779,539	13.61
100,001 and over	184	191,301,264	84.61
	<u>1,781</u>	<u>226,085,499</u>	<u>100.00</u>
Holding less than a marketable parcel	<u>129</u>	<u>194,548</u>	<u>0.09</u>

Unquoted options

	Number of holders of unquoted options	Number of unquoted options	% of unquoted options
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	6	60,000	0.23
10,001 to 100,000	40	1,915,000	7.31
100,001 and over	30	24,220,000	92.46
	<u>76</u>	<u>26,195,000</u>	<u>100.00</u>

Convertible notes

	Number of holders of convertible notes	Number of convertible notes	% of convertible notes
1 to 1,000	-	-	-
1,001 to 5,000	-	-	-
5,001 to 10,000	6	60,000	1.71
10,001 to 100,000	17	670,000	19.14
100,001 and over	5	2,770,000	79.15
	<u>28</u>	<u>3,500,000</u>	<u>100.00</u>

Novatti Group Limited
Shareholder information
30 June 2020

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	% of total
	17 August	shares
	2020	issued
	Number held	issued
1. BRAYTER LIMITED	46,631,507	20.63
2. QING LI	12,500,000	5.53
2. XIADI CHEN	12,500,000	5.53
3. CORANGAMITE PTY LTD (LAKE CORANGAMITE A/C)	11,107,904	4.91
4. MR CHI WAI KENNETH LAI	10,532,368	4.66
5. MADAM QINGLI	10,407,452	4.60
6. MR QIANG WEI	7,705,589	3.41
7. EMERSION SOFTWARE SYSTEMS PTY LTD	6,683,826	2.96
8. CITICORP NOMINEES PTY LIMITED	3,742,132	1.66
9. DASISTAS PTY LTD (DASISTAS SUPER FUND A/C)	2,677,802	1.18
10. MR KENNETH LAI	2,583,750	1.14
11. MR PAUL MCLAREN	2,312,500	1.02
12. DAK DRAFTING SERVICES PTY LTD (THE PETER DIAMOND FAMILY A/C)	2,000,000	0.88
13. KAPAU ENTERPRISES PTY LTD (DUNDAS INVESTMENT A/C)	1,797,918	0.80
14. UBS NOMINEES PTY LTD	1,700,000	0.75
15. COALHILL INVESTMENTS PTY LTD	1,608,439	0.71
16. GOLDFIRE ENTERPRISES PTY LTD	1,331,577	0.59
17. BEARAY PTY LIMITED (BRIAN CLAYTON S/F A/C)	1,328,609	0.59
18. VAULT (WA) PTY LTD (VAULT A/C)	1,229,537	0.54
19. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,219,942	0.54
20. MOSCH PTY LTD	1,171,875	0.52
	<u>142,772,727</u>	<u>63.15</u>

Unquoted equity securities

	Number	Number
	on issue	of holders
Options over ordinary shares issued	26,195,000	76

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 company are set out below:

	Ordinary shares	% of total
	Number held	shares
	Number held	issued
BRAYTER LIMITED	46,631,506	20.63
QINGLI	22,907,452	10.13
XAIDI CHEN	12,918,750	5.71

Novatti Group Limited
Shareholder information
30 June 2020

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.

Securities subject to voluntary escrow

Class	Expiry date	Number of shares
Ordinary shares	31 March 2021	16,725,000

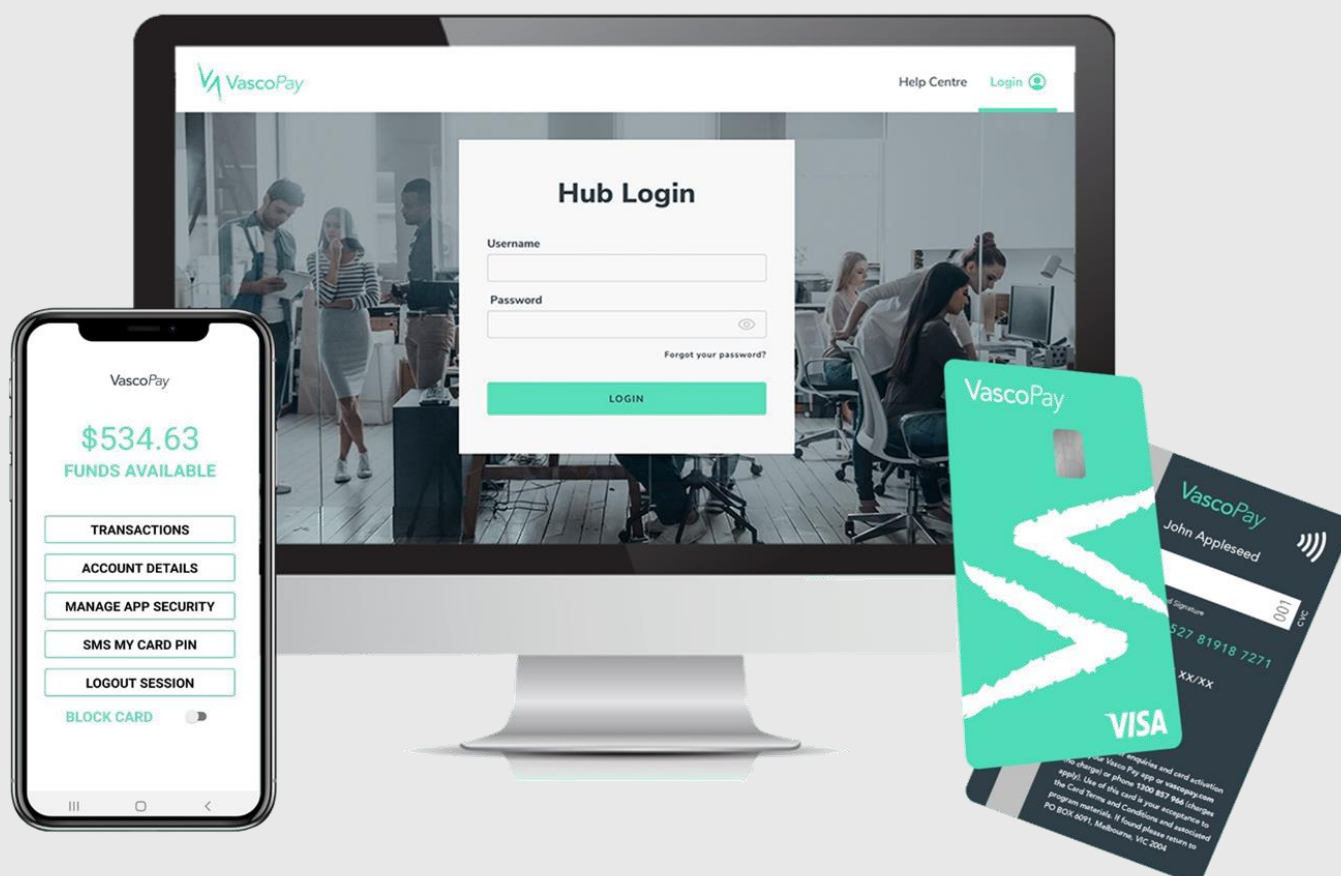
Use of funds

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

Novatti invites investors to keep up to date with news, events and industry research by joining the Novatti mailing list at:
<https://www.novattigroup.com/subscribe>

For further information, please contact:

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This report has been approved for release to the ASX by Peter Cook, Managing Director.