



Splitit Payments Ltd
ARBN 629 557 982

A foreign company registered
in its original jurisdiction of
Israel as Splitit Ltd



APPENDIX 4E

Preliminary Final Report

for the year ended
31 December 2018

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Appendix 4E

Financial Year ending 31 December 2018

Results for announcement to the market

Lodged with the ASX under Listing Rule 4.3A

Name of entity:

Splitit Payments Ltd, a foreign company registered in its original jurisdiction of Israel as Splitit Ltd
ASX Code: SPT

Reporting period:

Report for the financial year ended 31 December 2018
Previous corresponding period is the financial year ended 31 December 2017

Reporting currency:

US Dollars, unless otherwise specified
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	2017 US\$	2018 US\$	Inc/(Dec)%
Revenue from continuing operations (Appendix 4E item 2.1)	260,409	789,920	203%
Profit/(Loss) from ordinary activities after tax attributable to members (Appendix 4E item 2.2)	(3,422,285)	(4,405,459)	29%
Comprehensive Profit/(Loss) for the year attributable to members (Appendix 4E item 2.3)	(3,422,285)	(4,405,459)	29%
Basic Earnings per share (Appendix 4E Item 14.1)	(23.24)	(29.45)	26%
Diluted Earnings per share (Appendix 4E Item 14.1)	(23.24)	(29.45)	26%
Net Tangible Assets per share (Appendix E Item 9)	(60.09)	(86.07)	43%

Accounting Standards (Appendix 4E item 13)

The report was prepared in accordance with *International Financial Reporting Standards*.

Audit Status (Appendix 4E item 15)

This report is based on accounts which are in the process of being audited. The Audited Annual Report is expected to be released by 31 March 2019.

The accompanying notes are an integral part of the financial statements.

Dividends (Appendix 4E item 2.4 & 2.5):

No dividends have been paid during the year and the Company does not propose to pay any final dividends.

Commentary on Results (Appendix 4E Item 14) & Significant Features of Operating Performance (Appendix 4E Item 14.3)

Splitit Payments Ltd, a foreign company registered in its original jurisdiction of Israel as Splitit Ltd (ASX:SPT, "**Splitit**" or the "**Company**") is a payment method solution enabling customers to pay for purchases with an existing debit or credit card by splitting the cost into interest and fee-free monthly payments, without the need for additional registrations or applications. Splitit enables merchants to offer their customers an easy way to pay for purchases in monthly instalments with instant approval, decreasing cart abandonment rates and increasing revenue. Serving many of Internet Retailer's top 500 merchants, Splitit's global footprint extends to hundreds of merchants in a number of countries around the world. Headquartered in New York, Splitit has an R&D centre in Israel and offices in London, with plans to establish itself in Australia for its expansion into the Asia-Pacific region.

During 2018, Splitit established new merchant relationships in the USA, United Kingdom, France, Italy, Australia and Singapore among others. The Company has seen success across a number of industry verticals notably in high-end fashion, furniture, medical and sports equipment.

During the financial year Splitit saw significant growth in its key performance metrics:

- Total Active Merchants increased by 205 or 117% during 2018 to 380
- Total Number of Unique Shoppers to use Splitit increased by 88,000 or 293% during 2018 to 118,000
- Underlying Merchant Transactions increased by 253% on the previous corresponding period to AUD\$80.2 million
- Average Order Value currently sits at over AUD\$1,000

Revenue reported for the financial year grew from \$260,409 to \$789,920, an increase of 203%, reflecting Splitit's growth across all key performance metrics.

Costs of revenue grew from \$201,495 to \$400,126, an increase of 99%. Splitit reported a gross profit of \$389,793 compared to \$58,914 in the prior financial year, an increase of 562%.

Operating expenses grew from \$3,012,141 to \$3,661,881, an increase of 22%. Research and development expenses accounted for 28% of operating expenses in 2018, while sales and marketing expenses and general and administrative expenses accounted for 30% and 42% respectively. Head count increased by 7 or an increase of 50%.

Splitit reported a loss before income tax of \$4,403,589 compared to \$ 3,421,636 in the prior financial year.

A 203% increase in revenue while costs of revenue and operating expense only increased 99% and 22% respectively. Due mainly to an ability to maintain a low headcount despite increasing

The accompanying notes are an integral part of the financial statements.

Underlying Transaction Volume significantly, a benefit of Splitit's fully automated solution and not requiring a collections team chasing late payments.

1. Revenue from continuing operations (Appendix 4E item 2.6 & 14)

The Company's revenues are derived from transaction fees (Merchant Fees) paid by its clients in relation to transactions processed through the Splitit Payment Platform.

Merchant Fees are generated on each approved order placed via the Splitit Payment Platform and are predominantly based on a percentage of the end-customer order value plus a fixed fee per instalment.

Merchant fees are earned from the following business models, which differ, mainly, in the timing fees are collected:

Funded model – under the funded model, merchants will receive the full purchase price upfront. The full amount is transferred to the Merchant net of Merchant fees payable to Splitit and financing fees representing the interest cost payable to the lender (third-party financial institution). The lender provides the liquidity to the transaction and receives financing fees in return. Splitit, collects amounts owed by the merchant to the lender but bears no credit risk. In case of default by the merchant, the lender will incur the credit losses without consequences to Splitit. Fees collected upfront are recognised on a straight-line basis over the lending period.

Basic model – under the basic model, merchants provide the liquidity. The end-user (shoppers) pays directly to the merchant. Splitit will invoice the merchant on a monthly basis. Revenues are recognised upon issuance of the monthly invoice.

Splitit reports its revenues (i.e. merchant fees) net of the amounts passed through to the lender (under the Funded Model).

2. Profit/(Loss) from ordinary activities after tax attributable to members (Appendix 4E item 2.6 & 14)

The loss from ordinary activities attributable to members of \$4,405,459 is made up of:

Gross margin on sales revenue of \$389,793 (2017: \$58,914) increased substantially higher than revenue growth (562% vs. 203%) as increases in costs of revenue were less than increases in revenue.

Research and development expenses of \$1,018,982 (2017: \$1,104,053) are consistent.

Sales and marketing expenses of \$1,086,584 (2017: 608,603) increased in line with revenue growth, a significant ramp up of staff in the second half of the financial year, and successful Initial Public Offering on the ASX on 29 January 2019 intended to prepare the business for accelerated growth.

The accompanying notes are an integral part of the financial statements.

General and administrative expenses of \$1,556,315 (2017: \$1,299,485) includes a significant ramp up of staff in the second half of the financial year.

Net financing expenses of \$1,131,502 (2017: \$468,410), includes \$1,058,086 relating to the revaluation of the company's convertible loans to their fair value as of December 31, 2018, and \$58,206 resulting from foreign exchange gains and losses relating to the monetary assets and liabilities of the Israeli entity which incurred as a result of exposure to US dollars.

3. Net Profit/(Loss) for the period attributable to members (Appendix 4E item 2.6 & 14)

See above.

Supplementary Information

1. Trends in Performance (Appendix 4E Item 14.5)

Adoption of instalment payment solutions by merchants in Splitit's key markets globally continues to rise, driving awareness and uptake of Splitit's solution.

Onboarding of key new merchants and increasing momentum across existing merchants globally has led to a trend of continuous strong growth across all key performance metrics as outlined above.

2. Other Factors that affected results in the period or which are likely to affect results in the future, including those where the effect could not be quantified (Appendix 4E item 14.6)

At this point in time Splitit doesn't see any factors that can affect the Company's results in the period or in the future.

3. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position (Appendix 4E item 12)

Capital Management

During 2018, the Company entered into convertible loan agreements and received amounts of \$3,250,196 during the year. The loans were converted into shares according to the terms in the agreements.

On 7 December 2018, with respect to the convertible loans issued during the years 2015 till 2018, the Company extended the final date on which the lenders will be required to convert the convertible loans to the Company's shares to the completion of the Initial Public Offer on 29 January 2019.

As of 31 December 2018 the total amount received under the convertible loan agreements was \$11,278,645. The convertible loans are carried at fair value and were converted to shares at IPO on 29 January 2019 in accordance with the terms determined in the agreements.

Subsequent Events

The accompanying notes are an integral part of the financial statements.

Subsequent to this reporting period on 29 January 2019, Splitit raised AUD\$12 million in a successful Initial Public Offering on the ASX.

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED UNAUDITED STATEMENT OF FINANCIAL POSITION
(In U.S. dollars)

	Note	December 31,	
		2 0 1 8	2 0 1 7
		Unaudited	Audited
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		\$ 309,590	\$ 515,724
Restricted cash		26,698	49,053
Trade receivables and other current assets		3,631,701	475,048
Total current assets		<u>3,967,989</u>	<u>1,039,825</u>
Long term deposit		3,635	500
Fixed assets, net	3	<u>82,568</u>	<u>19,688</u>
Total assets		<u>\$ 4,054,192</u>	<u>\$ 1,060,013</u>
<u>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</u>			
Current liabilities			
Short term loan		\$ 148,165	\$ 197,215
Short term convertible loans	4	12,786,669	8,478,388
Trade payables and Other current liabilities		3,996,370	1,234,890
Total current liabilities		<u>16,931,204</u>	<u>9,910,493</u>
Commitments and contingent liabilities	6		
Shareholders' deficiency	7		
Ordinary shares		163	157
Preferred A shares		221	221
Additional paid-in capital		2,598,605	2,219,684
Accumulated deficit		(15,476,001)	(11,070,542)
Total shareholder's deficiency		<u>(12,877,012)</u>	<u>(8,850,480)</u>
Total liabilities and shareholders' deficiency		<u>\$ 4,054,192</u>	<u>\$ 1,060,013</u>

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED UNAUDITED STATEMENT OF INCOME
(In U.S. dollars)

	Note	For the Year ended December 31,	
		2 0 1 8	2 0 1 7
		Unaudited	Audited
Revenues		\$ 789,920	\$ 260,409
Cost of revenue		(400,126)	(201,495)
Gross profit		<u>389,794</u>	<u>58,914</u>
Research and development expenses	10	(1,018,982)	(1,104,053)
Sales and marketing expenses	11	(1,086,584)	(608,603)
General and administrative expenses	12	(1,556,315)	(1,299,485)
Operating expenses		<u>(3,661,881)</u>	<u>(3,012,141)</u>
Net loss before financing expenses, net		<u>(3,272,087)</u>	<u>(2,953,227)</u>
Financing expenses, net	13	(1,131,502)	(468,409)
Net loss before income taxes		<u>(4,403,589)</u>	<u>(3,421,636)</u>
Income taxes	9	(1,870)	(649)
Net Loss		<u><u>\$ (4,405,459)</u></u>	<u><u>\$ (3,422,285)</u></u>
Loss per share:			
Basic and diluted		<u>(29.45)</u>	<u>(23.24)</u>

The accompanying notes are an integral part of the financial statements.

UNAUDITED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(In U.S. dollars, except for share data)

	Ordinary shares		Preferred A shares		Additional	Accumulated	
	Number	amount	Number	amount	paid-in capital	deficit	Total
Balance as of December 31, 2016	61,230	157\$	86,058	221\$	\$ 1,868,301	\$ (7,648,257)	\$ (5,779,578)
Share based payments					351,383	-	351,383
Net loss for the year	-	-	-	-	-	(3,422,285)	(3,422,285)
Balance as of December 31, 2017 (Audited)	61,230	157\$	86,058	221\$	\$ 2,219,684	\$(11,070,542)	\$ (8,850,480)
Exercise of options	2,323	6	-	-	(6)	-	-
Share based payments	-	-	-	-	378,927	-	378,927
Net loss for the year	-	-	-	-	-	(4,405,459)	(4,405,459)
Balance as of December 31, 2018 (Unaudited)	63,553	163\$	86,058	221\$	\$ 2,598,605	\$(15,476,001)	\$(12,877,012)

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS
(In U.S. dollars)

	For the Year ended December 31,	
	2 0 1 8	2 0 1 7
	Unaudited	Audited
<u>Cash flows - operating activities</u>		
Loss for the period according to the statement of profit and loss	\$ (4,405,459)	\$ (3,422,285)
Adjustments to reconcile cash flows provided by operating activities (Appendix A)	1,053,549	1,077,572
Net cash used in operating activities	<u>(3,351,910)</u>	<u>(2,344,713)</u>
<u>Cash flows - investing activities</u>		
Long term deposit	(3,135)	(500)
Purchase of fixed assets	(74,590)	(5,754)
Net cash used in investing activities	<u>(77,725)</u>	<u>(6,254)</u>
<u>Cash flows - financing activities</u>		
Short term loan	(49,050)	87,215
Restricted cash	22,355	(21,944)
Proceeds from convertible loan	3,250,196	2,753,550
Net cash provided by financing activities	<u>3,223,501</u>	<u>2,818,821</u>
Increase (decrease) in cash and cash equivalents	<u>(206,134)</u>	<u>467,854</u>
Balance of cash and cash equivalents at the beginning of the period	515,724	47,870
Balance of cash and cash equivalents at the end of the period	<u><u>\$ 309,590</u></u>	<u><u>\$ 515,724</u></u>

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS (Cont.)
(In U.S. dollars)

APPENDIX A - Adjustments to reconcile cash flows provided by operating activities:

	For the Year ended December 31,	
	<u>2 0 1 8</u>	<u>2 0 1 7</u>
	Unaudited	Audited
Income and expenses not involving cash flow:		
Share based payments	\$ 378,927	\$ 351,383
Convertible loan revaluation	1,058,085	449,940
Depreciation	11,710	9,781
 Changes in asset and liability items, net:		
Increase in other current assets and trade receivable	(3,156,653)	(399,471)
Increase in trade payable and other current liabilities	<u>2,761,480</u>	<u>665,939</u>
	 <u>\$ 1,053,549</u>	 <u>\$1,077,572</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

A. Description of business and information:

Splitit Ltd. ("the Company") previously Pay It Simple Ltd. was incorporated in Israel on October 6, 2008.

The Company is developing an online web and point of sale payment and checkout solution, enabling purchasing while improving cash flow and significantly lowering credit financing costs, for any consumer or business credit card holder. The Company's solution is a payment service, introducing an intuitive, general purpose, credit card purchasing method, offering attractive credit and financing capabilities.

In August 2013, the Company established a wholly owned U.S subsidiary (Splitit Inc.) for marketing purpose.

On September 15, 2013, the Company entered into a marketing and distribution services agreement with Splitit Inc., according to which the Company grants a non exclusive license to distribute the Company's Installment Payment Services in the U.S in consideration for receiving the entire amount entitled from the subsidiary's customers less agreed upon agreed commission as defined in the agreement. In addition, during the subsidiary's first two years of operations, in the event of accruing an operation loss from its activities, the Company will reimburse its subsidiary with a marketing subsidy, intended to cover the market penetration cost of the subsidiary.

In March 2015, the Company established a wholly owned U.S subsidiary (Splitit Capital Inc.) for marketing and distributing purpose.

In September 2015, the Company established two wholly owned U.K subsidiaries (Splitit UK Ltd. and Splitit Capital UK Ltd.) for marketing purpose. As of December 31, 2017, Splitit Capital UK Ltd., has not yet commenced its operation.

B. Definitions:

The Company	-	Splitit Ltd.
The subsidiaries	-	Splitit Inc, Splitit Capital Inc, Splitit UK Ltd. and Splitit Capital UK Ltd.
Related Parties	-	As defined in IAS 24
NIS	-	New Israeli Shekel
Dollar (or \$)	-	the US dollar

C. Going Concern:

The Company is still in the commercialization stage and its continued operations are subject to the continuing receipt of funding from the Company's shareholders and other investors, as well as successful implementation of its business plan.

The Company's consolidated financial statements reflect a net loss of \$ 4,405,459 for the year ended December 31, 2018 and an accumulated deficit of \$ 15,476,001 as of that date.

During January 2019, the company completed a successful IPO, resulted in raising of \$12 million USD.

The accompanying notes are an integral part of the financial statements.

NOTE 1 - GENERAL (Cont.)

C. Going Concern: (Cont.)

The company believes this funds raising, together with subsequent funds raising will enable the continuation of its operations and achieving its business goal. Therefore, the Company's financial statements were made under the assumption that the Company will continue as a going concern.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Statement of compliance:

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards and its interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issuance by management and approved by the board of directors of the company on February 27, 2019.

B. Basis of preparation:

The financial statements were prepared on the basis of the historical cost, except for certain financial assets and liabilities that are measured at fair value, as required by IFRS.

The assets and liabilities included in the consolidated financial statements are recognized and measured in accordance with the accounting policies described below.

C. Use of estimates in preparation of financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Financial Statements in U.S. Dollars:

The currency of the primary economic environment in which the Company conducts its operations is the U.S. dollar ("dollar"). Accordingly, the Company uses the dollar as its functional and reporting currency.

E. Principles of consolidation and basis of presentation:

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The results of the subsidiaries are included from the date of commencement of their operations. Intercompany transactions and balances between the Company and its subsidiaries have been eliminated in the consolidated financial statements.

F. Cash and cash equivalents:

The Company considers all highly liquid investments, including short-term bank deposits purchased with original maturities of three months or less, unrestricted and readily convertible into known amounts, to be cash equivalents.

The accompanying notes are an integral part of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Trade receivables:

Trade receivables are initially recognized at fair value, including the related taxes and expenses. Foreign currency-denominated trade receivables are adjusted at the exchange rate in effect at the end of the reporting period. The allowance for estimated losses on doubtful debts were recognized in an amount considered sufficient to cover any losses.

H. Property and equipment:

- (1) Property and equipment are measured at initial recognition at cost. The cost also includes the initial estimate of costs required to dismantle and remove the item.

The Company implements the cost method according to which an item will be presented at cost less accumulated depreciation and less accumulated impairment losses.

- (2) Annual depreciation is calculated using the straight-line method over the estimated useful lives of the assets.
- (3) The estimated useful life are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Annual rates of depreciation are as follows:

	<u>%</u>
Computers and software	33
Website	33
Mobile devices	33
Furniture and office equipment	7
Leasehold improvements	7

I. Impairment of assets:

The Company examines at each balance sheet date the carrying amounts of its assets whenever any signs point to a possible reduction in the value of these assets. Whenever the book value exceeds that asset's recoverable value, the Company recognizes a loss from this impairment.

Such a loss from any asset other than goodwill that was recognized in the past is eliminated only when a change occurred in the estimates used in the determination of the recoverable amount, from the date when the last impairment was recognized as a loss. The book value following this elimination does not exceed the book value that would have been established for the asset had a loss from impairment not been recorded in previous years.

J. Share based payments:

The Company grants equity settled share-based payments to employees and others providing similar services in consideration for equity instruments (options) of the Company. The equity instruments granted do not vest until such employees and service providers complete a defined period of service.

The accompanying notes are an integral part of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company recognizes the share-based payment arrangements in the financial statements on a straight-line basis over the vesting period in the income statement against an increase in shareholders' equity, based on the Company's estimate of equity instruments that will eventually vest. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

K. Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable.

The Company's revenues are derived from transaction fees (**Merchant Fees**) paid by its clients in relation with transaction utilising the Splitit Payment Platform.

Merchant Fees are generated on each approved order placed via the Splitit Payment Platform and are predominantly based on a percentage of the end-customer order value plus a fixed fee per instalment.

Merchant fees are earned from the following business models, which differ, mainly, in the timing fees are collected:

Funded model – under the funded model, merchant will receive the full purchase price upfront. The full amount is transferred to the Merchant net of Merchant fees payable to Splitit and financing fees representing also the interest cost of lending payable to the lender (financing institution). The lender provides the liquidity to the transaction and receives financing fees for it. Splitit, collects amounts owed by the merchant to the lender but bears no credit risk. In case of default by the merchant, the lender will incur the credit losses without consequences to Splitit. Fees collected upfront are recognized on a straight-line basis over the lending period.

Basic model – under the basic model merchants provides the liquidity. End-user pays directly to the merchant. Splitit will then provide merchant with a monthly invoice for the amounts paid for the previous month (for a basic track service fee calculated as 1.5% plus fixed fee of \$1.5 (1.5 Euro or British Pound depending on the location) per instalment. Revenues are recognized upon issuance of the monthly invoice.

Splitit reports its revenues (i.e., merchant fees) net of the amounts passed through to the lender (under the Funded Model).

L. Research and development costs:

Research and development costs are charged to operations as incurred.

M. Fair value of financial instruments:

The Company uses a three-level hierarchy when measuring fair value. The following is a description of the three hierarchy levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3 Unobservable inputs for the assets or liabilities

The accompanying notes are an integral part of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Fair value of financial instruments: (Cont.)

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest input that is significant to the fair value measurement in its entirety. Transfers between the levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred.

N. Exchange rates and linkage basis:

Balances denominated in or linked to currencies other than the NIS are presented according to the representative exchange rates published by the Bank of Israel as of the balance sheet date.

Balances which are linked to the Israeli Consumer Price Index ("CPI") are presented on the basis of the first index published subsequent to the balance sheet date based on the terms of the applicable transactions.

Exchange rate and linkage differences are charged to operations as incurred Data in respect of the NIS/dollar exchange rate and the CPI are as follows:

	Representative exchange rate of the dollar (NIS per \$1)	CPI (in points)
As of:		
December 31, 2018	3.748	132.76
December 31, 2017	3.467	131.71
	%	%
Changes during:		
December 31, 2018	8.1	0.79
December 31, 2017	(9.83)	0.39

O. New and amended standards not yet adopted:

1. IFRS 9, "Financial instruments":

In July 2014, the IASB issued IFRS 9, "Financial instruments", which replaces the guidance in IAS 39. IFRS 9 includes new requirements on the classification and measurement of financial assets and liabilities, as well as a new impairment model based on expected credit losses rather than the incurred loss impairment model of IAS 39. It also introduces new rules for hedge accounting. IFRS 9 must be applied on annual periods beginning on or after January 1, 2018.

The new impairment model requires recognition of impairment provisions based on expected credit losses rather than on incurred credit losses.

The Company completed its review of the possible effects of the adoption of IFRS 9. The Company holds no traded financial instrument other than the Convertible Loans Agreements ("CLA"). All other financial instruments are held for collection and upon adoption of IFRS 9 will continue to be carried at amortized cost. The CLAs will continue to be carried at fair value but expected to converted to shares upon completion of the IPO.

The accompanying notes are an integral part of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. New and amended standards not yet adopted: (Cont.)

The Company also considered the effect of the new impairment model. As further discussed in note 2K the Company has very little credit risk. This is the case as the Company recognizes revenue after the collection of its upfront fees (under the Funded Model) or recognizes fees on a monthly basis (under the basic model) which exposes it to a maximum of monthly fee payment per merchant.

Based on the above, the Company believes that the effect of adoption of IFRS 9 will have no substantial influence on its financial position and operations.

2. IFRS 15, "Revenue from contracts with customers":

In May 2014, the IASB issued IFRS 15, "Revenue from contracts with customers", which sets out the requirements in accounting for revenue arising from contracts with customers and which is based on the principle that revenue is recognized when control of a good or service is transferred to the customer. IFRS 15 must be applied on annual periods beginning on or after January 1, 2018.

The Company intends to adopt this standard using the modified retrospective approach, meaning that the cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated.

The Company assessed the effect related to the adoption of the new standard and concluded that the adoption of the standard will not have material effect on its financial statements.

3. IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases". The new standard will result in almost all leases recognized on the balance sheet, as the distinction between operating and finance leases is removed. IFRS 16 must be applied on annual periods beginning on or after January 1, 2019.

The Company's management is currently assessing the potential impact that the application of this standard may have on the Company's financial condition or results of operations but expects no substantial influence due to its minor use of leases.

The accompanying notes are an integral part of the financial statements.

NOTE 3 - FIXED ASSETS

Composition:

	As of December 31,		
	2018		2017
	Cost	Accumulated depreciation	Net book value
		Unaudited	Audited
Furniture and equipment	43,907	(3,891)	40,016
Website	17,813	(1,608)	16,205
Leasehold improvements	6,998	(198)	6,800
Mobile devices	1,304	(215)	1,089
Computers and software	54,895	(36,437)	18,458
	<u>124,917</u>	<u>(42,349)</u>	<u>82,568</u>
			<u>\$ 11,093</u>
			<u>\$ 19,688</u>

NOTE 4 - SHORT TERM CONVERTIBLE LOANS

Since September 2012, the Company entered into a series of convertible loan agreements with several lenders. During 2018 and 2017, the Company received \$ 3,250,196 and \$ 2,753,550 respectively. The convertible loans are carried at fair value and expected to be converted to shares upon completion of the IPO in accordance with the terms determined in the agreements. The loans bear no interest. The total balance of the short-term convertible loans as of December 31, 2018 and 2017 is \$12,786,669 and \$ 8,478,388 respectively. See also Note 9B.

NOTE 5 - LIABILITY FOR SEVERANCE PAY, NET

The liability is funded through individual insurance policies purchased from outside insurance companies, which are not under the Company's control. All of the employees of the Company are included under section 14 of the Severance Compensation Act, 1963 ("section 14"). According to this section, the employees are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with section 14 release the Company from any future severance payments (under the above Israeli Severance Pay Law) in respect of the employees. The aforementioned deposits are not recorded as an asset in the Company's balance sheets.

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES

In August 2014, the Company signed an agreement for office rent through June 2016, with a four years renewal option under the terms set forth in the agreement. The monthly lease payments are approximately \$ 3,900. As of December 31, 2016, the Company exercised the renewal option until June, 2018 and further extended it until the end of September 2018. In October 1, 2018, the Company relocated its headquarters to Tel Aviv based on a new rent agreement through October 2021.

The monthly rent payments under the agreement are of approximately \$ 12,000.

To secure the lease payments, the Company had issued bank guarantee of \$ 7,802 in favor of the facility's lessor.

Commitments for minimum lease payments in relation to non-cancellable operating leases as of December 31, 2018 are approximately \$252,255 comprised of 21 months under a monthly rate of approximately \$12,000.

The Company has granted to an investor a floating charge over all the Company's assets and intellectual property.

The accompanying notes are an integral part of the financial statements.

NOTE 7 - SHARE CAPITAL

A. Share Capital:

Composition of share capital as of December 31, 2017 and 2016:

	December 31,			
	2018		2017	
	Number of shares		Number of shares	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Unaudited		Audited	
Ordinary shares NIS 0.01 par value	<u>700,000</u>	<u>63,553</u>	<u>700,000</u>	<u>61,230</u>
Preferred A shares NIS 0.01 par value	<u>300,000</u>	<u>86,058</u>	<u>300,000</u>	<u>86,058</u>

Ordinary Shares confer to the holders the right to receive notice to participate and vote in general meetings of the Company and the right to receive dividends, if declared.

The Preferred A Shares confer to the holders all rights accruing to holders of Ordinary Shares, and in addition preference in any event of liquidation and dividend declaration. At such an event, the holders of Preferred A Shares shall be entitled to receive from the distribution proceeds prior and in preference to the other securities of the Company, for each Preferred Share held by them, the Original issue price plus an amount equal to all declared and unpaid dividends thereon.

During November and December 2018, the Company's employees and consultants exercised 2,323 options to purchase 2,323 ordinary shares of the Company under the Company's 2013 share option plan, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

At the inception date the Company issued to the founders 6,123 ordinary shares NIS 0.01 par value each, with no consideration.

B. Issuance of share capital:

Ordinary shares:

On September 12, 2012 the Company issued bonus shares, for each Ordinary Share of the Company, nominal value NIS 0.01 each, additional 9 ordinary shares were issued, for no consideration. In addition, the Company increased its registered share capital by additional NIS 8,000 bringing the Company's total authorized and registered share capital to NIS 10,000 divided into 700,000 Ordinary Shares and 300,000 Series A Preferred shares.

Preferred A shares:

On September 20, 2012, the Company signed an agreement with some investors, according to which, the Company will issue 86,058 preferred A shares NIS 0.01 par value each, in consideration for \$ 1,298,000. On December 31, 2016 the Company received the full amount (NIS 4,771,980) and issued the related preferred A shares.

According to the agreement, after the Company will receive the full amount as stated in the agreement, the investors will extend to the Company a convertible loan of depending on the

The accompanying notes are an integral part of the financial statements.

NOTE 7 - SHARE CAPITAL (Cont.)

B. Issuance of share capital: (Cont.)

Company's needs as determined by the Company from time to time, subject to the terms set forth in the agreement. During 2016 the Company received \$1,968,000 under the convertible loan agreements. As of December 31, 2016 the total amount received under the convertible loan agreements was \$5,274,899

During 2017, the Company entered into additional convertible loan agreements with some investors and received additional amounts of \$2,753,550 during the year. The loans will be converted into shares according to the terms determined in the agreements.

During 2018, the Company entered into additional convertible loan agreements with some investors and received additional amounts of \$3,250,196 during the year. The loans will be converted into shares according to the terms determined in the agreements.

On December 7, 2018, with respect to the convertible loans issued during the years 2015 till 2018, the Company extended the final date on which the lenders will be required to convert the convertible loans to the Company's shares upon completion of the IPO.

As of December 31, 2018 the total amount received under the convertible loan agreements was \$ 11,278,645. The convertible loans are carried at fair value and expected to be converted to shares upon completion of the IPO in accordance with the terms determined in the agreements. The loans bear no interest.

NOTE 8 - SHARE BASED PAYMENTS

A. Details of share-based grants made by the Company:

On February 28, 2011, the Company signed a service agreement with an advisor, according to which, the Company granted options to purchase 619 ordinary shares of the Company, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

During 2012, the Company entered into a consulting services agreement with the Company's legal advisors, according to which, the Company granted options at the rate of 2% from the Company's fully diluted issued and outstanding ordinary shares, subsequent to the investor's agreement signed on September 20, 2012.

On August 31, 2014, the Company entered into option agreement with an employee, according to which, the Company granted 221 options to purchase ordinary shares of the Company, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

On December 31, 2014, the Company signed additional service agreement with an advisor, according to which, the Company granted options to purchase 1,473 ordinary shares of the Company, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

On March 10, 2015 the Company entered into option agreements with its employees and a consultant according to which, the Company granted 2,051 options to purchase ordinary shares of the Company, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

The accompanying notes are an integral part of the financial statements.

NOTE 8 - SHARE BASED PAYMENTS (Cont.)

A. Details of share-based grants made by the Company: (Cont.)

On May 31, 2015, the Company and its subsidiaries signed an agreement with a third party that provides the Company with a liquidity for its receivables through purchase of those receivables. As a consideration, the Company granted that third party an option to buy shares for an amount equal to \$2,000,000 and 5,350 additional shares. The option includes a term allowing the third party to buy the shares at a price equal to 80% of the fair value of the share at the time of exercise, securing a benefit of \$500,000, and with the shares granted sums to a total benefit of approximately \$830,000. The benefit was recognized over the period of the contract, estimated to be 5 years.

On January 31, 2016, the Company signed a service agreement with an advisor, according to which, the Company granted options to purchase 1,473 ordinary shares of the Company, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

On July 13, 2016, the Company entered into option agreements with its employees and a consultant, according to which, the Company granted 4,861 options to purchase ordinary shares of the Company, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

On December 6, 2016, the Company signed a service agreement with an advisor, according to which, the Company granted options to purchase 1,106 ordinary shares of the Company, nominal value NIS 0.01 each, the exercise price shall be according to the terms as set forth in the term sheet.

On January 2, 2017, the Company entered into option agreements with its consultant, according to which, the Company granted options to purchase 375 ordinary shares of the Company, nominal value NIS 0.01 each, the exercise price at an exercise price of NIS 0.01 per share.

On August 30, 2017, the Company entered into option agreements with the advisor, according to which, the Company granted him additional options to purchase 553 ordinary shares of the Company, nominal value NIS 0.01 each, the exercise price shall be according to the terms as set forth in the term sheet.

On November 4, 2018, the Company entered into option agreements with its employees and a consultants, according to which, the Company granted 11,008 options to purchase ordinary shares of the Company, nominal value NIS 0.01 each, at an exercise price of NIS 0.01 per share.

Options granted are generally have 5-7 years of contractual lives and vest over 3 years.

NOTE 8 - SHARE BASED PAYMENTS (Cont.)

B. Options fair value:

The fair values were calculated using Monte Carlo simulation model through the years 2016 and 2017 and Black – Scholes pricing model in 2018 . The inputs to the models include the share price at date of grant, exercise price, expected volatility, expected dividends, expected term and the risk free rate of interest. Monte Carlo simulations and the parameters were used to determine the ordinary share price in the years 2016 and 2017 and Black – Scholes pricing model in 2018 to determine the price of a call option. As the exercise price is negligible the share price was determined to be the grant date fair value of the options.

The parameters used in applying the model are as follows:

<u>Description</u>	<u>2018</u>	<u>2017 and 2016</u>
Share price	0.14\$	\$80-\$64
Exercise price	\$0.01	\$0.01
Risk-free interest rate	2.51%-3.09%	0.83-1.46%
Expected volatility	50.68%	40%-58%
Expected option life in years	5-7	5-7
Expected dividend yield	0%	0%

C. Additional details of share based payments:

The following table provides the activity of share-based payments for the years ended December 31, 2018 and 2017 and for options outstanding and exercisable as of December 31, 2018.

	<u>Options outstanding</u>		
	<u>Number</u>	<u>Weighted average exercise price</u>	<u>Average remaining contractual life (in years)</u>
Outstanding December 31, 2016	10,802	11.1123	4.23
Granted	928	0.0026	9.09
Cancelled	(432)	0.0026	-
Outstanding December 31, 2017	11,298	10.6246	3.49
Granted	11,892	0.0026	-
Exercised	(2,323)	0.0026	-
Cancelled	(432)	0.0026	5.02
Outstanding December 31, 2018 (Unaudited)	<u>20,435</u>	<u>8.2032</u>	<u>3.93</u>

The accompanying notes are an integral part of the financial statements.

NOTE 9 - INCOME TAXES

A. Company in Israel:

On July 30, 2014, the Knesset Plenum approved, in a third reading, the budget bill and the bill to change the national priorities in 2013 and 2014 ('the Law'). In conjunction with this legislation, the following significant changes affecting taxation were approved :

In January 2016, a legislation to amend the corporate income tax law was published. The legislation determined a decrease of the corporate income tax law as of January 1, 2016 to 25% (1.5% decrease).

On December 29, 2016 the Economic Efficiency Law (Legislative amendments to achieve budget targets for years' budget 2017 and 2018) 5777-2016, was published in the Official Gazette.

The main change of the abovementioned law in respect of corporate tax is as follows:

In 2017 the corporate income tax rate will be reduced to 24% (instead of 25%) for income derived or accrued starting from 1.1.2017 and will be reduced to 23% in 2018 for income derived or accrued starting from 1.1.2018.

B. The Company has not received tax assessments since its incorporation.

C. The Company incurred losses since inception. Due to the lack of history of taxable income and uncertainty of taxable income in the foreseeable future, no deferred taxes were recorded for these carry forward losses and deductions.

D. Subsidiaries:

The principal federal tax rates applicable to the subsidiaries that incorporates in the U.S. are up to 21%.

The principal tax rates applicable to the subsidiaries that incorporates in the U.K. is 19%.

The subsidiaries have not received final tax assessments since their corporation.

On December 22, 2017, the President of the United States of America signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act contains significant changes to corporate taxes, including a permanent reduction of the corporate tax rate from 35% to 21% effective from January 1, 2018.

The accompanying notes are an integral part of the financial statements.

NOTE 10 - RESEARCH AND DEVELOPMENT EXPENSES

Composition:

	For the Year ended December 31,	
	2018	2017
	Unaudited	Audited
Salaries and related expenses	\$ 567,833	\$ 668,544
Subcontractors expenses	34,811	4,599
Share based payment	48,585	51,424
Other expenses	367,753	379,486
	<u>\$ 1,018,982</u>	<u>\$ 1,104,053</u>

NOTE 11 - SALES AND MARKETING EXPENSES

Composition:

	For the Year ended December 31,	
	2018	2017
	Unaudited	Audited
Salaries and related expenses	\$ 454,395	\$ 232,458
Communication	6,700	21,404
Professional fees	355,596	206,952
Other expenses	269,893	147,789
	<u>\$ 1,086,584</u>	<u>\$ 608,603</u>

NOTE 12 - GENERAL AND ADMINISTRATIVE EXPENSES

Composition:

	For the Year ended December 31,	
	2018	2017
	Unaudited	Audited
Salaries and related expenses	\$ 533,993	\$ 532,097
Communication	11,082	7,969
Professional fees	16,846	15,601
Share based payment	162,889	132,708
Other expenses	831,505	611,110
	<u>\$ 1,556,315</u>	<u>\$ 1,299,485</u>

The accompanying notes are an integral part of the financial statements.

NOTE 13 - FINANCE INCOME AND EXPENSES

A. Financing Income:

	For the Year ended December 31,	
	2018	2017
	Unaudited	Audited
Foreign currency differences	\$ -	\$ 24

B. Financing expenses:

	For the Year ended December 31,	
	2018	2017
	Unaudited	Audited
Other:		
Foreign currency differences	\$67,329	\$ 11,227
Bank fees and other financing expenses	6,088	7,266
Convertible loans revaluation	1,058,085	449,940
	<u>1,131,502</u>	<u>\$ 468,433</u>

NOTE 14 - FINANCIAL INSTRUMENTS

A. Financial instruments fair value:

The carrying amount of the Company's financial instruments equals or approximates their fair value.

B. Financial instruments according to category:

	For the Year ended December 31,	
	2018	2017
	Unaudited	Audited
Financial assets:		
Cash and cash equivalents	\$ 309,590	\$ 515,724
Restricted cash	26,698	49,053
Trade receivables and other current assets	2,081,208	407,120
	<u>\$ 2,417,496</u>	<u>\$ 971,897</u>
Financial liabilities:		
Current liabilities:		
Short term loan	\$ 148,165	\$ 197,215
Short term convertible loans	12,786,669	8,478,388
Trade payables and other current liabilities	3,718,336	995,352
	<u>\$ 16,653,170</u>	<u>\$ 9,670,955</u>

The accompanying notes are an integral part of the financial statements.

NOTE 14 - FINANCIAL INSTRUMENTS (Cont.)

C. Purposes of financial risk management:

The Company's finance department renders services for business operations, permits access to local and international financial markets, supervises and administers the financial risks related with the activities of the Company by means of internal reports which analyze the extent of exposure to risks according to their level and intensity. These risks include market risks (including foreign currency risk) and liquidity risk.

D. Market risk:

Foreign currency risk:

The Company's functional currency is the U.S. dollar. The Company's exposures to the fluctuations occurring in the rates of exchange between the U.S. dollar and the New Israeli Shekel result mainly from salaries and related expenses that are stated in NIS.

The Company acts to reduce the currency risk by means of holding its liquid resources in short-term deposits (NIS and USD).

During the year ended December 31, 2018, no change took place in the exposure to currency risk or in the manner in which the Company manages and measures the risk.

Sensitivity analysis of foreign currency:

As stated above, the Company is exposed mainly to the NIS currency since salaries and related expenses are stated in NIS.

The following table itemizes the sensitivity to an increase or a decrease of 10% in the relevant exchange rate. 10% is the rate of sensitivity representing the assessments of management with respect to the reasonable possible change in exchange rates. The sensitivity analysis includes current balances of monetary items denominated in foreign currency and conforms their translation at the end of the period to a change of 10% in foreign currency rates.

E. Management of credit risk:

Before receiving a new customer and during the year, the company conducts research on the financial strength of the customer and also requests the customer to provide credit references from other suppliers with whom the customer maintains business relations. In addition, the Company is examining the acquisition of a credit insurance policy for all of its customers.

Moreover, the Company holds cash and cash equivalents in various financial institutions. These financial institutions are located in Israel and the United States. Pursuant to the Company's policies, evaluations of the relative financial stability of the different financial institutions are performed on an on-going basis.

F. Liquidity risk:

Careful management of liquidity risk requires a sufficient cash balance to support operating activities. Management constantly analyzes cash balances, which comprised of cash and cash equivalents and assets at fair value through profit and loss. This analysis is based on forecasted cash flows, in accordance with policies and restrictions set by the Company.

NOTE 14 - FINANCIAL INSTRUMENTS (Cont.)

The accompanying notes are an integral part of the financial statements.

F. Liquidity risk: (Cont.)

The Company keeps a sufficient level of cash and cash equivalents, by taking into account the cash required for its operating activities, in order to reduce the liquidity risk, which the Company is exposed to.

NOTE 15- FAIR VALUE

Fair value hierarchy:

The table below presents an analysis of the financial instruments measured at fair value, using a valuation method:

The different levels were defined as follows:

- (1) Level 1: Quoted prices (unadjusted) in an active market for identical instruments.
- (2) Level 2: Data observed directly or indirectly that are not included in Level 1 above.
- (3) Level 3: Data not based on observable market data.

	Level 3	
	For the Year ended December 31,	
	2 0 1 8	2 0 1 7
	Unaudited	Audited
Balance as of December 31	8,478,388	5,274,898
Amounts received during the year	3,250,196	2,753,550
Changes in fair value	1,058,085	449,940
Balance as of December 31	<u>12,786,669</u>	<u>8,478,388</u>

In 2017, The fair value of the loans included in the level 3 categories above has been determined in accordance with generally accepted pricing models using a Monte Carlo simulation-based risk neutral valuation model with the most significant inputs being the fair value of the company's assets and their returns' volatility over time. using Monte Carlo simulation model. The inputs to the model include expected volatility, expected dividends, expected term and the risk free rate of interest. Monte Carlo simulations and the parameters were used to determine the ordinary share price to which it is expected to be converted.

In 2018, the fair value of the loans included in the level 3 categories above has been determined in accordance with the market share price upon the IPO in 2019 and revaluated accordingly.

NOTE 16 - TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

The accompanying notes are an integral part of the financial statements.

Compensation to key management personnel and interested parties:

	For the Year ended December 31,	
	2 0 1 8	2 0 1 7
	Unaudited	Audited
Salary and related expenses to key management personnel	1,098,225	638,600
Number of personnel to which benefit applies	9	5
Share based payment to interested parties and key management personnel	50,288	45,812
Number of personnel to which benefit applies	9	5

NOTE 17 - SUBSEQUENT EVENTS

During January 2019 the Company is completed an intial public offering in Australia, resulted in raising of \$12 milions USD.

The accompanying notes are an integral part of the financial statements.