

ASX Announcement

30 August 2022

Openpay – Preliminary FY22 Results (unaudited) and Appendix 4E

MELBOURNE Australia, 30 August 2022: Openpay Group Ltd (ASX: OPY) (**Openpay**) is pleased to update the market with its Appendix 4E Preliminary Final Report and unaudited consolidated financial statements. In accordance with the company's planned timetable, the final audited financial statements will be released on or prior to 30 September.

Openpay reported strong FY22 performance and also made some important decisions during and after FY22. These decisions were to simplify Openpay's model further to become a leaner, more efficient business, focused on the Australian market, where it is on a clear path to deliver cash EBITDA profitability by June 2023.

CEO of Openpay, Dion Appel commented: *"During and shortly after FY22, Openpay rapidly responded to changes in the equity market and macroeconomic environment and simplified its business model. We moved quickly and made some tough decisions including exiting the UK market in January and pausing our investment into the US market in July. These decisions enabled laser beam focus on Australia, our most mature market, and the one closest to delivering cash profitability. The simplification strategy has resulted in a leaner and more efficient business where cost synergies will continue to flow into 2023, alongside the momentum of stronger performance, industry leading margins and unit economics and improved bad debts and arrears. It has also put a stop to the high investment required to pursue the US opportunity."*

In August, Openpay also successfully completed a Private Placement of \$18.25m and Share Purchase Plan of \$5.86m. These funds will be leveraged to further solidify our simplified strategy to deliver cash EBITDA profitability by June 2023."

FY22 ANZ Results:

- **Record TTV of \$344 million**, an increase of 49% YoY highlighting ANZ's strong momentum
- **B2C Revenue of \$26.3 million**, 40% growth YoY – while continuing to deliver market-leading margins
- **OpyPro delivered a record \$40.7 million in TTV**, an increase of 683% YoY in the capital-light B2B business
- **Market-leading Revenue Margin of 7.7%**, 2H FY22 Revenue Margin of 8.1%
- **Net Transaction Margin (NTM) remains high at 2.9%**, 2H FY22 NTM of 3.1%
- **Net Transaction Loss (NTL) remains low at -1.0%**, 2H FY22 NTL of -1.0%
- **Arrears (% of Receivables) of 1.1% and Net Bad Debts (% of TTV) of 1.6%**
- **Active Plans of 1.8 million**, an improvement of 50% YoY
- **Active Customers of 321,000**, an increase of 21% YoY
- **Active Merchants of 4,100** targeting desired customer demographics
- **As at the end of June 2022, Openpay had \$10.3m in cash and cash equivalents**, with further \$17.5 million (net of transaction costs) to be added subsequent to year end from Private Placement and Share Purchase Plan

Online investor briefing

Investors are invited to attend an online group briefing today at 9:30am AEST, where CEO, Dion Appel, and CFO, Oliver Josem, will discuss Openpay's FY22 results. Please register via the following link:

https://us02web.zoom.us/webinar/register/WN_mhsnl4edShKqt68ly-Uozw

Authorised by:
The Board of Directors
Openpay Group Ltd

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About Openpay

Openpay Group Ltd (ASX: OPY) is a fast-growing and highly differentiated fintech solution provider. The Company supports both B2C and B2B platforms.

Openpay's B2C platform is an embedded finance solution delivering flexible repayment plans that help manage cashflow and household budgeting. Plans range from 2–24 months and enable transactions up to \$20,000. Openpay is accepted in verticals including: Automotive, Healthcare, Retail, Home Improvement and Education.

Openpay's B2B platform, OpyPro, is a SaaS solution that enables merchants to manage their trade accounts via an end-to-end digitised platform enabling transactions in-store and online. The platform supports the application and onboarding process, ongoing account management and business processing, including invoicing, remittance, and reconciliation.

Under ASX listing rule 4.3A

Entity: Openpay Group Ltd

ACN: 637 148 200

Current reporting period: the year ended 30 June 2022

Previous corresponding period: the year ended 30 June 2021

Results for announcement to the market

	Year ended 30 June 2022 \$	Year ended 30 June 2021 \$		Change %
Revenue from ordinary activities	34,246,176	26,319,069	Up	30%
Net loss after tax for the period attributable to members (from ordinary activities)	82,455,823	63,059,351	Up	31%
Net loss for the period attributable to members (from ordinary activities)	83,242,102	62,721,086	Up	33%

Dividends

There were no dividends paid, recommended, reinvested or declared during the current financial period.

Explanation of results

Please refer to the Review of Operations for an explanation of the results.

Net tangible asset per share

	Year ended 30 June 2022	Year ended 30 June 2021
Net tangible asset per share	(\$0.11)	\$0.42

Other information required by Listing Rule 4.2A

- Distribution Reinvestment Plan – n/a
- Changes in controlled entities – During the year ended 30 June 2022, Openpay Ltd incorporated an entity in New Zealand - Openpay NZ Ltd (incorporation date: 28 January 2022).
- Details of associates and joint venture entities - n/a
- Foreign entities - n/a
- Details of individual and total dividends or distributions and dividend or distribution payments - n/a

Audit

This report should be read in conjunction with the preliminary financial report. The financial statements in the preliminary financial report are in the process of being audited. The audited financial statements are likely to include an emphasis of matter related to a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Preliminary unaudited financial statements
For the year ended 30 June 2022

Review of Operations

Openpay Group Ltd is a fast-growing and highly differentiated fintech solution provider. The Company supports both B2C and B2B platforms.

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In FY22, Openpay Group announced a strategy simplification, focused on an accelerated path to profitability in Australia. As a result, the Group significantly reduced its UK operations with a view to exit that market. In July 2022, Openpay also announced its withdrawal from the US market, leaving Australia as its core operating jurisdiction.

Review of Performance

Openpay ANZ showed strong growth across all key B2C metrics in FY22:

- Total Transaction Value increased 49% to a record \$344 million
- Active Plans increased by 50% to 1.8 million
- Active Merchants increased by 9% to 4.1k as we selectively on-boarded new merchants
- Active Customers increased by 21% to 321k
- Revenue increased by 40% to \$26.3 million

OpyPro continues to grow in FY22 with record performance:

- TTV up 683% to \$40.7 million
- Active trading accounts increased by 114% to 11.2k

Delivering market-leading margins in FY22:

- Revenue Margin of 7.7%
- Net Transaction Margin (NTM) of 2.9%
- Net Transaction Loss (NTL) of -1.0%

Continued strong trends in arrears and bad debts:

- Arrears down to 1.1% from 1.9% in FY21
- Net Bad Debts stable at 1.6% in FY22 (FY21: 1.7%)

In Australia, Openpay is present both in-store and on-line in the Retail vertical, but also across a range of specialised verticals, including Automotive, Healthcare, Home Improvement and Education.

The mix of on-line and in-store presences enabled Openpay to continue grow despite market conditions resulting from COVID-19 lockdowns during FY22. The strategy of being in verticals meaningful to customers, such as Healthcare - in areas like dental, optometry, audiology and hospitals - helped Openpay to balance the risk of fraud and bad debts, as the trusted relationship between the Merchant (such as the family dentist) and the Customer (the patient) usually assures a level of commitment to bill payments.

During the financial year, Openpay continued to sign merchants and integrate with major platform and aggregator partners to enable merchants to simply “switch on” Openpay as a payment type. This strategy is designed to deliver transaction volume and merchant growth at scale.

Openpay's differentiated B2B SaaS platform continued to deliver strong growth. In partnership with Lumi, Openpay is now also able to offer a funded B2B solution, OpyPro + Credit. A "hidden-gem" for the Group, OpyPro onboarded to the platform HP and Kogan.com this financial year.

- OpyPro Total Transaction Value increased to \$40.7 million in FY22 (growth of 683% vs FY21)
- OpyPro Active Trading Accounts reached 11,200 in FY22 (an increase of 114% vs FY21)

The OpyPro pipeline of new partnerships is maturing with new B2B partnerships expected to be announced early in FY23 as we scale OpyPro across target verticals.

Financial Performance

The Group's statutory loss for this financial year of \$83.2 million included foreign exchange rate loss of \$0.8 million (2021: FX gain \$0.3 million) representing an increase of 33% on the prior year (2021: \$62.7 million).

Openpay saw significant growth in total income to \$34.2 million (+30%) for the year ended 30 June 2022 (2021: \$26.3 million). Operating income grew by \$6 million (+23%) to \$32 million (2021: \$26 million). Key drivers for the revenue uplift included growth of Openpay's underlying TTV achieved, accompanied by improvements in all key operating metrics as discussed above and scale up of OpyPro.

Group operating expenses increased by \$14 million (+18%) to \$95.7 million (2021: \$81.4 million). Operating expenses included non-cash share-based payments expense of \$3.3 million and the increase in employee benefits expense to \$44.1 million (+59%) was reflective of Openpay's global strategy and investment into the US region.

Receivables impairment expense decreased by \$2.8 million (-23%) to \$9.4 million compared to prior period (2021: \$12.2 million). This was a result of continuous refinement to the way Openpay managed asset quality leading to lower chargebacks, higher recoveries and better credit quality.

Financing costs of \$17.7 million for the year has increased by \$12 million (+212%) as a result of growth in the Australian receivables book, utilisation of the working capital facility to fund rollout of the global structure, and accelerated expensing of capitalised costs related to the US loan facility as the Group adjusted its assumption of utilisation in anticipation of the decision to indefinitely pause its US operations being made (2021: \$5.7 million).

EBITDA for the financial year was a loss of \$61.5 million, an increase of 12%, from prior period (2021: \$55.1 million). This result is reflective of the significant investment into the US market during the year.

The Group's loss for the year ended 30 June 2022 from operating activities was \$82.5 million representing an increase of 31% on the prior year (2021: \$63.1 million).

Financial Performance	30 June 22 \$m	30 Jun 21 \$m	Change %
Income	32.0	26.0	23%
Other income	2.3	0.3	698%
Total income	34.2	26.3	30%
Receivables impairment expense	(9.4)	(12.2)	(23%)
Employee benefits expense	(44.1)	(27.7)	59%
Share-based payments expense	(3.3)	(2.1)	59%
Advertising and marketing expense	(5.7)	(7.2)	(21%)
Other operating expenses	(33.3)	(32.2)	3%
Operating expenses	(95.7)	(81.4)	18%
EBITDA	(61.5)	(55.1)	12%
Depreciation and amortisation expense	(3.3)	(2.3)	41%
Finance costs	(17.7)	(5.7)	212%
Net loss before tax	(82.5)	(63.1)	31%

Outlook

In FY23, Openpay:

- expects to implement a simplified business model focused on best use of capital
- expects to realise further business efficiencies while continuing to grow
- remains committed to deliver cash EBITDA profitability by June 2023,

as we provide a smarter way to pay – for consumers (B2C) and businesses (B2B).

In order to ensure the Group has sufficient funding to execute the FY23 strategy, management will continually assess anticipated cash flow requirements and that the business is appropriately scaled in line with growth forecasts. Please refer to Note 3 Going Concern for further details.

Openpay (B2C)

In FY23, Openpay will continue to move toward higher value, longer term and more customised plans across the Company's specialist verticals, delivering substantial value to both merchants and customers.

This strategy has delivered market-leading margins as a precursor of anticipated sustainable, long-term profitability.

Openpay Australia will continue to leverage the strong foundations created across Retail and specialised verticals of Automotive, Healthcare, Home Improvement, and Education to:

- drive more value from the existing customer base
- focus on high quality customers and profitable segments
- deliver merchant value to increase Openpay adoption and advocacy.

OpyPro (B2B)

In FY23, OpyPro is expected to grow as a unique B2B solution for enterprise customers, diversifying the Company's revenue streams and further contributing to its bottom line.

The trade account management platform will continue to see investment in its core technology platform, product innovations and advanced analytics to pursue further scale across target verticals.

Events since the end of the financial year

With the exception of the item listed below, no other matters or circumstances have occurred subsequent to 30 June 2022 that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

US operations

On 1 July 2022, the Group announced that given the current macroeconomic and public market conditions, together with the likely ongoing capital investment required in the US to fund its progress for an extended period, Openpay has decided to pause its existing US operations indefinitely and cease loan originations on the Opy USA platform.

Openpay's decision will immediately result in no further expenses in its existing US operations in the near term, subject to one-off costs associated with the restructuring. These costs are estimated to be approximately US\$4.9 million of which US\$4 million relates to staff severance costs and \$0.9 million relates to supplier terminations. As at 30 June 2022, while the decision to pause the US had not been made, the Group's assumption was that the warehouse facility was no longer likely to be utilised. As a result, additional costs of \$2.1 million were recognised at 30 June 2022 to reflect the accelerated recognition of upfront costs and deferred warrant costs in relation to this facility. Payment of the expected restructuring costs and approximately US\$2.6 million of expenditure incurred during the year as part of normal operations will be settled over approximately the next 12 months to minimise the impact on the Company's working capital requirements.

Capital Raise and Share Placement Plan

In August 2022, the Company completed the Placement and Share Purchase Plan (SPP) announced on 23 May 2022. This followed the general meeting held on 10 August 2022 to seek shareholder approval to ratify the issue of shares under Tranche 1 of the placement, and approve the issue of shares under Tranche 2 of the placement and the SPP. Funds to be received totalled \$23.8 million net of transaction costs, of which \$17.5 million was to be received subsequent to year-end and \$8 million was used to repay a working capital facility that remains available for use.

Openpay Group Ltd
Preliminary Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2022

	Note	Consolidated 2022 \$	2021 \$
Income	5	34,246,176	26,319,069
Expenses			
Receivables impairment expense		(9,377,822)	(12,210,293)
Employee benefits expense		(44,094,758)	(27,705,482)
Share-based payments expense		(3,272,121)	(2,063,936)
Depreciation and amortisation expense		(3,280,052)	(2,321,157)
Advertising and marketing expense		(5,666,176)	(7,162,163)
Other operating expense		(33,314,810)	(32,248,905)
Finance costs		(17,696,260)	(5,666,484)
Loss before income tax expense		(82,455,823)	(63,059,351)
Income tax expense		-	-
Loss after income tax expense for the year attributable to the owners of Openpay Group Ltd		(82,455,823)	(63,059,351)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		(786,279)	338,265
Other comprehensive income for the year, net of tax		(786,279)	338,265
Total comprehensive income for the year attributable to the owners of Openpay Group Ltd		<u>(83,242,102)</u>	<u>(62,721,086)</u>
		Cents	Cents
Basic earnings per share	12	(61.69)	(56.06)
Diluted earnings per share	12	(61.69)	(56.06)

Openpay Group Ltd
Preliminary Unaudited Consolidated Statement of Financial Position
As at 30 June 2022

	Note	Consolidated 2022 \$	2021 \$
Assets			
Current assets			
Cash and cash equivalents	6	10,343,521	52,078,094
Receivables	7	63,919,786	57,527,246
Other current assets		2,987,999	5,031,160
Other financial assets at amortised cost		-	22,060
Total current assets		<u>77,251,305</u>	<u>114,658,560</u>
Non-current assets			
Receivables	7	2,060,733	924,650
Property, plant and equipment		548,315	829,410
Intangible assets		2,470,244	4,325,748
Right-of-use assets		1,398,313	2,424,348
Other financial assets at amortised cost		260,711	372,951
Total non-current assets		<u>6,738,316</u>	<u>8,877,107</u>
Total assets		<u>83,989,621</u>	<u>123,535,667</u>
Liabilities			
Current liabilities			
Trade and other payables		10,609,830	10,861,297
Borrowings	8	32,890,258	18,329,843
Lease liabilities		738,446	1,233,047
Financial liabilities at fair value through profit and loss	9	111,601	-
Employee benefits		1,862,187	1,740,195
Other liabilities		1,453,833	850,000
Total current liabilities		<u>47,666,155</u>	<u>33,014,382</u>
Non-current liabilities			
Borrowings	8	50,045,779	28,682,043
Lease liabilities		1,030,725	1,565,083
Employee benefits		179,764	101,585
Other liabilities		-	850,000
Total non-current liabilities		<u>51,256,268</u>	<u>31,198,711</u>
Total liabilities		<u>98,922,423</u>	<u>64,213,093</u>
Net assets/(liabilities)		<u>(14,932,801)</u>	<u>59,322,574</u>
Equity			
Issued capital	10	190,304,832	182,745,390
Reserves	11	4,459,867	3,818,861
Accumulated losses	13	<u>(209,697,500)</u>	<u>(127,241,677)</u>
Total equity/(deficiency)		<u>(14,932,801)</u>	<u>59,322,574</u>

The above balance sheet should be read in conjunction with the accompanying notes

Openpay Group Ltd
Preliminary Unaudited Consolidated Statement of Changes in Equity
For the year ended 30 June 2022

Consolidated	Issued capital \$	Reserves \$	Retained profits \$	Non-controlling interest \$	Total equity \$
Balance at 1 July 2020	138,160,501	1,532,374	(64,182,326)	-	75,510,549
Loss after income tax expense for the year	-	-	(63,059,351)	-	(63,059,351)
Other comprehensive income for the year, net of tax	-	338,265	-	-	338,265
Total comprehensive income for the year	-	338,265	(63,059,351)	-	(62,721,086)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital, net of transaction costs (note 21)	44,240,604	-	-	-	44,240,604
Share-based payments (note 25)	-	2,063,936	-	-	2,063,936
Options exercised	344,285	(115,714)	-	-	228,571
Balance at 30 June 2021	<u>182,745,390</u>	<u>3,818,861</u>	<u>(127,241,677)</u>	<u>-</u>	<u>59,322,574</u>
Consolidated	Issued capital \$	Reserves \$	Retained profits \$	Non-controlling interest \$	Total deficiency in equity \$
Balance at 1 July 2021	182,745,390	3,818,861	(127,241,677)	-	59,322,574
Loss after income tax expense for the year	-	-	(82,455,823)	-	(82,455,823)
Other comprehensive income for the year, net of tax	-	(786,279)	-	-	(786,279)
Total comprehensive income for the year	-	(786,279)	(82,455,823)	-	(83,242,102)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital, net of transaction costs (note 21)	6,262,525	-	-	-	6,262,525
Share-based payments (note 25)	-	1,427,285	-	-	1,427,285
Options exercised	1,296,917	-	-	-	1,296,917
Balance at 30 June 2022	<u>190,304,832</u>	<u>4,459,867</u>	<u>(209,697,500)</u>	<u>-</u>	<u>(14,932,801)</u>

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

Openpay Group Ltd
Preliminary Unaudited Consolidated Statement of Cash Flows
For the year ended 30 June 2022

	Note	Consolidated 2022 \$	2021 \$
Cash flows from operating activities			
Receipts from customers		434,907,497	359,943,793
Payments to merchants		(418,571,200)	(357,044,460)
Payments to suppliers and employees (inclusive of GST)		(82,367,650)	(63,948,176)
Interest received on cash and cash equivalents		27,052	113,008
Interest paid - borrowings		(14,902,705)	(5,027,891)
Interest paid - leases		(264,498)	(429,169)
Net cash used in operating activities		<u>(81,171,504)</u>	<u>(66,392,895)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		80,622	(329,634)
Payments for intangibles		-	(3,716,354)
Net cash from/(used in) investing activities		<u>80,622</u>	<u>(4,045,988)</u>
Cash flows from financing activities			
Proceeds from borrowings		34,669,464	9,015,507
Proceeds from capital raisings		6,441,536	46,437,583
Capital raising costs		(179,011)	(1,968,408)
Principal elements of lease payments		(1,027,011)	(1,369,917)
Net cash from financing activities		<u>39,904,978</u>	<u>52,114,765</u>
Net decrease in cash and cash equivalents		(41,185,895)	(18,324,118)
Cash and cash equivalents at the beginning of the financial year		52,078,094	70,058,763
Effects of exchange rate changes on cash and cash equivalents		(548,678)	343,449
Cash and cash equivalents at the end of the financial year	6	<u><u>10,343,521</u></u>	<u><u>52,078,094</u></u>

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

Note 1. Significant changes in the current reporting period

Business strategy

In January 2022, the Company advised the market it was implementing a number of structural and strategic changes across the Group aimed at accelerating its pathway to profitability in its Australian B2C and B2B businesses. These changes included a material withdrawal from the UK market as well as seeking US investment from a financial partner given the scale of capital requirements for the US market.

In July 2022, the Company announced that given the current macroeconomic and public market conditions, together with the likely ongoing capital investment required in the US to fund its progress for an extended period, Openpay had decided to pause its existing US operations indefinitely and cease loan originations on the Opy USA platform.

Openpay's decision will result in no further expenses in its existing US operations in the near term, subject to one-off costs associated with the restructuring. Openpay believes that the ongoing capital and funding requirements are best allocated to the Australian business given its continued strong growth, market-leading margins and unique market positioning. Please refer to Note 14 for further details.

Key Management Personnel changes

As part of the strategy simplification, the Group announced on 12 January 2022 the departure of the Managing Director and Group CEO Michael Eidel and appointment of Edward Bunting as Interim Group CEO.

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

Note 2. Significant accounting policies

Basis of preparation

The preliminary unaudited financial statements of Openpay Group Ltd (Company) have been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report is to be read in conjunction with any public announcements made by the Company during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Australian Securities Exchange Listing Rules.

There have been no material changes to the consolidated entity's application of its significant accounting policies as presented in the consolidated entity's financial statements for the year ending 30 June 2021, and the preparation of the current financial information, and the presentation of any prior comparatives, is consistent from one reporting period to the next.

Readers of this report should refer to Note 2 'Statement of Significant Accounting Policies' in the consolidated entity's financial statements for the year ending 30 June 2021 for details of those policies.

Note 3. Going concern

The Group's business model is to make payments to merchants in advance of the Group receiving the purchase price over time from the customer. The business model and the stage of the Group's development requires external debt and equity funding to support the growth in customer receivables, the Group's continued investment in platform capability and its operational expenditure until it reaches scale and is in a profitable position.

For the year ended 30 June 2022, the Group saw a net operating cash outflow of \$81.2 million, a net loss of \$82.5 million and negative net assets of \$14.9 million.

Funding sources

In addition to cash and cash equivalents of \$10.3 million (\$2.5 million restricted) at 30 June 2022, in August 2022 the Company completed the Placement and Share Purchase Plan (SPP) announced on 23 May 2022. This followed the general meeting held on 10 August 2022 to seek shareholder approval to ratify the issue of shares under Tranche 1 of the placement, and approve the issue of shares under Tranche 2 of the placement and the SPP. Funds to be received subsequent to year-end totalled \$17.5 million net of transaction costs. The Group also has available to it the following Australian sources of funding as at 30 June 2022:

- Receivables funding facility of \$65 million, of which \$55 million is committed (subject to funder approval and the review event described below) and \$10 million is uncommitted (subject to funder approval), drawn to \$50.5m and maturing in January 2024. Following a material uncertainty related to going concern being emphasised in the Group's financial reports for the period ending 31 December 2021, a review period commenced and is ongoing as at 30 August 2022. During this review period the funder required that \$2 million of cash be held in a restricted account (included in restricted cash disclosed above). It is not expected, nor has there been an indication, that this review period would result in withdrawal of the facility, however it is possible under this term.
- Working capital facility of \$10 million (drawn to \$3.8 million) with a related party, available to fund operating expenses. The maturity date is October 2022.
- \$30 million corporate debt facility (\$5 million uncommitted) with a related party. \$15 million of the committed balance matures in October 2022 and the Group may elect to extend \$10 million committed and \$5 million uncommitted of the total facility limit to July 2023. This facility is drawn to \$25 million as at 30 June 2022.

The Group currently complies with certain conditions and debt covenants, which include: Loan-to-Value Ratio (LVR) requirements and sufficient cash allocated to lender-controlled cash accounts.

The Group has a receivables funding facility in the UK (drawn to \$3.6 million and maturing in November 2022) that will not be renewed as it is in run-off following the decision in January 2022 to materially withdraw from the UK market. The Group also has a receivables funding facility in the US that is in the process of being terminated following the decision in July 2022 to pause operations and cease originations in the US market (the relevant costs of terminating the facility are included in Note 14).

Ongoing cash flow management

In order to ensure the Group has sufficient funding, management will continually assess anticipated cash flows such that the business is appropriately scaled in line with growth forecasts. The Group is confident that they will continue to be successful in obtaining funding and capital, in the future, given its track record to date. Negotiations to amend all three Australian facilities to ensure continued availability are ongoing and expected to be concluded successfully, however this is not guaranteed.

In the event that:

- conditions of existing funding (drawn or undrawn) are not satisfied, or
- existing funding is not renewed at expiry or are withdrawn under provisions discussed above, or
- the Group's receivables growth materially exceed current plans, or
- operating results materially underperform against current plans, or
- the Group cannot secure additional funds through working capital facilities or equity

then alternative funding either debt or equity, in excess of that currently in place or planned will be required to support the business.

Openpay Group Ltd
Notes to the preliminary unaudited financial statements
30 June 2022

As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. This is expected to be reflected in an Emphasis of Matter in the audit opinion for the Group's audited financial statements.

The Directors believe that the funds available from existing cash reserves and debt facilities, combined with sourcing new funds through (but not limited to) securing additional debt facilities and/or the issue of new shares, would provide the Group with sufficient working capital to carry out its stated objectives for at least the next 12-month period from the date of signing these financial statements and have therefore prepared the financial statements on a going concern basis, which assumes the realisation of assets and settlement of liabilities in the normal course of business.

Note 4. Segment information

Identification of reportable operating segments

The Group provides embedded finance payment solutions by partnering with merchants to provide repayment plans to customers instore, in-app and online. The Interim Group Chief Executive Officer is the Chief Operating Decision Maker (CODM) and monitors the operating results on a consolidated basis. Due to the restructure outlined in Note 1, the Group has concluded that it has one reportable segment. Further, noncurrent assets related to locations outside Australia are not considered individually material as at 30 June 2022. Additionally, as of 30 June 2022, management has not found any significant difference in the economic performance of those geographic locations to justify a separate reportable segment.

Disaggregation of income by geographic region

	Consolidated	
	2022	2021
	\$	\$
Australia and New Zealand	27,197,732	19,044,294
Rest of the World	4,753,476	6,987,234

Note 5. Income

	Consolidated	
	2022	2021
	\$	\$
<i>Income</i>		
Buy Now Pay Smarter income	31,073,867	25,814,143
OpyPro income	877,341	217,385
Total income	31,951,208	26,031,528
<i>Other income</i>		
Fair value gain on liabilities at fair value through profit and loss	2,292,776	-
Interest received and other income	2,192	287,541
Total other income	2,294,968	287,541
Income	34,246,176	26,319,069

Note 6. Cash and cash equivalents

	Consolidated	
	2022	2021
	\$	\$
<i>Current assets</i>		
Cash at bank and on hand	10,343,521	52,078,094

Restricted cash

The cash and cash equivalents disclosed above includes \$2,500,000 (2021: \$515,260) in restricted cash not available to the Group at balance date. The restricted cash is held in Openpay SPV Pty Ltd. The cash is restricted under debt covenants to meet Loan to Valuation Ratio requirements on eligible receivables funded plus minimum cash holding requirements.

Note 7. Receivables

	Consolidated	
	2022	2021
	\$	\$
<i>Current assets</i>		
Plan receivables - face value	67,613,105	62,100,601
Unearned future income	(20,992)	(206,461)
	67,592,113	61,894,140
Provision for expected credit loss	(3,672,327)	(4,366,894)
Net current plan receivables	63,919,786	57,527,246
<i>Non-current assets</i>		
Plan receivables – face value	2,540,147	1,098,868
Unearned future income	(420,827)	(152,996)
	2,119,320	945,872
Provision for expected credit loss	(58,587)	(21,222)
Net non-current plan receivables	2,060,733	924,650
Total plan receivables	65,980,519	58,451,896

Note 8. Borrowings

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Commercial bills	4,978,304	18,329,843
Working capital facility	27,911,954	-
	32,890,258	18,329,843
<i>Non-current liabilities</i>		
Commercial bills	50,045,779	28,682,043
	82,936,037	47,011,886

Commercial Bills

The Group has access to a number of wholesale debt facilities for the funding of receivables.

As at 30 June 2022, the Group had access to a facility in Australia totalling \$65 million: \$55 million committed tranche (subject to funder approval under the review event described below) and a further \$10 million uncommitted tranche (subject to funder approval). This facility was drawn to \$50.5 million as at 30 June, leaving \$4.5 million in unused committed facilities as described above. Following a material uncertainty related to going concern being emphasised in the Group's financial reports for the period ending 31 December 2021, a review period commenced and is ongoing as at 30 August 2022. During this review period the funder required that \$2 million of cash be held in a restricted account. It is not expected, nor has there been an indication, that this review period would result in withdrawal of the facility, however it is possible under this term. This facility is due to mature in January 2024.

The Group also has a £60 million (approximately \$105.8 million) facility in the UK of which £25 million is committed and £35 million is uncommitted. This facility is drawn to £2 million (approximately \$3.5 million), leaving £23 million in unused facilities of which £35 million is uncommitted. This facility was to mature in November 2022 and is not expected to be extended as UK plan receivables are in run off.

The loan facility in the US consists of a warehouse funding agreement of US\$271.4 million (approximately \$393.9 million) of which US\$137.5 million is committed (and subject to fulfilling certain conditions that are not currently satisfied) and US\$135.7 million is uncommitted. The facility was undrawn at 30 June 2022. This facility is due to mature in April 2024 and will be terminated early as the Company decided subsequent to year-end to cease operations in the US.

Working Capital Facilities

As at 30 June 2022, the Group had access to a working capital facility with a related party totalling \$10 million. This facility's maturity date is in October 2022. This facility was drawn to \$3.8 million as at 30 June 2022.

The Group had access to a second working capital facility with a related party totalling \$25 million, with additional uncommitted funding of \$5 million subject to fulfilling certain conditions and funder approval. This facility has a maturity date in October 2022. This facility was drawn to \$25 million as at 30 June 2022.

Debt Covenants

The wholesale debt facilities are subject to covenants that are in line with standard market practice given the nature of the financing facilities. The primary covenant for all facilities is a maximum Loan-to-Value Ratio (LVR) which varies based on negotiated terms. The LVR is measured as the value of the facility drawn over total eligible receivables funding plus restricted cash. Debt covenants have been complied with through the period and as at 30 June 2022.

The Australian receivables funding facility includes an additional term that in the event of a material uncertainty related to going concern being emphasised in the Group's financial reports, a review period would commence for 14 days. This occurred in the Group's financial reports for the period ending 31 December 2021, following which a review period commenced and remains ongoing as at 30 August 2022. During this review period the funder required that \$2 million of cash be held in a restricted account (included in restricted cash disclosed above). It is not expected, nor has there been an indication, that this review period would result in withdrawal of the facility, however it is possible under this term.

Note 9. Financial liabilities at fair value through profit and loss

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Warrants	111,601	-

As part of agreements to extend funding arrangements and raise additional working capital during the half year ended 31 December 2021, two tranches of warrants were committed to or issued, and have been recognised as financial liabilities. The value of the warrants at issuance was considered as a transaction cost.

The first tranche was issued in October under the funding arrangement for a revolving credit facility with Goldman Sachs Bank USA. This tranche was an issuance of 1.02 million warrants, as announced on 7 October 2021.

Each warrant confers the right (but not the obligation) to subscribe for one Ordinary Share at the subscription price of \$1.3042 per warrant (being the 30-day VWAP of the Company as at 5 October 2021), subject to adjustment, or to receive cash consideration (at the warrant holder's discretion).

The warrants issued under the first tranche are exercisable (in full or in part) from the date which is 18 months after the issue date, until the 7th anniversary of the issue date. The warrant holder is also entitled to elect to receive a cash settlement in lieu of shares on exercise of the warrants.

The second tranche of up to 6 million warrants was agreed to be issued under a loan amendment and announced on 22 December 2021, and 4 million warrants were issued 4 January 2022 on the drawing down by Openpay of the first tranche facility. This tranche was issued as part of an extension of the Group's existing \$25 million working capital facility with OP Fiduciary Pty Ltd, and agreement for additional uncommitted funding of up to \$5 million. A further 2 million warrants may be issued, subject to an incremental \$5 million being made available and being drawn down by Openpay.

Each warrant issued under the second tranche confers the right (but not the obligation) to subscribe for one Ordinary Share at the subscription price (subject to adjustment) or to receive a cash consideration (at the warrant holder's discretion). The subscription price payable on exercise of the warrants shall be the lower of \$0.3825 per warrant (being 50% of the share price on the date immediately prior to entry into the amendment to the existing facility), and the 30 day VWAP of the Company prior to the date of exercise of the warrants.

The warrants issued under the second tranche are exercisable (in full or in part) from the issue date until the 3rd anniversary of the issue date. The warrant holder is also entitled to elect to receive a cash settlement in lieu of shares on exercise of the warrants.

Note 10. Issued capital

	2022	Consolidated	2022	2021
	Shares	2021	\$	\$
		Shares		
Ordinary shares - fully paid	158,279,339	130,773,716	190,304,832	182,745,390

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Movements in ordinary share capital

	2022 Nos	2021 Nos	2022 \$	2021 \$
Opening balance	130,773,716	107,868,028	182,745,390	138,160,501
Options exercised	665,888	142,857	1,296,917	344,285
Issue of share capital, net of costs	26,839,735	22,762,831	6,262,525	44,240,604
	<u>158,279,339</u>	<u>130,773,716</u>	<u>190,304,832</u>	<u>182,745,390</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and on a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Note 11. Reserves

	Consolidated	
	2022	2021
	\$	\$
Foreign currency translation reserve	(1,642,971)	(856,692)
Share-based payments reserve	6,102,838	4,675,553
	<u>4,459,867</u>	<u>3,818,861</u>

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated within a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Share-based payments reserve

This reserve records the cumulative value of employee service received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

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Movements in reserves

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

Consolidated	Foreign currency translation reserve \$	Share-based payments reserve \$	Total \$
Balance at 1 July 2020	(1,194,957)	2,727,331	1,532,374
Foreign currency translation	338,265	-	338,265
Share-based payments expense	-	2,063,936	2,063,936
Options exercised	-	(115,714)	(115,714)
Balance at 30 June 2021	(856,692)	4,675,553	3,818,861
Foreign currency translation	(786,279)	-	(786,279)
Share-based payments expense	-	1,427,285	1,427,285
Balance at 30 June 2022	<u>(1,642,971)</u>	<u>6,102,838</u>	<u>4,459,867</u>

Note 12. Loss per share

	Consolidated	
	2022	2021
	\$	\$
Loss after income tax attributable to the owners of Openpay Group Ltd	(82,455,823)	(63,059,351)
Loss after income tax attributable to the owners of Openpay Group Ltd used in calculating diluted earnings per share	<u>(82,455,823)</u>	<u>(63,059,351)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>133,668,050</u>	<u>112,481,958</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>133,668,050</u>	<u>112,481,958</u>
	Cents	Cents
Basic earnings per share	(61.69)	(56.06)
Diluted earnings per share	(61.69)	(56.06)

Potential ordinary shares as at 30 June 2022 are not dilutive and therefore no adjustment is required to the denominator used in calculating loss earnings per share.

Note 13. Accumulated losses

	Consolidated	
	2022	2021
	\$	\$
Accumulated losses at the beginning of the financial year	(127,241,677)	(64,182,326)
Loss after income tax expense for the year	<u>(82,455,823)</u>	<u>(63,059,351)</u>
Accumulated losses at the end of the financial year	<u>(209,697,500)</u>	<u>(127,241,677)</u>

Note 14. Events occurring after the reporting period

With the exception of the item listed below, no other matters or circumstances have occurred subsequent to 30 June 2022 that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

US operations

On 1 July 2022, the Group announced that given the current macroeconomic and public market conditions, together with the likely ongoing capital investment required in the US to fund its progress for an extended period, Openpay has decided to pause its existing US operations indefinitely and cease loan originations on the Opy USA platform.

Openpay's decision will immediately result in no further expenses in its existing US operations in the near term, subject to one-off costs associated with the restructuring. These costs are estimated to be approximately US\$4.9 million of which US\$4 million relates to staff severance costs and \$0.9 million relates to supplier terminations. As at 30 June 2022, while the decision to pause the US had not been made, the Group's assumption was that the warehouse facility was no longer likely to be utilised. As a result, additional costs of \$2.1 million were recognised at 30 June 2022 to reflect the accelerated recognition of upfront costs and deferred warrant costs in relation to this facility. Payment of the expected restructuring costs and approximately US\$2.6 million of expenditure incurred during the year as part of normal operations will be settled over approximately the next 12 months to minimise the impact on the Company's working capital requirements.

Capital Raise and Share Placement Plan

In August 2022, the Company completed the Placement and Share Purchase Plan (SPP) announced on 23 May 2022. This followed the general meeting held on 10 August 2022 to seek shareholder approval to ratify the issue of shares under Tranche 1 of the placement, and approve the issue of shares under Tranche 2 of the placement and the SPP. Funds to be received totalled \$23.8 million net of transaction costs, of which \$17.5 million was to be received subsequent to year-end and \$8 million was used to repay a working capital facility that remains available for use.