

Novatti



2021 | ANNUAL
REPORT

FY21 PERFORMANCE HIGHLIGHTS

\$18.4m

Highest ever
total annual
revenue

+55%

Increase in annual
total revenue
year-on-year

\$16.5m

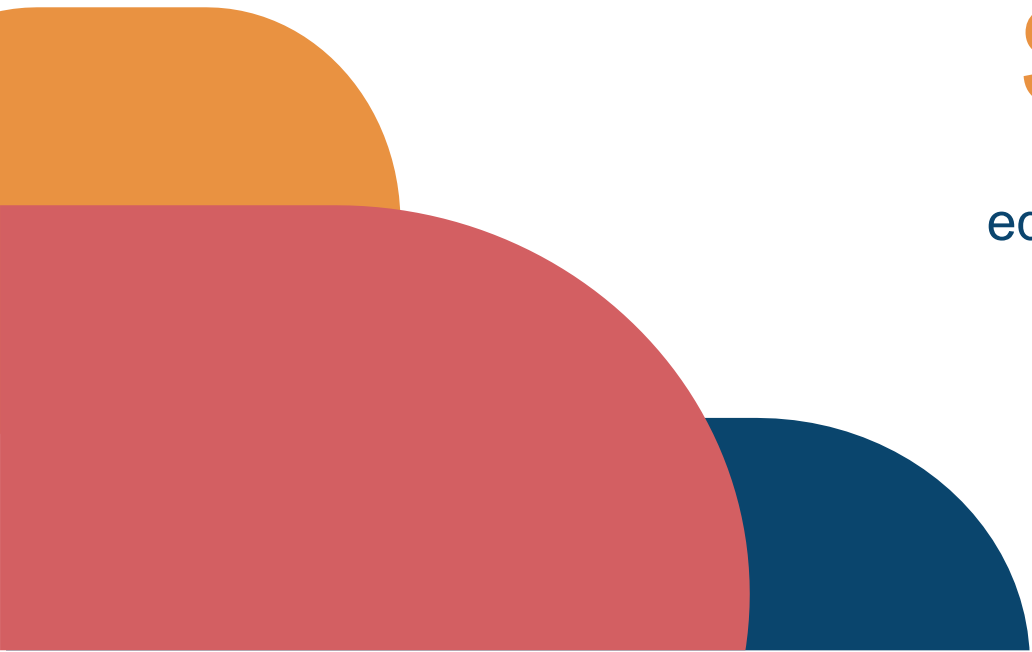
Highest ever
annual sales
revenue

+50%

Increase in annual
sales revenue
year-on-year

\$8.8m+

Cash and cash
equivalents available
at end of FY21



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Corporate Directory

Directors	Peter Pawlowitsch (Non-Executive Chairman) Peter Cook (Managing Director and Chief Executive Officer) Kenneth Lai (Non-Executive Director) Paul Burton (Non-Executive Director) Steven Zhou (Non-Executive Director)
Joint company secretaries	Ian Hobson Steven Stamboultgis
Registered office and principal place of business	Level 3, 461 Bourke Street, Melbourne VIC 3000 +61 3 9011 8490
Share register	Automic Registry Services 267 St Georges Terrace Perth WA 6000 +61 8 9324 2099
Auditor	William Buck Level 20 181 William Street Melbourne VIC 3000
Solicitors	Milcor Legal Level 1 6 Thelma Street West Perth WA 6005
Bankers	ANZ 388 Collins Street Melbourne VIC 3000
Stock exchange listing	Novatti Group Limited shares are listed on the Australian Securities Exchange (ASX code: NOV)
Website	www.novatti.com
Corporate Governance Statement	www.novatti.com/corporate-governance
Australian Financial Services Licence	AFSL No.448066
New Zealand Financial Services Provider	FSP613789
Financial Conduct Authority	FCA No. 900631 as an appointed representative of CFS-ZIPP Ltd (FCA No. 900027) for issuance of e-money products

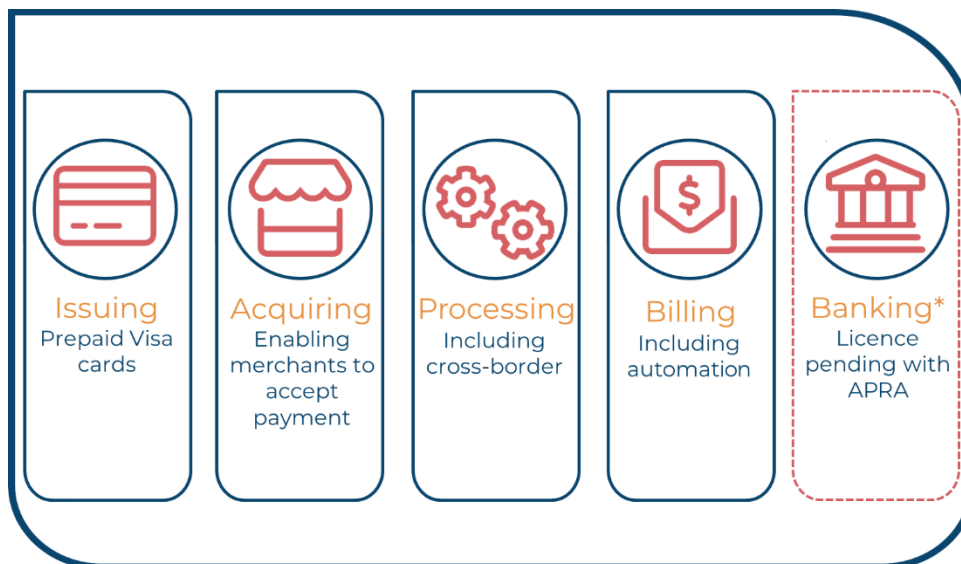
Novatti enables businesses to **pay and be paid**, from any device, anywhere.

From corner stores and startups to global organisations, our solutions will unlock your ambitions.

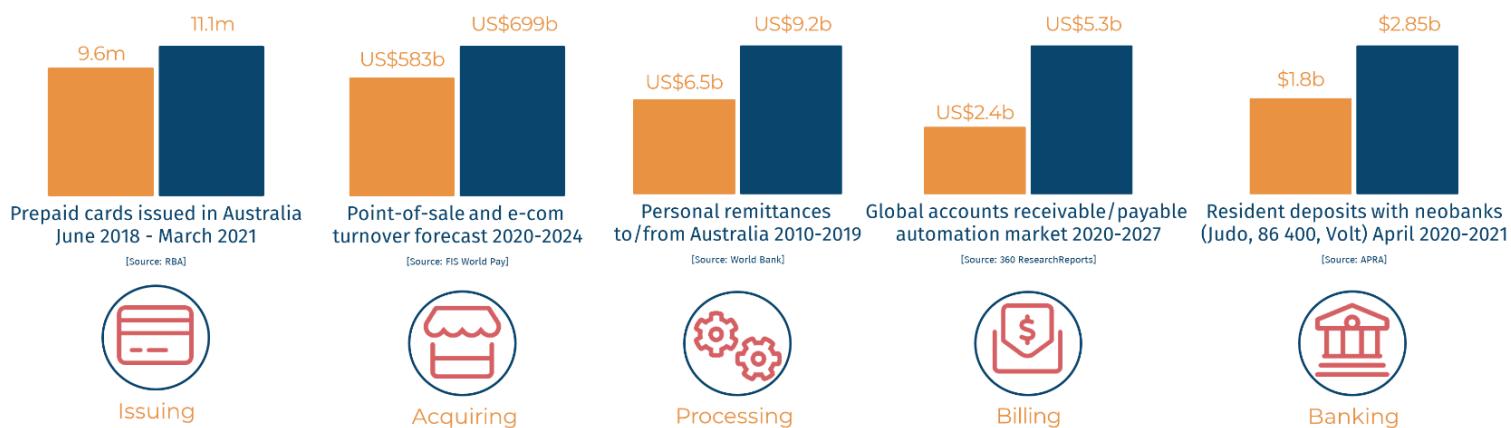


Strategy

Novatti's business covers the complete payments value chain, from issuing payment cards right through to planned banking services:



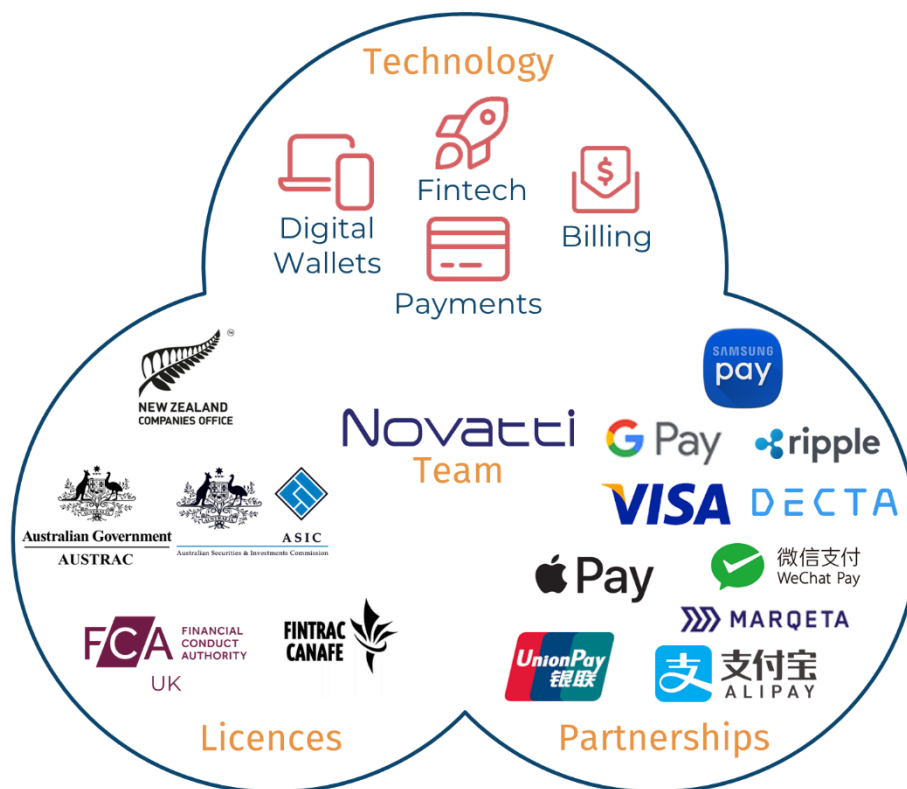
We do this not only to offer a unique value proposition to our partners, but to also capture the broad-based growth we are seeing across the key markets we operate in:



To capture this growth, Novatti leverages its leading B2B ecosystem, which combines:

- **Technology** – digital and mobile platforms
- **Licences** – opening jurisdictions and highlighting trust
- **Partnerships** – providing scale without substantial capital
- **Team** – most importantly, we have leading inhouse expertise

*Licence pending with APRA



This ecosystem is already trusted by a number of leading companies globally, including:



Across FY21, this ecosystem increasingly delivered results as businesses, and particularly fintechs, sought to leverage Novatti’s capabilities.

Novatti’s partnership with leading fintech, Afterpay, in New Zealand provides a case study of how quickly this ecosystem can be monetised:

- October 2020 – Achieved New Zealand regulatory approval
- January 2021 – Awarded licence by Visa to issue prepaid payment cards in that market
- April 2021 – Partnered with Afterpay

This case study highlights how in the space of six months since obtaining regulatory approval, Novatti was able to monetise this ecosystem in a new market.

Our strategy going forward will continue to focus on accelerating the expansion of this ecosystem, seeking to replicate the success of the Afterpay partnership in other markets.

Chairman's Report

I'm delighted to report on Novatti's performance for FY21, a year that can be considered transformational for the business.

While COVID-19 led to great disruption across society, it specifically led to multiple years' worth of technological disruption in the markets that Novatti operates in, but within a much, much shorter period than would have ever been previously predicted.

For example, in our issuing business, we witnessed the rapid adoption of digital wallets and virtual payment cards as consumers and merchants shied away from cash following concerns about the spread of COVID through physical currency. Likewise, the disruption to bricks and mortar retail following multiple lockdowns saw greater demand for online and mobile shopping, a trend we expect to continue.

All these disruptive trends are positive news for Novatti. Having spent the past years investing in the technology and solutions to enable payments from anywhere, we were ready for this change.

As a result, across the past year the ecosystem that we had built rapidly shifted from a development phase to a monetisation phase, particularly as both small and large fintechs leveraged our assets to bring new products to market and to ultimately pay and be paid.

This shift contributed to Novatti's strongest-ever, annual revenue results. Novatti delivered total annual revenue of \$18.4m and sales revenue of \$16.5m - both records.

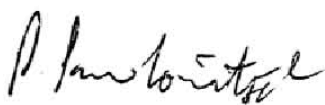
Importantly, Novatti's sales revenue has now grown by an average of 45% each year for the past three years. This is a metric we continue to value as we strive to deliver long-term growth in our business and ultimately for our shareholders.

With this ecosystem now established, we expect its monetisation to accelerate going forward, as more businesses seek to follow macro-level trends, leveraging technology to pay and be paid.

During FY21, Novatti's growth was assisted by the \$10m capital raising that we undertook at the start of the year. This enabled Novatti to launch a new strategy, which, among other things, included an accelerated international expansion that saw the launch of Emersion in the US. Heading into FY22, we have now completed a \$40m plus capital raising, which we will use to increase both our capabilities and ambitions with the aim of delivering even stronger growth going forward.

On behalf of the Board, I particularly want to thank all the Novatti team for their efforts during a challenging year, often disrupted by lockdowns and working remotely. Despite these challenges, you remained positive and focused on achieving Novatti's long-term goals. Novatti's success is a reflection of your creativity and hard work.

Thank you also to all our shareholders for your continued interest and partnership in our business. I look forward to continuing to share our growth journey with you.



Peter Pawlowitsch
Chairman



Managing Director's Report

FY21 was a year of tremendous growth for Novatti. Across the year, our business, capabilities, and team all grew to position us to capture the wave of disruption facing the payments industry, particularly the shift to digital payments following COVID-19.

The year started with Novatti undertaking a \$10m capital raising, with these funds then applied across the year to deliver a new growth strategy. Achievements flowing from this included:

- New tier-one partnerships with Apple Pay, Google Pay, Samsung Pay, and UnionPay
- Obtaining regulatory approval in New Zealand and then partnering with Afterpay
- Expanding our team, particularly in business development
- Launching our new acquiring business, enabling merchants to accept payments
- Integrating with Ripple with transactions taking place in the Philippines
- Successfully launching Emersion in the US
- Securing funding commitments and a strategic partner for the new banking business



These achievements helped strengthen Novatti's ecosystem, which includes our technology, licences, partnerships, and team. This ecosystem is central to capturing growth in key markets, as businesses seek a partner to pay and be paid.

Within this ecosystem, I want to particularly highlight the investment we've made in our team over the past year, which grew from 65 to 128. This team enables Novatti to develop new solutions, open new markets, and facilitate our long-term growth. It is exciting to see the best talent in the fintech industry choosing Novatti to further their career, particularly in such a competitive market. We welcome all those team members who have joined us!

The Novatti team has no doubt been integral in accelerating the monetisation of Novatti's ecosystem. In the March quarter we saw new fintech players, like Lifepay and LITT, leverage this ecosystem to bring their products to market. Fast forward to the June quarter and we saw a leap forward when leading fintech Afterpay chose Novatti as its partner in New Zealand.

All these achievements flowed into Novatti delivering its strongest-ever annual revenue results, with \$18.4m in total revenue, including \$16.5m in sales revenue. Both results were around a 50% increase on the previous financial year.

The strong momentum we carry into FY22 will be furthered by the \$40m-plus capital raising we undertook at the start of FY22. With this capital raising complete, we will also seek to:

- Increase our presence in existing markets as well as entering new markets such as the EU and Singapore, replicating the success of monetising our ecosystem model in New Zealand
- Pursue a range of acquisition opportunities
- Open new opportunities to explore synergies with Reckon Limited, following the acquisition of our 19.9% strategic stake
- Achieve regulatory approval for our new banking business
- Obtain acquiring licences from both Visa and Mastercard to extend our services and bring through larger opportunities

I sincerely thank our team and our investors for your ongoing support of Novatti. While we are incredibly proud of our FY21 results, we are equally excited about what Novatti seeks to achieve in the years ahead, starting with FY22.

A handwritten signature in black ink, appearing to read 'Peter Cook'. The signature is stylized and cursive.

Peter Cook
Managing Director

Director Profiles

Peter Pawlowitsch

Non-Executive Chairman
BCom, CPA, MBA, FGIA

- Extensive experience as a director and officer of ASX-listed entities
- Non-Executive Chairman of Family Zone Cyber Safety (**ASX:FZO**) and Director of Dubber (**ASX:DUB**) and VRX Silica (**ASX:VRX**)
- Experience in operational management, business administration and project evaluation in the IT, hospitality and mining sectors across past 15 years

Peter Cook

Managing Director and Chief Executive Officer
BSc, Grad Dip Computing, Grad Dip Securities, GAICD

- Over 25 years' experience as a director and executive with multiple companies
- Former Non-Executive Director and Deputy Chairman of Senetas Corporation (**ASX:SEN**)
- Founded and led multiple telco and payments companies, including Unidial Pty Ltd and Ezipin Canada Inc

Paul Burton

Non-Executive Director
Chartered Accountant

- Over 14 years of leadership experience in the payments industry
- Previously CEO of Datacash Group Plc, a payments gateway company bought by MasterCard

Kenneth Lai

Non-Executive Director
Bachelor of Science (Computer Science)

- Over 14 years of leadership experience in the payments industry
- Managing Director and owner of Prestige Team Limited, an investment company with a portfolio in Hong Kong and Southeast Asia
- Prestige Team Limited has interests in real estate, payment processing, digital marketing and information technology support services

Steven Zhou

Non-Executive Director

- Experienced executive with payments industry experience in both Australia and China
- Founder of Lifepay Pty Ltd and other fintech startups

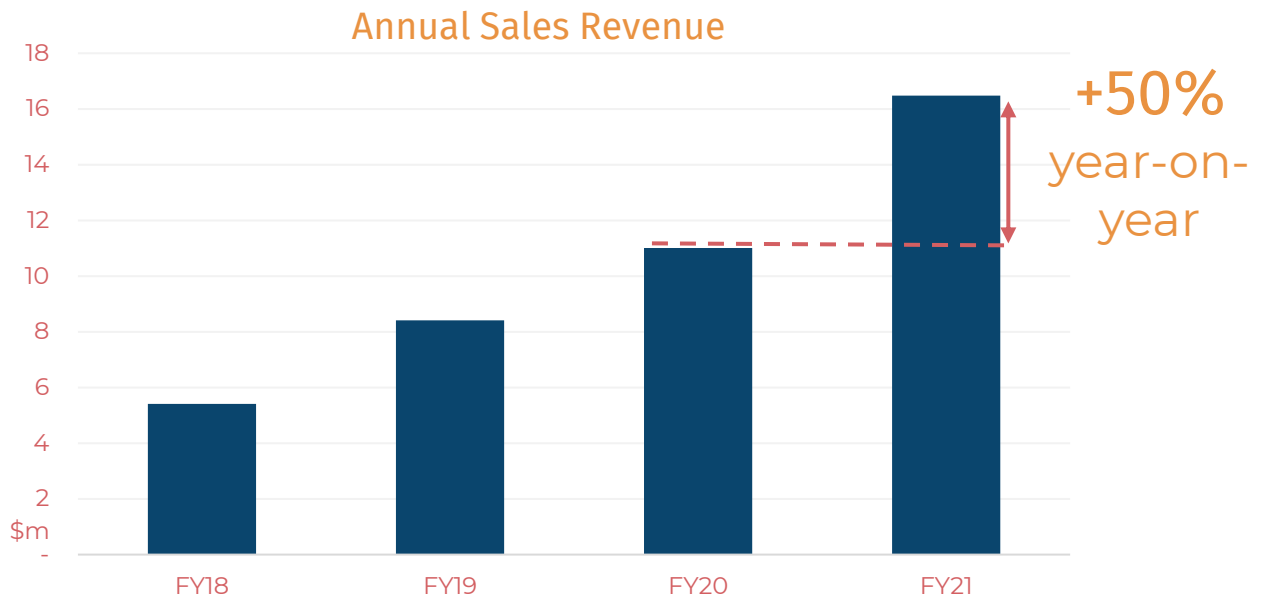
Review of Operations

Financial results

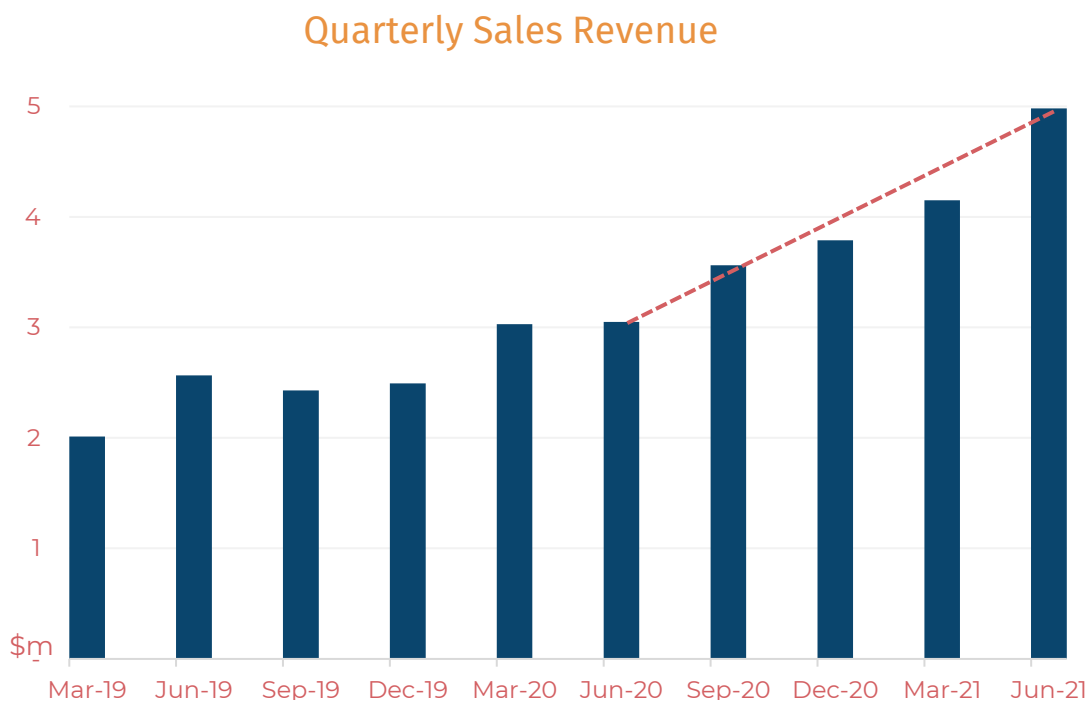
Revenue

Novatti delivered total annual revenue of \$18.4m, including annual sales revenue of \$16.5m, both records and both up around 50% on the previous financial year.

Across the last three financial years, Novatti has now grown sales revenue by an average of 45% each year.

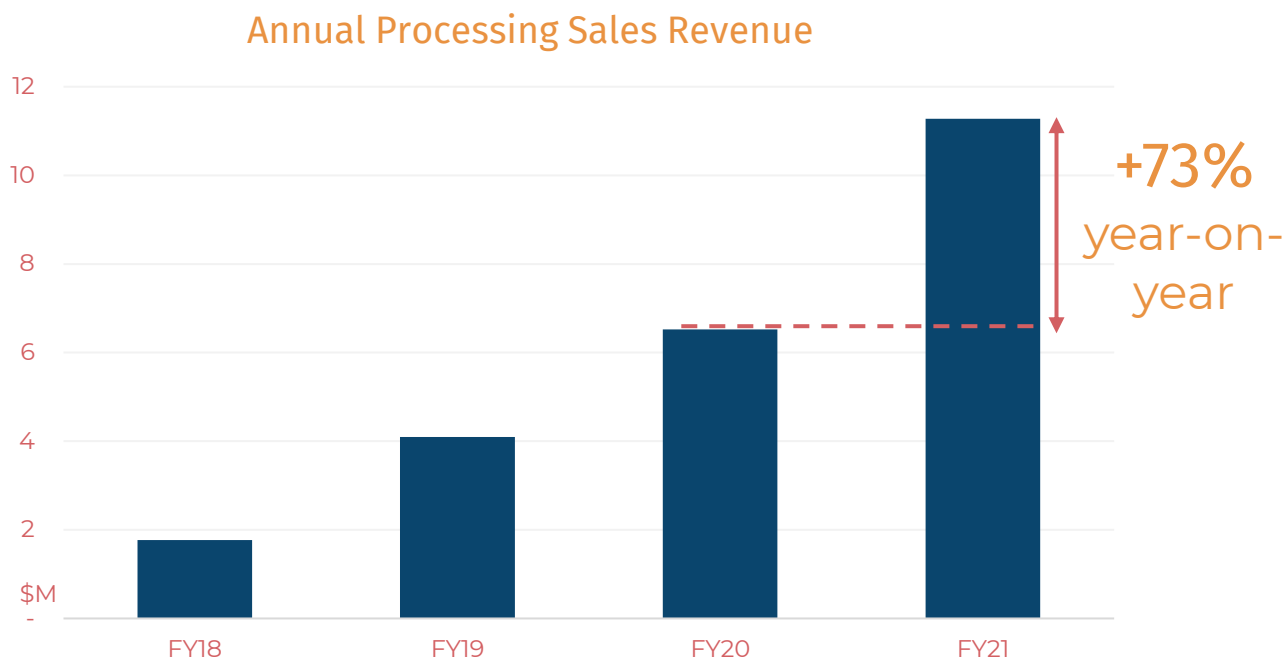


In a particularly pleasing result, Novatti achieved record sales revenue across each quarter in FY21, highlighting the consistent growth in the business. This included \$4.9m in sales revenue for the June quarter, an increase of 63% year-on-year.



Novatti's core payment processing business continued to support this broad-based growth. This business has now delivered nine consecutive quarters of record sales revenue, including more than \$3.9m in the June quarter, an 87% increase year-on-year.

In total, Novatti's processing business generated nearly \$11.3m in sales revenue in FY21, a 73% increase on the previous financial year.



Cash flow

Consistent with previous years, Novatti prioritised its cashflow for growth in FY21.

Across the year, Novatti invested heavily in the expansion of its ecosystem, including acquiring further regulatory licences, investing in compliance management, increasing business development resourcing and, most importantly, its team.

The investment in Novatti's team is particularly important as it enables the development of new solutions, opening of new markets, maintaining high levels of compliance management and facilitating Novatti's long-term growth. In FY21, Novatti's team grew from 65 to 128, which resulted in employee benefits increasing 41% on the previous financial year to \$15.9m.

In addition, investment in security deposits increased by \$1.8m to facilitate new lines of business and new market entry.

Expenditure remained targeted in areas that facilitate growth. Elsewhere, Novatti's management remained firmly focused on increasing efficiency.

Along with a change in the fair value of an existing convertible note, this increase in growth expenditure was the main contributor to a 7.8% increase in Novatti's loss after income tax expense on the previous financial year to \$11.8m. Underlying EBITDA increased by 23% to a loss of \$4.3m.

Importantly, these results came at the same time that Novatti's increased sales revenue by nearly 50%.

Novatti finished FY21 with cash of \$8.8m, before taking into account the \$40m plus capital raising announced at the beginning of FY22. This represents a substantial strengthening on the \$2.6m in cash held from the end of FY20.

Going forward, Novatti will continue to prioritise its cashflow towards the delivery of its expanded growth strategy.

Fundraising

During the financial year, Novatti successfully raised \$13m from the issue of shares.

The first capital raising of \$10.2m took place at the beginning of FY21, and enabled Novatti to accelerate its then growth strategy, with a particular focus on:

- Increasing business development resources
- Acquiring new Visa card issuing programs
- Securing new strategic, global partnerships
- Fast-tracking Novatti's integration into other payment networks.

The achievements that flowed from this new strategy are discussed in the Operations section below.

In addition, during the June quarter Novatti secured an investment of \$3m through a placement of 6.38m ordinary shares (at a price of \$0.439) to a BC Investment Group Holdings Ltd (BC Invest) led consortium. This followed a \$2m investment by BC Invest into Novatti's dedicated banking subsidiary, Novatti B Holding Co Pty Ltd, as part of a seed-funding round to acquire a 19.9% share of that subsidiary.

At the completion of FY21, Novatti had 244.2m ordinary, fully paid shares issued.

Since the end of FY21, Novatti has also completed a \$40m plus capital raising. Following the success of the growth strategy that followed Novatti's \$10m capital raising at the start of FY21, this capital raising will enable the launch of an expanded growth strategy to:

- Increase its presence in existing markets as well as entering new markets such as the EU and Singapore, replicating the success of our ecosystem model in New Zealand
- Pursue a range of acquisition opportunities
- Open new opportunities to explore synergies with Reckon Limited, following the acquisition of our 19.9% strategic stake



Operations

FY21 was another transformational year for Novatti's operations, which greatly increased in both scope and global reach.

Highlights across the year included:

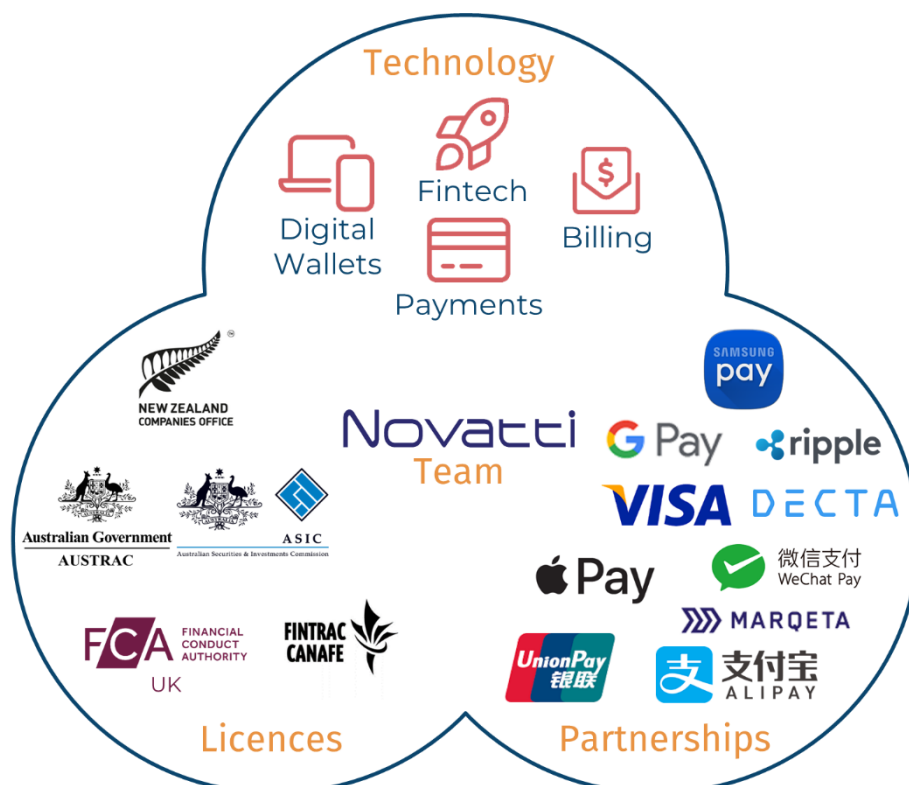
- Forming new partnerships with global payments leaders including Apple Pay, Google Pay, Samsung Pay, and UnionPay
- Obtaining regulatory approval and then partnering with Afterpay to issue Visa prepaid cards in New Zealand
- Expanding business development resources
- Launching Novatti's new acquiring business, enabling merchants to accept payments online and through mobile
- Integrating with Ripple with transactions taking place in the Philippines
- Successfully launching Emersion in the US
- Securing funding commitments and a strategic partner to launch and operate its new banking business, once regulatory approval is obtained

Ecosystem shifts from development to monetisation

Novatti has spent the past years methodically developing an ecosystem that can be leveraged by business to bring new products to market and for businesses to pay and be paid.

This ecosystem is central to Novatti's growth strategy and focuses on:

- **Technology** – digital and mobile platforms
- **Licences** – opening jurisdictions and highlighting trust
- **Partnerships** – providing scale without substantial capital
- **Team** – leading inhouse expertise



New tier-one partnerships

Across FY21, Novatti secured a number of new partnerships with tier-one, global payments leaders to further its ecosystem, including:

- Apple Pay
- Google Pay
- Samsung Pay
- UnionPay International
- Ripple

These partnerships all enable Novatti to provide scale to its ecosystem without the commitment of substantial capital.

International expansion

New Zealand

In January, Novatti announced that it had been licenced by Visa to issue prepaid cards in New Zealand. This followed Novatti obtaining necessary approvals from New Zealand's regulators to launch its card issuing business in that market in October 2020.

United States of America

In March, Novatti's cloud-based subscriber billing, business automation and payments platform, Emersion, successfully launched in the United States of America (US).

Emersion automates end-to-end business processes, including customer engagement, billing, collections, subscription management and embedded payments, improving customer cashflow, lowering costs, and freeing-up businesses to focus on their customers. It is already available across Australia, New Zealand and Singapore, with the US launch marking the next step in its international expansion.

The global managed services market that Emersion operates in is expected to grow by nearly 50% between 2020 and 2025 to US\$329b.¹ With the North American market being many times the size of the Australia-New Zealand market, this highlights the enormous growth opportunity that this US launch presents for Novatti.

Emersion's customer acquisition in the US will be aided by its launch last year on global business app marketplace, Salesforce AppExchange. It will also be available through other major customer acquisition platforms, including ConnectWise Marketplace.

Philippines

In April, Novatti's partnership with global payment disrupter, Ripple, went live with revenue-generating transactions taking place.

Ripple uses its decentralised, global financial network, RippleNet, to provide its partners with the ability to process global payments instantly, as well as providing access to emerging, high-growth capabilities, such as blockchain and the digital asset, XRP, a top 10 global cryptocurrency currently valued at more than USD\$52 billion.²

After targeting cross-border transactions between Australia and the South-East Asia region, Novatti achieved its first monetisation of the partnership by processing cross-border transactions for a leading remittance provider in the Philippines.

This alone is expected to result in several thousand transactions a month being processed by Novatti through Ripple's payments network. Importantly, discussions are also underway to add further clients to this service, including in Thailand.

¹ See https://www.marketsandmarkets.com/Market-Reports/managed-services-market-1141.html?gclid=CjwKCAjwxuuCBhATEiwAIIz0Qj4A3xzdChcYUrAatEXxNhQ4jW-_mbhd1-Wk_Qwr0qnYsyceJhkBxoCEpMQAvD_BwE

² See: <https://bravenewcoin.com/data-and-charts/assets/XRP/price-summary>

Growing monetisation

In the March quarter, new fintech players, like Lifepay and LITT, leveraged Novatti's ecosystem to bring new products to market. In the June quarter, this progress took a leap forward when Afterpay chose Novatti as its partner to deliver its payment card program in New Zealand.

Afterpay is listed in the S&P/ASX 20, and has revolutionised the way that consumers pay for goods and services. It has grown into a leading international player in the Buy Now Pay Later (BNPL) sector, with over 14 million active customers globally.³

As part of this partnership between Novatti and Afterpay, Novatti will leverage its licence with Visa to enable Afterpay to issue Visa card solutions in New Zealand. This includes enabling Afterpay's users to access Afterpay-branded payment cards in their digital wallet for use at participating merchants across New Zealand.

The initial agreement is for three years and Novatti will receive project setup, monthly recurring and, depending on the take up of the service, transaction-based fees.

Continued investment in new markets

Novatti's partnership with Afterpay in New Zealand highlighted that once regulatory approval to operate in a particular jurisdiction is obtained, Novatti is able to monetise this investment quickly.

This is a model that Novatti believes it can replicate in other jurisdictions, unlocking new addressable markets. Work here is already underway, with Novatti applying for:

- European Union (EU) – E-money Licence: which would enable Novatti to issue a range of financial products in the EU
- Singapore - Major Payment Institution Licence: which would enable Novatti to provide payment services without being subject to specified thresholds

In seeking to capture a share of these new addressable markets, Novatti would leverage its existing customer and contact network in both regions, including through Emersion, which has operated in Singapore for several years.

Launch of new Digital Payments Accelerator

In the September quarter, Novatti extended the capabilities of its ecosystem with the launch of its Digital Payments Accelerator.

This initiative enables participants to leverage Novatti's ecosystem without the need to commit substantial upfront capital for key assets like technology and licences. It meets the needs of:

- Startups and innovators looking to bring their fintech and financial products to market through an affordable, API driven, Visa card payments program
- Established businesses needing access to an affordable, off-the-shelf, Visa payments solution to meet growing market demand for these facilities

Novatti will receive program development fees and ongoing processing fees based on transaction volumes for access to this program.

³ See Afterpay - https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02365019-3A565515?access_token=83ff96335c2d45a094df02a206a39ff4

New banking business launch ready

Developing a new banking business remains a key pillar of Novatti's long-term growth strategy. In addition to presenting an exciting opportunity in its own right, this new business also presents an opportunity to provide value-add to Novatti's existing, established businesses.

The timing to pursue this opportunity strongly aligns with the momentum of fintechs succeeding within Australia's banking sector. For example, recent data from the Australian Prudential Regulation Authority (APRA) highlighted that Australians are voting with their feet in backing new fintech, banking challengers, with the resident deposits of three existing players (Judo, 86 400, Volt) having increased to nearly \$3b, up more than 60% since April 2020.⁴

These challengers are seeing strong backing from the investment community. Judo's valuation has increased to \$1.9b following its latest capital raise.⁵ It was also recently announced that 86 400 will be acquired for more than \$200m by 'big four' bank NAB.⁶

Furthering the momentum in this sector, APRA recently issued the first new banking licence since December 2019.⁷ This follows APRA having put the approval of new licence applications, including Novatti's, on hold during COVID.

Novatti welcomes this process restarting and will now seek to achieve regulatory approval for this new business before the end of November 2021.

During the June quarter, Novatti also secured a strategic partnership with BC Investment Group Holdings Limited (BC Invest), which will enable Novatti's new banking business to launch and operate once APRA's approval is obtained. BC Invest brings not only strong financial services capabilities, which will be invaluable in bringing income-generating products, such as lending products, to market, but also strong customer acquisition channels.

BC Invest invested \$2m into Novatti's dedicated banking subsidiary, as part of a seed funding round, to acquire a 19.9% share of this subsidiary. This subsidiary has also received interest for a further \$13m in investment as part of a Series A funding round, at a post-money valuation of \$35m. Post the Series A round, Novatti and BC Invest will own 57% and 19% of this dedicated banking subsidiary.

This strategic partnership marked another major milestone in the development of this new banking business and aligns with the strong momentum in this sector more broadly.

Successful exit from SendFX investment

During the September quarter, Novatti successfully exited its investment in SendFX, with \$900k in further funds unlocked.

SendFX was launched in 2019 as a new cross-border payments platform, targeting individuals and small businesses. Novatti was a seed investor in SendFX, providing equity and debt funding and technology and compliance services.

This successful exit is an example of Novatti using its strong inhouse expertise to commercialise high-growth ideas.

⁴ See APRA Monthly Authorised Deposit-taking Institution Statistics - <https://www.apra.gov.au/monthly-authorised-deposit-taking-institution-statistics>

⁵ Australian Financial Review – *Judo raises fresh capital as valuation surges 19pc* – 21 June 2021

⁶ Australian Financial Review – *NAB scoops up neobank 86 400* – 29 January 2021

⁷ APRA – News – *APRA grants new restricted authorised deposit-taking institution licence to Alex Bank* – 7 July 2021

Novatti Group Limited
Directors' report
30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Novatti Group Limited (referred to hereafter as the 'Company', 'Novatti' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

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

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

Principal activities

Novatti Group Limited is a leading fintech that enables businesses to pay and be paid, from any device, anywhere. Solutions include issuing, acquiring, processing, and billing, while the Group has also applied to APRA for a restricted banking licence.

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$11,843,000 (30 June 2020: \$10,960,000).

Despite the challenges of COVID-19, the Group's revenue increased by 49.8% to \$16,482,000 (30 June 2020: \$11,004,000). The Group's underlying EBITDA* changed from a \$3,467,000 loss in the prior year to a loss of \$4,280,000, reflecting an increase of 23%.

During the financial year, the Group successfully raised \$13 million (before costs) through two placements to institutional and sophisticated investors. The net asset position improved by \$9,384,000 to \$8,898,000 as at 30 June 2021 (30 June 2020: deficit of \$486,000), with \$8,798,000 held in cash and cash equivalents.

*Underlying EBITDA is a non-IFRS measure calculated as profit before income tax, and before depreciation and amortisation, share based payments, net finance costs, due diligence costs, gain on embedded derivative and impairment of capitalised bank licensing costs. The Company believes this non-IFRS and operational measure is useful in monitoring and understanding the Group's business and they should not be considered in isolation nor as a substitute for IFRS measures.

Novatti Group Limited
Directors' report
30 June 2021

	2021 \$'000	2020 \$'000	Change \$'000	Change %
Net loss from operations	(11,843)	(10,960)	(883)	8%
Add:				
Interest	(35)	(9)	(26)	289%
Less:				
Depreciation and amortisation	1,481	906	575	63%
Finance charges	1,507	1,367	140	10%
Indirect tax expenses	29	157	(128)	(82%)
EBITDA	(8,861)	(8,539)	(322)	4%
Add back/(less)				
Vesting of share-based payments	2,087	1,332	755	57%
Investments at fair value through profit and loss	(366)	-	(366)	-
Loss on embedded derivative	2,860	727	2,133	293%
Impairment of capitalised bank licensing costs	-	3,013	(3,013)	(100%)
Underlying EBITDA*	(4,280)	(3,467)	(813)	23%
Cash	8,798	2,600	6,198	238%
Operating cash flow	(5,399)	(1,236)	(4,163)	337%

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

Significant changes in the state of affairs

On 3 July 2020, the Group issued 875,000 fully paid ordinary shares on conversion of 175,000 Novatti Group Limited Convertible Notes (4 for 1) and the exercise of 175,000 unlisted options exercisable at \$0.25 per share.

On 7 July 2020, the Group issued 40,000,000 ordinary shares at \$0.25 per share to institutional and sophisticated investors in a placement as announced on 29 June 2020, raising \$10 million. An additional 800,000 shares totalling \$200,000 were issued to Directors Peter Pawlowitsch and Peter Cook on 15 September 2020 following shareholder approval at the General Meeting held on 19 August 2020.

On 8 July 2020, the Group announced that it had exited its investment in cross-border payments provider, SendFX, and ended its provision of ongoing technology and compliance services. Under its exit, the Group received \$900,000 in cash during the year, representing payment for the buy-back of Novatti's shareholding, plus repayment of loan funds from an aggregate cash investment by Novatti of \$400,000.

On 10 July 2020, the Group issued 5,000,000 unquoted options to employees under the Employee Share Options Plan (ESOP), exercisable at \$0.20 (20 cents) with various vesting and expiry dates.

On 15 September 2020, the Group issued the following securities:

- 200,000 fully paid ordinary shares at \$0.25 per share to service providers in lieu of investor relations and structuring advice; and
- 7,000,000 unquoted options in lieu of investor relation service fees, vesting immediately on issue. The options are exercisable at \$0.25.

On 5 November 2020, the Group issued 51,038 fully paid ordinary shares on cashless exercise of 166,667 unquoted options.

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On 3 December 2020, the Group issued 2,500,000 unquoted options to Mr Peter Cook, Managing Director and Chief Executive Officer. This issuance was approved by shareholder at the Annual General Meeting held on 25 November 2020. These options will be vest in three tranches subject to achieving market vesting conditions. The options are exercisable at \$0.27, expiring 30 November 2024. These market conditions were subsequently achieved and thus these options were vested.

On 9 December 2020, the Group issued 20,000 fully paid ordinary shares at \$0.20 per share on exercise of unquoted options, raising \$4,000.

On 22 December 2020, the Group issued the following securities under the Group's Employee Share Option Plan (ESOP):

- 3,600,000 unquoted options exercisable at \$0.275 (27.5 cents), expiring 22 December 2023; and
- 2,000,000 unquoted options exercisable at \$0.30 (30 cents), expiring 14 October 2023.

On 26 February 2021, the Group issued the following securities:

- 844,811 fully paid ordinary shares on conversion of 207,500 Novatti Group Limited Convertible Notes (4 for 1) and compound interest of 14,811;
- 55,000 fully paid ordinary shares on conversion of 55,000 unlisted options exercisable at \$0.25 per share, expiring 30 October 2022; and
- 225,000 fully paid ordinary shares at \$0.20 per share on exercise of unquoted options, expiring 19 December 2022, raising \$45,000.

On 19 March 2021, the Group issued the following securities:

- 406,332 fully paid ordinary shares on conversion of 90,000 Novatti Group Limited Convertible Notes (4 for 1) and compound interest of 46,332;
- 90,000 fully paid ordinary shares on conversion of 90,000 unlisted options exercisable at \$0.25 per share;
- 25,000 fully paid ordinary shares at \$0.20 per share on exercise of unquoted options, raising \$5,000; and
- 115,163 fully paid ordinary shares to service providers in lieu of consulting fees.

On 24 March 2021, the Group issued the following securities:

- 1,660,000 fully paid ordinary shares on conversion of 415,000 Novatti Group Limited Convertible Notes (4 for 1); and
- 250,000 fully paid ordinary shares on conversion of 250,000 unlisted options exercisable at \$0.25 per share.

On 23 April 2021, the Group issued the following securities:

- 1,618,032 fully paid ordinary shares on conversion of 380,000 Novatti Group Limited Convertible Notes (4 for 1) and compound interest of 98,032;
- 180,000 fully paid ordinary shares on conversion of 180,000 unlisted options exercisable at \$0.25 per share; and
- 30,000 fully paid ordinary shares at \$0.20 per share on exercise of unquoted options raising \$6,000.

On 13 May 2021, the Group issued 6,833,713 ordinary shares at \$0.439 per share to sophisticated investors in a placement, as announced on 3 May 2021, raising \$3 million.

On 21 May 2021, the Group issued the following securities:

- 190,000 fully paid ordinary shares on conversion of 47,500 Novatti Group Limited Convertible Notes (4 for 1); and
- 55,000 fully paid ordinary shares at \$0.20 per share on exercise of unquoted options, raising \$11,000.

On 28 May 2021, the Group issued following unquoted options to employees under the Employee Share Options Plan (ESOP):

- 100,000 unlisted options exercisable at 75 cents, expiring 5 May 2024;
- 200,000 unlisted options exercisable at 30 cents, expiring 8 February 2024;
- 100,000 unlisted options exercisable at 60 cents, expiring 7 April 2024;
- 300,000 unlisted options exercisable at 30 cents, expiring 5 April 2024;
- 400,000 unlisted options exercisable at 75 cents, expiring 31 May 2024;
- 1,000,000 unlisted options exercisable at 30 cents, expiring 26 October 2023.

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On 28 May 2021, the Group issued 500,000 shares on exercise of options at \$0.25 per share to raise \$125,000.

On 4 June 2021, the Group issued the following securities:

- 1,381,084 fully paid ordinary shares on conversion of 300,000 Novatti Group Limited Convertible Notes (4 for 1) and compound interest of 181,084;
- 300,000 fully paid ordinary shares on conversion of 300,000 unlisted options exercisable at \$0.25 per share.

On 11 June 2021, the Group issued 1,125,153 fully paid ordinary shares on conversion of 267,500 Novatti Group Limited Convertible Notes (4 for 1) and compound interest of 55,153.

On 18 June 2021, the Group issued 1,162,500 shares on exercise of options at \$0.25 per share to raise \$290,625.

On 30 June 2021, the Group entered into share purchase agreements for the acquisition, subject to completion of a capital raising, of an equity interest of at least 15% in ASX-listed Reckon Limited (ASX:RKN) (Strategic Stake).

Under the share purchase agreements, Novatti will acquire the Strategic Stake at a price of \$1.00 per Reckon share from institutional investors for a total amount of approximately \$17 million (representing approximately 17 million Reckon shares).

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

Matters subsequent to the end of the financial year

The impact of Coronavirus (COVID-19) pandemic is ongoing and while there have been mixed financial and operational impacts for the Consolidated Entity up to 30 June 2021, it is not practical to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 2 July 2021, Novatti launched a \$45 million capital raising under a \$40 million placement and a \$5 million share purchase plan to expand its presence in existing markets, enter new markets, and acquire a 19.9% interest in Reckon Limited (ASX:RKN).

On 9 July 2021, Novatti completed Tranche 1 of its capital raising, by issue of 51,120,472 fully paid ordinary shares at \$0.55 per share, raising \$28,116,260 before costs.

On 13 July 2021, Novatti completed its previously announced acquisition of a 19.9% interest in Reckon Limited (ASX:RKN) by payment of \$22.5 million for acquisition of 22.5 million shares in Reckon and associated costs.

During July 2021, Novatti issued 6,080,000 fully paid ordinary shares upon conversion of 1,520,000 convertible notes (4 for 1). On 4 August 2021, Novatti settled the remaining 97,500 convertible notes by way of repayment or redemption and had no further convertible notes on issue.

On 6 August 2021, Novatti completed the share purchase plan and issued 452,742 fully paid ordinary shares at \$0.55 raising \$249,000 before costs.

On 20 August 2021, Novatti held a General Meeting for the ratification of shares issued prior and for the adoption of the 2021 Novatti Employee Incentive plan, and approval for issue of shares for Tranche 2 of the capital raising. On August 27 2021, Novatti completed Tranche 2 of the capital raising by the issue of 21,606,801 fully paid ordinary shares at \$0.55 per share, raising \$11,883,740 before costs.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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Likely developments and expected results of operations

The Group will continue its principal activities of enabling businesses to pay and be paid, from any device, anywhere with solutions including issuing, acquiring, processing, and billing.

The capital raising initiative of over \$40 million as announced on 2 July 2021 will enable Novatti to drive additional growth, including continuing our investment in the bank licence and accessing M&A opportunities.

As part of its expanded growth strategy, Novatti will use the year ahead to seek to:

- Achieve regulatory approval for its new banking business before the end of November 2021
- Unlock new addressable markets, such as the EU and Singapore, through new licencing, replicating the success of Novatti's recent regulatory approvals and partnership with Afterpay in New Zealand
- Obtain acquiring licences from both Visa and Mastercard by the end of September 2021, enabling Novatti to extend its acquiring services and bring through larger business opportunities

Environmental regulation

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

Information on directors

Name: Peter Pawlowitsch
Title: Non-Executive Chairman
Qualifications: BCom, CPA MBA, FGIA
Experience and expertise: Peter is an accountant by profession, with extensive experience as a director and officer of ASX-listed entities. He brings to the team experience in operational management, business administration and project evaluation in the IT, hospitality and mining sectors gained during the last 15 years
Other current directorships: Non-Executive Chairman, Family Zone Cyber Safety Ltd (ASX: FZO)
Non-Executive Director, VRX Silica Ltd (ASX: VRX)
Executive Director, Dubber Corporation Ltd (ASX: DUB)
Non-Executive Director, Knosys Ltd (ASX: KNO)
Former directorships (last 3 years): Non-Executive Director, Rewardle Holdings Limited (ASX: RXH)
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: 3,582,662 fully paid ordinary shares
Interests in options: 2,166,667 unlisted options

Name: Peter Cook
Title: Managing Director and Chief Executive Officer
Qualifications: BSc, Grad Dip Computing, Grad Dip Securities, GAICD
Experience and expertise: Peter has over 25 years of experience as a director and executive with companies including Coopers & Lybrand (now PWC), Catsco Pty Ltd and Advanced Network Management Pty Ltd (Telstra joint venture company) and many start-up technology companies. Peter's career has been largely based on founding and leading multiple telecommunications and payments companies. Unidial Pty Ltd and Ezipin Canada Inc. are such examples and all with successful exits to private and public companies. Peter was a non- executive Director and Deputy Chairman of ASX-listed Senetas Corporation Limited from June 1999 to January 2006
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: 11,507,904 fully paid ordinary shares
Interests in options: 6,666,667 unlisted options

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

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: 13,116,118 fully paid ordinary shares
Interests in options: 666,667 unlisted options

Name: Paul Burton
Title: Non-Executive Director
Qualifications: B.Com, B. Accounting Science (honours), Chartered Accountant
Experience and expertise: Paul has over 14 years of leadership experience in the payments industry and was the CEO of Datacash Group Plc, a payments gateway company bought by MasterCard. Datacash had a significant presence in Africa and Paul steered the Company's expansion in that market.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chair of Audit, Risk and Compliance Committee
Interests in shares: 263,158 fully paid ordinary shares
Interests in options: 666,667 unlisted options

Name: Steven Zhou
Title: Non-Executive Director
Qualifications: BSc, Grad Dip Computing, Grad Dip Securities, GAICD
Experience and expertise: Steven is an experienced executive with payments industry experience in both China and Australia. Steven has recently aided Novatti in a number of deals involving new business operations between Australia and China.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of Audit, Risk and Compliance Committee
Interests in shares: None
Interests in options: 666,667 unlisted options

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

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

Company secretaries
Ian Hobson

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

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Steven Stamboultgis

Steven was appointed Company Secretary on 15 March 2021 and is the Chief Financial Officer of the group. Steven holds a Bachelor of Business Degree and Master in Commercial Law. He is a Certified Practising Accountant.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Full Board		Audit, Risk and Compliance Committee	
	Attended	Held	Attended	Held
Peter Pawlowitsch	7	7	2	2
Peter Cook	7	7	2	2
Kenneth Lai	6	7	-	2
Paul Burton	7	7	2	2
Steven Zhou	4	7	-	2

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

Remuneration report (audited)

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

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

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

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

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

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

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

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

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

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

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. For the FY21 financial period there was no advice from independent remuneration consultants. The Chairman's fees are determined independently to the fees of other non-executive directors based on similar roles in the external market. The Chairman is not present at any discussions relating to the determination of his remuneration. Non-executive directors do receive share options.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The total maximum remuneration of non-executive directors was set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The maximum remuneration has been set at an amount not to exceed \$500,000. The current level of fees was approved at the Group's 27 November 2018 Annual General Meeting.

Executive remuneration

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

Remuneration policies and arrangements for the Key Executive Members of the Group including the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer are reviewed by the Board and with the targets outside of the Chief Executive Officer being set by the Board.

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

The executive remuneration and reward framework can have four components:

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

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

Short Term Incentive program (STI)

The STI program awards a cash bonus based on key members achieving targets from a Group, Business Unit and individual perspective.

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

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

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

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

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

Long Term Incentive program (LTI)

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

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

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

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

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

Consolidated entity performance and link to remuneration

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

Novatti Group's business objective:

Novatti Group Limited is a leading fintech that enables businesses to pay and be paid, from any device, anywhere. Solutions include issuing, acquiring, processing, and billing, while the Group has also applied to APRA for a restricted banking licence.

Align the interest of executives with shareholders

- The remuneration strategy incorporates "at-risk" components, with short-term paid in cash and long-term elements delivered in equity
- Performance is assessed against a suite of financial and non-financial measures relevant to the success of the Company and generating returns for shareholders

Attract, motivate and retain high performing individuals

- Remuneration is competitive with companies of a similar size and complexity
- Deferred and long-term remuneration is designed to encourage long-term consistent performance and employee retention

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

Voting and comments made at the company's 2020 Annual General Meeting ('AGM')

At the 2020 AGM, 90.4% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2020. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

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

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

Other key management personnel:

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

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Amounts of remuneration

	Short-term benefits			Long-term benefits	Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Non-monetary	Annual leave	Long service leave	Super-annuation	Equity-settled	
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Peter Pawlowitsch	117,610	-	-	-	11,172	-	128,782
Kenneth Lai	50,000	-	-	-	-	-	50,000
Paul Burton	50,000	-	-	-	-	-	50,000
Steven Zhou	36,530	-	-	-	3,470	-	40,000
Brandon Munro*	15,834	-	-	-	1,504	-	17,338
<i>Executive Directors:</i>							
Peter Cook	432,673	35,318	16,894	8,659	20,231	286,917	800,692
<i>Other Key Management Personnel:</i>							
Alan Munday	313,171	-	30,520	6,158	25,000	78,175	453,024
Steven Stamboultgis**	204,267	-	10,814	3,880	19,405	62,540	300,906
	<u>1,220,085</u>	<u>35,318</u>	<u>58,228</u>	<u>18,697</u>	<u>80,782</u>	<u>427,632</u>	<u>1,840,742</u>

* Brandon Munro resigned as a Director on 5 August 2020.

** Steven Stamboultgis was also appointed company secretary on 15 March 2021.

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

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

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

*** Brandon Munro resigned as a Director on 5 August 2020.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2021	2020	2021	2020	2021	2020
<i>Non-Executive Directors:</i>						
Peter Pawlowitsch	100%	4%	-	-	-	96%
Kenneth Lai	100%	-	-	-	-	100%
Paul Burton	100%	58%	-	-	-	42%
Steven Zhou	100%	58%	-	-	-	42%
Brandon Munro*	100%	53%	-	-	-	47%
<i>Executive Directors:</i>						
Peter Cook	64%	55%	-	-	36%	45%
<i>Other Key Management Personnel:</i>						
Alan Munday	83%	86%	-	-	17%	14%
Steven Stamboultgis	79%	85%	-	-	21%	15%

* Brandon Munro resigned as a Director on 5 August 2020.

Service agreements

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

Name:	Peter Cook
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	20 November 2015
Term of agreement:	The term is not fixed.
Details:	Base salary of \$400,000 (including statutory superannuation). 6.7M incentive options exercisable at variable dollar values upon the achievement of certain milestones.

Remuneration is subject to an annual review to be conducted by the Board. Factors to be considered include personal competency progression, achievement of personal development targets and KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.

The agreement may be terminated, (A) by either party without cause with six months' notice, or at the election of the Group, immediately with payment in lieu of six months' notice (subject to the limitation of the Corporations Act and Listing Rules). (B) By the Group on one months' notice, if the executive is unable to perform his duties due to illness, accident or incapacitation, for three consecutive months or a period aggregating more than three months in any 12-month period.

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

Remuneration is subject to an annual review to be conducted by the Board. Factors to be considered include personal competency progression, achievement of personal development targets and KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.

The agreement may be terminated, (A) without cause, with three months' notice from the Group or two months from the executive, or payment in lieu of notice at the Group's election (subject to the limitation of the Corporations Act and Listing Rules). (B) by Novatti on one month's notice, if the executive is unable to perform his duties due to illness, accident or incapacitation, for three consecutive months or a period aggregating more than three months in any 12-month period or (C), summarily following material breach or in the case of serious misconduct.

Name: Steven Stamboultgis
Title: Chief Financial Officer and Company Secretary
Agreement commenced: 20 November 2015
Term of agreement: The term is not fixed.
Details: Base salary of \$213,368 (including statutory superannuation).

Remuneration is subject to an annual review to be conducted by the Board. Factors to be considered include personal competency progression, achievement of personal development targets and KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.

The agreement may be terminated, (A) without cause, with three months' notice from the Group or two months from the executive, or payment in lieu of notice at the Group's election (subject to the limitation of the Corporations Act and Listing Rules). (B) by Novatti on one month's notice, if the executive is unable to perform his duties due to illness, accident or incapacitation, for three consecutive months or a period aggregating more than three months in any 12-month period or (C), summarily following material breach or in the case of serious misconduct.

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

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2021.

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Options

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

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Peter Pawlowitsch	166,666	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.106
Peter Pawlowitsch	166,666	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.086
Peter Pawlowitsch	166,667	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.074
Peter Cook	833,333	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.106
Peter Cook	833,333	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.086
Peter Cook	833,333	25 November 2019	30 November 2020	30 November 2023	\$0.200	\$0.074
Peter Pawlowitsch	833,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Peter Pawlowitsch	833,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Peter Cook	833,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Peter Cook	833,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Kenneth Lai	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Kenneth Lai	333,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Paul Burton	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Paul Burton	333,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Steven Zhou	333,333	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.106
Steven Zhou	333,334	27 November 2018	22 March 2019	30 November 2022	\$0.195	\$0.074
Alan Munday	375,000	19 December 2019	31 December 2019	19 December 2022	\$0.200	\$0.104
Alan Munday	187,500	19 December 2019	31 December 2020	19 December 2022	\$0.200	\$0.087
Alan Munday	187,500	19 December 2019	31 December 2021	19 December 2022	\$0.200	\$0.063
Steven Stamboultgis	300,000	19 December 2019	31 December 2019	19 December 2022	\$0.200	\$0.104
Steven Stamboultgis	150,000	19 December 2019	31 December 2020	19 December 2022	\$0.200	\$0.087
Steven Stamboultgis	150,000	19 December 2019	31 December 2021	19 December 2022	\$0.200	\$0.063
Peter Cook	833,334	25 November 2020	01 December 2020	30 November 2024	\$0.270	\$0.110
Peter Cook	833,333	25 November 2020	01 December 2020	30 November 2024	\$0.270	\$0.114
Peter Cook	833,333	25 November 2020	01 December 2020	30 November 2024	\$0.270	\$0.119
Alan Munday	500,000	22 December 2020	22 December 2020	22 December 2023	\$0.275	\$0.102
Alan Munday	500,000	22 December 2020	22 December 2020	22 December 2023	\$0.275	\$0.083
Steven Stamboultgis	400,000	22 December 2020	22 December 2020	22 December 2023	\$0.275	\$0.102
Steven Stamboultgis	400,000	22 December 2020	22 December 2020	22 December 2023	\$0.275	\$0.083

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

Name	Number of options granted during the year 2021	Number of options granted during the year 2020	Number of options vested during the year 2021	Number of options vested during the year 2020
Peter Pawlowitsch	-	500,000	-	-
Peter Cook	2,500,000	2,500,000	2,500,000	-
Brandon Munro	-	500,000	-	-
Alan Munday	1,000,000	750,000	687,500	375,000
Steven Stamboultgis	800,000	600,000	550,000	300,000

* Brandon Munro resigned as a Director on 5 August 2020.

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Additional information

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

	2021	2020	2019	2018	2017
Share price at financial year end (\$)	0.640	0.310	0.165	0.225	0.115
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(5.162)	(6.398)	(3.098)	(1.530)	(5.030)

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Participation of share placement	Exercise of options	Balance at the end of the year
<i>Ordinary shares</i>					
Peter Pawlowitsch	3,182,662	-	400,000	-	3,582,662
Peter Cook	11,107,904	-	400,000	-	11,507,904
Brandon Munro	1,669,348	-	-	51,038	1,720,386
Kenneth Lai	13,116,118	-	-	-	13,116,118
Paul Burton	263,158	-	-	-	263,158
Alan Munday	50,000	-	-	-	50,000
Steven Stamboultgis	20,000	-	-	-	20,000
Steven Zhou*	-	-	-	-	-
	<u>29,409,190</u>	<u>-</u>	<u>800,000</u>	<u>51,038</u>	<u>30,260,228</u>

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

Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Peter Pawlowitsch	3,000,000	-	-	(833,333)	2,166,667
Peter Cook	5,000,000	2,500,000	-	(833,333)	6,666,667
Brandon Munro	1,500,000	-	(166,667)	(1,333,333)	-
Kenneth Lai	1,000,000	-	-	(333,333)	666,667
Paul Burton	1,000,000	-	-	(333,333)	666,667
Steven Zhou	1,000,000	-	-	(333,333)	666,667
Alan Munday	750,000	1,000,000	-	-	1,750,000
Steven Stamboultgis	600,000	800,000	-	-	1,400,000
	<u>13,850,000</u>	<u>4,300,000</u>	<u>(166,667)</u>	<u>(3,999,998)</u>	<u>13,983,335</u>

Other transactions with key management personnel and their related parties

Services

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

Current and non-current liabilities to a Director

There are no other current or non-current liabilities outstanding to Directors of the Group as at 30 June 2021.

Novatti Group Limited
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This concludes the remuneration report, which has been audited.

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
27 November 2018	30 November 2022	\$0.190	5,333,335
15 November 2019	30 October 2022	\$0.250	2,587,500
25 November 2019	30 November 2023	\$0.200	3,000,000
19 December 2019	19 December 2022	\$0.200	4,750,000
10 July 2020	10 July 2023	\$0.200	850,000
10 July 2020	1 March 2024	\$0.200	441,667
10 July 2020	1 March 2025	\$0.200	441,667
10 July 2020	1 March 2026	\$0.200	66,666
10 July 2020	31 December 2022	\$0.200	3,200,000
15 September 2020	31 December 2021	\$0.250	5,200,000
26 October 2020	26 October 2023	\$0.300	1,000,000
25 November 2020	30 November 2024	\$0.270	2,500,000
22 December 2020	22 December 2023	\$0.275	3,600,000
22 December 2020	14 October 2023	\$0.300	2,000,000
5 May 2021	5 May 2024	\$0.750	100,000
8 February 2021	8 February 2024	\$0.300	200,000
7 April 2021	7 April 2024	\$0.600	100,000
5 April 2021	5 April 2024	\$0.300	300,000
31 May 2021	31 May 2024	\$0.750	400,000
			36,070,835

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

Shares issued on the exercise of options

The following ordinary shares of Novatti Group Limited were issued during the year ended 30 June 2021 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
25 November 2019	\$0.200	51,038
19 December 2019	\$0.200	355,000
15 November 2019	\$0.250	912,500
15 September 2020	\$0.250	1,800,000
		3,118,538

Shares issued on conversion of convertible notes

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

On 26 February 2021, the Group issued 844,811 ordinary shares on conversion of 207,500 convertible notes (4 for 1) and compound interest of 14,811.

On 19 March 2021, the Group issued 406,332 ordinary shares on conversion of 90,000 convertible notes (4 for 1) and compound interest of 46,332.

Novatti Group Limited
Directors' report
30 June 2021

On 24 March 2021, the Group issued 1,660,000 ordinary shares on conversion of 415,000 convertible notes (4 for 1).

On 23 April 2021, the Group issued 1,618,032 ordinary shares on conversion of 380,000 convertible notes (4 for 1) and compound interest of 98,032.

On 21 May 2021, the Group issued 190,000 fully paid ordinary shares on conversion of 47,500 convertible notes (4 for 1).

On 4 June 2021, the Group issued 1,381,084 fully paid ordinary shares on conversion of 300,000 convertible notes (4 for 1) and compound interest of 181,084.

On 11 June 2021, the Group issued 1,125,153 fully paid ordinary shares on conversion of 267,500 convertible notes (4 for 1) and compound interest of 55,153.

On 5 July 2021, the Group issued 4,880,000 fully paid ordinary shares on conversion of 1,220,000 convertible notes (4 for 1).

On 30 July 2021, the Group issued 1,200,000 fully paid ordinary shares on conversion of 300,000 convertible notes (4 for 1).

On 4 August 2021, the remaining 97,500 convertible notes have ceased without conversion due to repayment or redemption.

As at the date of this report, the Group has nil convertible notes on issue.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

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

Novatti Group Limited
Directors' report
30 June 2021

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the company who are former partners of William Buck

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

Rounding of amounts

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

Auditor's independence declaration

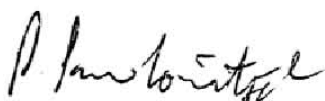
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

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

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

On behalf of the directors



Peter Pawlowitsch
Chairman

31 August 2021



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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2021 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'N. S. Benbow'.

N. S. Benbow
Director

Dated this 31st day of August, 2021

ACCOUNTANTS & ADVISORS

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Melbourne VIC 3000
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Novatti Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Revenue	4	16,482	11,004
Other income		1,947	854
Expenses			
Administrative and corporate costs	5	(2,227)	(1,904)
Client hosting fees and other direct services		(4,979)	(3,137)
Employee benefits		(15,888)	(11,234)
Foreign currency translation (losses)/gains		(116)	(179)
Marketing and selling expenses		(57)	126
Data management expenses		(454)	(257)
Gain on investments at fair value through profit or loss		366	-
Share based payment on investor and broker options		(1,085)	(190)
Share of net profit of joint ventures accounted for using the equity method		33	17
Loss on embedded derivative - convertible note facility into Novatti Group Ltd the parent entity		(2,860)	(727)
Impairment of capitalised bank licensing costs	11	-	(3,013)
Depreciation and amortisation expense		(1,481)	(906)
Finance costs		(1,507)	(1,367)
Loss before income tax expense		(11,826)	(10,913)
Income tax expense	6	(17)	(47)
Loss after income tax expense for the year		(11,843)	(10,960)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(43)	90
Other comprehensive income for the year, net of tax		(43)	90
Total comprehensive income for the year		<u>(11,886)</u>	<u>(10,870)</u>
Loss for the year is attributable to:			
Non-controlling interest		(31)	-
Owners of Novatti Group Limited		(11,812)	(10,960)
		<u>(11,843)</u>	<u>(10,960)</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(31)	-
Owners of Novatti Group Limited		(11,855)	(10,870)
		<u>(11,886)</u>	<u>(10,870)</u>
		Cents	Cents
Basic earnings per share	31	(5.162)	(6.398)
Diluted earnings per share	31	(5.162)	(6.398)

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

Novatti Group Limited
Statement of financial position
As at 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents		8,798	2,600
Trade and other receivables	7	4,138	2,785
Financial assets - funds in trust	8	39,019	17,452
Other investments		-	560
Other current assets		324	360
Total current assets		<u>52,279</u>	<u>23,757</u>
Non-current assets			
Investments accounted for using the equity method		804	22
Other investments		1,030	300
Plant and equipment	9	544	573
Right-of-use assets	10	1,933	2,244
Intangible assets	11	4,991	5,704
Deposits	12	2,206	239
Total non-current assets		<u>11,508</u>	<u>9,082</u>
Total assets		<u>63,787</u>	<u>32,839</u>
Liabilities			
Current liabilities			
Trade and other payables	13	6,817	5,853
Settlement and remittance funds payable	14	38,609	17,452
Lease liabilities	15	247	245
Unearned revenue	16	876	861
Convertible note facilities	17	4,907	1,100
Employee benefits		1,314	922
Total current liabilities		<u>52,770</u>	<u>26,433</u>
Non-current liabilities			
Lease liabilities	15	1,971	2,233
Convertible note facilities	17	-	4,545
Employee benefits		148	114
Total non-current liabilities		<u>2,119</u>	<u>6,892</u>
Total liabilities		<u>54,889</u>	<u>33,325</u>
Net assets/(liabilities)		<u>8,898</u>	<u>(486)</u>
Equity			
Issued capital	18	44,144	26,685
Reserves	19	3,803	2,376
Accumulated losses		(41,018)	(29,547)
Equity/(deficiency) attributable to the owners of Novatti Group Limited		6,929	(486)
Non-controlling interest	20	1,969	-
Total equity/(deficiency)		<u>8,898</u>	<u>(486)</u>

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

Novatti Group Limited
Statement of changes in equity
For the year ended 30 June 2021

Consolidated	Issued capital \$'000	Share-based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non- Controlling Interests \$'000	Total deficiency in equity \$'000
Balance at 1 July 2019	24,074	1,651	530	(20,078)	-	6,177
Loss after income tax expense for the year	-	-	-	(10,960)	-	(10,960)
Other comprehensive income for the year, net of tax	-	-	90	-	-	90
Total comprehensive income for the year	-	-	90	(10,960)	-	(10,870)
<i>Transactions with owners in their capacity as owners:</i>						
Vesting of share-based payments	143	1,279	-	-	-	1,422
Issue of shares as consideration for acquisition of Emersion Systems Pty Ltd	2,208	-	-	-	-	2,208
Issue of shares to Directors in lieu of fees	202	-	-	-	-	202
Issue of shares for the settlement of convertible note debt	58	(15)	-	-	-	43
Lapse of expired share options	-	(1,491)	-	1,491	-	-
Issue of options from convertible notes	-	294	-	-	-	294
Issue of convertible notes	-	38	-	-	-	38
Balance at 30 June 2020	<u>26,685</u>	<u>1,756</u>	<u>620</u>	<u>(29,547)</u>	<u>-</u>	<u>(486)</u>

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

Novatti Group Limited
Statement of changes in equity
For the year ended 30 June 2021

Consolidated	Issued capital \$'000	Share-based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non- Controlling Interests \$'000	Total equity \$'000
Balance at 1 July 2020	26,685	1,756	620	(29,547)	-	(486)
Loss after income tax expense for the year	-	-	-	(11,812)	(31)	(11,843)
Other comprehensive income for the year, net of tax	-	-	(43)	-	-	(43)
Total comprehensive income for the year	-	-	(43)	(11,812)	(31)	(11,886)
<i>Transactions with owners in their capacity as owners:</i>						
Lapse of expired share options	-	(341)	-	341	-	-
Vesting of share based payments arrangements	-	2,087	-	-	-	2,087
Issue of shares in lieu of consultancy fees	79	-	-	-	-	79
Issue of shares on exercise of options	980	(18)	-	-	-	962
Issue of shares on conversion of convertible notes and exercise of bonus options held by convertible note holders	4,060	(258)	-	-	-	3,802
Issue of equity in Novatti B Holdings Pty Ltd to BC Invest (note 20)	-	-	-	-	2,000	2,000
Proceeds from issue of shares, net of transaction costs (note 18)	12,340	-	-	-	-	12,340
Balance at 30 June 2021	<u>44,144</u>	<u>3,226</u>	<u>577</u>	<u>(41,018)</u>	<u>1,969</u>	<u>8,898</u>

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

Novatti Group Limited
Statement of cash flows
For the year ended 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		34,155	28,973
Payments to suppliers and employees (inclusive of GST)		(41,102)	(31,378)
Interest received		38	37
Receipt of research and development grant		1,114	1,022
Receipt of Government Stimulus		798	271
Interest and other finance costs paid		(402)	(161)
Net cash used in operating activities	30	<u>(5,399)</u>	<u>(1,236)</u>
Cash flows from investing activities			
Payment of deferred cash consideration for Emersion acquisition		(810)	(190)
Payments for plant and equipment	9	(177)	(51)
Payments for intangible assets	11	(240)	(1,139)
Payments for security deposits		(1,970)	(147)
Proceeds from disposal of investments		560	-
Proceeds from disposal of plant and equipment		-	1
Net cash used in investing activities		<u>(2,637)</u>	<u>(1,526)</u>
Cash flows from financing activities			
Proceeds from issue of shares	18	13,054	134
Proceeds from loan repaid		200	-
Repayment of borrowings		(400)	(400)
Interest and other finance costs paid on convertible notes		(244)	(3)
Issue of equity to BC Invest	20	2,000	-
Proceeds from issue of convertible note facility		-	4,600
Cost of debt - convertible note facilities		-	(353)
Repayment of lease liabilities		(260)	(240)
Net cash from financing activities		<u>14,350</u>	<u>3,738</u>
Net increase in cash and cash equivalents		6,314	976
Cash and cash equivalents at the beginning of the financial year		2,600	1,807
Effects of exchange rate changes on cash and cash equivalents		(116)	(183)
Cash and cash equivalents at the end of the financial year		<u><u>8,798</u></u>	<u><u>2,600</u></u>

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

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

Statement of Compliance

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

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

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

Right-of-use assets

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

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

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

Lease liabilities

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

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

Note 1. Significant accounting policies (continued)

Basis of preparation

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the legal parent entity is disclosed in note 27.

Principles of consolidation

These are the financial statements of Novatti Group Limited (the 'Company') and its controlled entities (the 'Group') as at 30 June 2021.

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

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

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

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

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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

Operating segments

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

Foreign currency translation

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

Note 1. Significant accounting policies (continued)

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Consolidated Entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Consolidated Entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer of the goods or services promised to the customer.

Technology

Develop, deploy and supports specialised mobile and alternate payment technology. Billing and CIS solution to service providers in the utilities industry. Yearly licence fees are amortised over the relevant year and professional service revenue is recognised in the month the service is provided at that point in time.

Business Automation

Provisioning of customer engagement, payment, provisioning, and subscription billing solutions. Monthly fees are charged at a transactional level. Fees for settling up and deploying the service are charged and recognised when the service is provided.

Acquiring

A service that enables merchants to get paid. Monthly fees are charged at a transactional level. Fees for settling up and deploying the service are charged and recognised when the service is provided.

Alternative Payments

Revenue from Alternative Payments is a mixture of:

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

The revenue charges for alternative payment services are based on transactional value. Revenue is therefore recognised when the service is provided.

Banking Services

On approval as an Authorised Deposit-Taking Institution or its full banking licence by APRA, Banking services will provide a number of services to Australian customers for which they may charge a transactional fee and/or fee for service where the revenue is recognised when the service is provided.

Note 1. Significant accounting policies (continued)

Issuing

Issuing of prepaid Visa cards under licence of Visa. Monthly fees are charged at a transactional level. Fees for settling up and deploying the service are charged and recognised when the service is provided.

Novatti Group Limited

Comprising Acquiring Service Fees, see above.

Interest

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

Unearned revenue

Unearned revenue includes revenue from clients whereby services are billed in advance of their anniversary dates and have outstanding services owing for the financial year ended 30 June 2021.

Other revenue

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

Accrued revenue

Accrued revenue includes revenue from the sales of services unbilled as at 30 June 2021.

Government grants

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

Income tax

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

Note 1. Significant accounting policies (continued)

Financial assets and other investments

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

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

Financial assets at amortised cost

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

Financial assets at fair value through profit or loss

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

Impairment of financial assets

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

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

Plant and equipment

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

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

Intangible assets

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

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

Product Development: Technology	5 years
Customer lists	5 - 10 years
Intellectual Property: Technology - Billing Software	10 years
Brands	10 years

Intangible assets acquired in a business combination

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

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

Impairment of tangible and intangible assets

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

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

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

Trade and other payables

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

Note 1. Significant accounting policies (continued)

Convertible note facilities

During the year ended 30 June 2020 the Group issued convertible note tranches with conversion clauses that were both fixed and variable. For convertible notes with variable conversion terms, at initial recognition an embedded derivative is recognised on the statement of financial position at fair value and that embedded derivative is subsequently recorded at its fair value thereafter, with changes in fair value going through to the statement of profit or loss and other comprehensive income. The difference between the consideration received (net of costs) and the embedded derivative is reflected in the principal value of the convertible note liability.

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

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Share-based payments

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2021.

Note 2. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

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

Share-based payment transactions

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

Allowance for expected credit losses

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

Revenue from contracts with customers involving performance milestones

When recognising revenue, the key performance obligation of the consolidated entity is considered to be performance milestones detailed under each contract. Management estimates the progress against these performance milestones at each reporting date and recognise revenue and work in progress accounts accordingly.

Fair value measurement hierarchy

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

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

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

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

Estimation of useful lives of finite life intangible assets

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

Recovery of deferred tax assets

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

Management estimates \$21,100,000 in tax losses are potentially available to be used to be offset against future assessable income which have not been recognised. The tax rate applicable to the company for FY 2021 is 26%.

Incremental borrowing rate

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

Assessment of the conversion features of the convertible notes

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

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

Note 3. Operating segments

Identification of reportable operating segments

The Group is organised into seven operating business segments:

- (1) Technology, incorporating enterprise sales, Maintenance & Support via the Novatti Platform and Basis2 operating under Novatti Incorporated
- (2) Business Automation, incorporating Emersion Systems Pty Ltd and Novatti Emersion Inc.
- (3) Acquiring, incorporating Novatti Acquiring Holdings Pty Ltd and Novatti Acquiring Services (AUS) Pty Ltd
- (4) Alternative Payments, incorporating Flexewallet Pty Ltd, Flexe Payments (South Africa) Pty Ltd and Flexe Payments Ltd
- (5) Banking Services, incorporating the banking services under Novatti B Holding Company Pty Ltd
- (6) Issuing, incorporating Flexewallet (NZ) Limited and Vasco Pay Pty Ltd
- (7) Novatti Group Limited, the legal parent that holds the financial assets for the Group and captures the corporate, public running costs and the investment in all its subsidiaries

Note 3. Operating segments (continued)

These operating business segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM') in assessing performance and in determining the allocation of resources.

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

Types of products and services

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

Technology	Platform: Develops, deploys and supports specialised mobile and alternate payment technology, primarily through the deployment of the Novatti Platform. Billing Solutions: Basis2 trading under Novatti Inc. provides a technologically advanced billing and CIS solution to service providers in the utilities industry.
Business Automation	Emersion: Automates business processes including customer engagement, billing, collections, subscription management and embedded payments.
Acquiring	Novatti Acquiring: Enables businesses to accept payments online for e-commerce with a strong focus on mobile point-of-sales as key growth area.
Alternative Payments	TransferBridge: Provides a comprehensive global network that interconnects emerging payment platforms, remittance operators, financial institutions, retailers, utilities and other types of cross border payment settlement offerings. Flexewallet and Flexe Payments: Offers customers an alternative payment method in the form of a prepaid cash voucher. Vouchers can be used for a multitude of payment methods such as prepaid account top-ups and for secure online payment of goods and services. Vouchers are available in a variety of currencies and locations globally.
Banking Services	Novatti B Holding Company Pty Ltd, on approval as a Restricted Authorised Deposit-Taking Institution ('RADI') or its banking licence by APRA, Novatti B Holding Company Pty Ltd will offer new banking services to Australian customers with a focus on the migrant demographic.
Issuing	Vasco Pay Pty Ltd and Novatti Group Ltd: Provides a payment system centred around reloadable prepaid cards that meets the needs and wants of international and local university and college students.

Intersegment transactions

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

Intersegment receivables, payables and loans

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

Novatti Group Limited
Notes to the financial statements
30 June 2021

Note 3. Operating segments (continued)

Operating segment information

	Technology	Business Automation	Acquiring	Alternative Payments	Banking Services	Issuing	Novatti Group Limited	Total
Consolidated - 2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue								
Sales to external customers	4,956	2,229	-	8,362	-	935	-	16,482
Other revenue	467	3	-	10	77	150	1,205	1,912
Total revenue	5,423	2,232	-	8,372	77	1,085	1,205	18,394
EBITDA								
Depreciation and amortisation	(502)	(715)	-	(35)	(15)	(2)	(212)	(1,481)
Interest revenue	1	-	-	2	-	-	32	35
Finance costs	(172)	(8)	-	(212)	-	(3)	(1,112)	(1,507)
Other costs	(13)	-	-	-	-	-	-	(13)
Profit/(loss) before income tax expense	(1,650)	(2,028)	(118)	1,445	(1,568)	(367)	(7,540)	(11,826)
Income tax expense								(17)
Loss after income tax expense								(11,843)
Assets								
Segment assets	6,491	3,154	2	40,756	2,035	2,414	8,935	63,787
Total assets								63,787
Liabilities								
Segment liabilities	5,373	1,117	17	37,834	353	2,410	7,785	54,889
Total liabilities								54,889
Employee Benefits Additions to non-current assets (Other than financial assets, deferred tax, post employment benefits assets, rights under insurance contracts)								
	5,360	2,894	80	2,149	1,499	819	3,087	15,888
	174	42	-	-	-	2	475	693

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Note 3. Operating segments (continued)

	Technology	Business Automation	Acquiring	Alternative Payments	Banking Services	Issuing	Novatti Group Limited	Total
Consolidated - 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue								
Sales to external customers	4,487	479	-	5,922	-	116	-	11,004
Other revenue	176	-	-	19	45	24	581	845
Total revenue	4,663	479	-	5,941	45	140	581	11,849
EBITDA								
Depreciation and amortisation	(538)	(181)	-	(27)	(13)	(5)	(141)	(905)
Interest revenue	5	-	-	-	-	4	-	9
Finance costs	(197)	(10)	-	(68)	(38)	(1)	(606)	(920)
Other costs	(66)	-	-	(46)	(140)	-	(306)	(558)
Profit/(loss) before income tax expense	(2,742)	(259)	-	710	(4,860)	(880)	(2,882)	(10,913)
Income tax expense								(47)
Loss after income tax expense								(10,960)
Assets								
Segment assets	6,072	3,488	-	20,553	34	(206)	2,898	32,839
Total assets								32,839
Liabilities								
Segment liabilities	5,420	1,302	-	19,818	1,804	(194)	5,175	33,325
Total liabilities								33,325
Employee Benefits Additions to non-current assets (Other than financial assets, deferred tax, post employment benefits assets, rights under insurance contracts)								
	5,663	418	-	1,521	1,236	725	1,671	11,234
	2,405	3,464	-	83	31	-	-	5,983

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

During the year ended 30 June 2021, approximately 11.45% (FY 2020: 14.09%) and 13.98% (FY 2020: 13.56%) of the Group's external revenue were derived from two major customers respectively generating \$1,887,000 and \$2,304,000 in FY 2021 (FY 2020: \$1,551,000 and \$1,492,000). This revenue is reported under the Alternative Payments operating segment.

Note 3. Operating segments (continued)

Geographical information

	Sales to external customers		Geographical non-current assets	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Australia	7,727	3,928	11,508	9,082
Malta	1,887	1,551	-	-
Mauritius	2,304	1,492	-	-
United States	1,836	2,214	-	-
Other	2,728	1,819	-	-
	<u>16,482</u>	<u>11,004</u>	<u>11,508</u>	<u>9,082</u>

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 4. Revenue

	Timing of revenue recognition Services provided at point in time \$	Timing of revenue recognition Services provided over time \$	Consolidated 2021 \$
2021			
Sales revenue:			
Technology	3,203	1,753	4,956
Business Automation	-	2,229	2,229
Acquiring	-	-	-
Alternative Payments	8,362	-	8,362
Banking Services	-	-	-
Issuing	935	-	935
	<u>12,500</u>	<u>3,982</u>	<u>16,482</u>
2020			
Sales revenue			
Technology	1,289	3,198	4,487
Business Automation	-	479	479
Acquiring	-	-	-
Alternative Payments	5,922	-	5,922
Banking Services	-	-	-
Issuing	116	-	116
	<u>7,327</u>	<u>3,677</u>	<u>11,004</u>

Note 7. Current assets - trade and other receivables

	Consolidated	
	2021	2020
	\$'000	\$'000
Trade receivables	3,076	2,376
Less: Allowance for expected credit losses	(55)	(87)
	<u>3,021</u>	<u>2,289</u>
Accrued revenue	<u>1,117</u>	<u>496</u>
	<u><u>4,138</u></u>	<u><u>2,785</u></u>

Allowance for expected credit losses

The consolidated entity has recognised a credit of \$32,000 (2020: \$87,000 of loss) in statement of profit or loss and other comprehensive income in respect of the expected credit losses for the year ended 30 June 2021.

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

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Current	2,114	1,320
3 to 6 months overdue	217	94
Over 6 months overdue	<u>690</u>	<u>875</u>
Trade receivables	3,021	2,289
Accrued revenue	<u>1,117</u>	<u>496</u>
	<u><u>4,138</u></u>	<u><u>2,785</u></u>

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Settlement funds*	15,913	9,103
Remittance funds*	18,371	8,349
Client visa funds	<u>4,735</u>	<u>-</u>
	<u><u>39,019</u></u>	<u><u>17,452</u></u>

* Refer to note 14 Current liabilities – Settlement and Remittance funds payable

Note 9. Non-current assets - plant and equipment

	Consolidated	
	2021	2020
	\$'000	\$'000
Leasehold fixture and fittings - at cost	537	534
Less: Accumulated depreciation	(152)	(102)
	<u>385</u>	<u>432</u>
Plant and equipment - at cost	772	710
Less: Accumulated depreciation	(613)	(569)
	<u>159</u>	<u>141</u>
	<u><u>544</u></u>	<u><u>573</u></u>

Reconciliations

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

Consolidated	Plant & Equipment at cost \$'000	Leasehold Fixtures & Fittings at cost \$'000	Total \$'000
Balance at 1 July 2019	155	468	623
Additions	39	12	51
Disposals	(1)	-	(1)
Depreciation expense	(52)	(48)	(100)
	<u>141</u>	<u>432</u>	<u>573</u>
Balance at 30 June 2020	141	432	573
Additions	174	3	177
Disposals	(112)	-	(112)
Depreciation expense	(44)	(50)	(94)
	<u>159</u>	<u>385</u>	<u>544</u>
Balance at 30 June 2021	<u><u>159</u></u>	<u><u>385</u></u>	<u><u>544</u></u>

Note 10. Non-current assets - right-of-use assets

	Consolidated	
	2021	2020
	\$'000	\$'000
Buildings - right-of-use	2,526	2,526
Less: Accumulated amortisation	(593)	(282)
	<u>1,933</u>	<u>2,244</u>
	<u><u>1,933</u></u>	<u><u>2,244</u></u>

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Note 10. Non-current assets - right-of-use assets (continued)

Reconciliations

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

Consolidated	Buildings - Right-of-use \$'000
Balance at 1 July 2019	-
Recognition on adoption of AASB 16	2,460
Additions	30
Foreign exchange differences	36
Amortisation expense	(282)
Balance at 30 June 2020	2,244
Foreign exchange differences	1
Amortisation expense	(312)
Balance at 30 June 2021	<u>1,933</u>

Note 11. Non-current assets - intangible assets

	Consolidated	
	2021	2020
	\$'000	\$'000
Brand Asset	568	568
Less: Accumulated amortisation	(173)	(116)
	<u>395</u>	<u>452</u>
Intellectual property - at cost	847	847
Less: Accumulated amortisation	(347)	(263)
	<u>500</u>	<u>584</u>
Customer Lists	3,619	3,785
Less: Accumulated amortisation	(1,206)	(724)
	<u>2,413</u>	<u>3,061</u>
Licences	475	-
Less: Accumulated amortisation	(71)	-
	<u>404</u>	<u>-</u>
Other intangible assets	46	46
Product development	1,643	1,643
Less: Accumulated amortisation	(410)	(82)
	<u>1,233</u>	<u>1,561</u>
	<u>4,991</u>	<u>5,704</u>

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Note 11. Non-current assets - intangible assets (continued)

Reconciliations

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

Consolidated	Brand Asset \$'000	Intellectual Property \$'000	Customer Lists \$'000	Licences \$'000	Other Intangible Assets \$'000	Product Developme nt \$'000	Total \$'000
Balance at 1 July 2019	508	669	1,595	1,662	212	-	4,646
Additions	-	-	-	1,139	-	-	1,139
Additions through business combinations	-	-	1,728	-	44	1,643	3,415
Exchange differences	-	-	36	2	-	-	38
Impairment of assets	-	-	-	(2,803)	(210)	-	(3,013)
Amortisation expense	(56)	(85)	(298)	-	-	(82)	(521)
Balance at 30 June 2020	452	584	3,061	-	46	1,561	5,704
Additions	-	-	-	475	-	-	475
Exchange differences	-	-	(165)	-	-	-	(165)
Amortisation expense	(57)	(84)	(483)	(71)	-	(328)	(1,023)
Balance at 30 June 2021	<u>395</u>	<u>500</u>	<u>2,413</u>	<u>404</u>	<u>46</u>	<u>1,233</u>	<u>4,991</u>

Note 12. Non-current assets - Deposits

	Consolidated	
	2021	2020
	\$'000	\$'000
Security deposits*	2,117	239
Prepaid deposit to landlord	83	-
Other non-current assets	6	-
	<u>2,206</u>	<u>239</u>

*Security deposits are refundable collateral held on application of issuing Visa licence.

Note 13. Current liabilities - trade and other payables

	Consolidated	
	2021	2020
	\$'000	\$'000
Trade payables	3,596	3,019
Accrued expenses	3,012	1,913
Income tax payable	13	-
Amounts payable to Emersion Software Systems Pty Ltd	-	810
Other payables	196	111
	<u>6,817</u>	<u>5,853</u>

Note 14. Current liabilities - settlement and remittance funds payable

	Consolidated	
	2021	2020
	\$'000	\$'000
Settlement funds payable*	15,913	9,103
Remittance funds payable*	18,371	8,349
Client visa funds payable	4,325	-
	<u>38,609</u>	<u>17,452</u>

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

Note 15. Current liabilities - lease liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
Current		
Office lease liabilities for Melbourne, United Kingdom and Malta	<u>247</u>	<u>245</u>
Non-Current		
Office lease liabilities for Melbourne, United Kingdom and Malta	<u>1,971</u>	<u>2,233</u>
	<u>2,218</u>	<u>2,478</u>

Note 16. Current liabilities - unearned revenue

	Consolidated	
	2021	2020
	\$'000	\$'000
Revenue billed in advance	<u>876</u>	<u>861</u>
Reconciliation of the values at the beginning and end of the current and previous financial year:		
	Consolidated 2021 \$	Consolidated 2020 \$
Opening balance	861	937
Amounts billed in advance (ex GST)	3,997	3,601
Less revenue recognised over a period of time	<u>(3,982)</u>	<u>(3,677)</u>
	<u>876</u>	<u>861</u>

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Note 17. Current liabilities - convertible note facilities

	Consolidated			
	2021	2020		
	\$'000	\$'000		
Current				
Loan payable - Convertible note facility	2,389	1,100		
Embedded derivative - Convertible note facility	2,518	-		
	<u>4,907</u>	<u>1,100</u>		
Non-current				
Loan payable - Convertible note facility	-	2,818		
Embedded derivative - Convertible note facility	-	1,727		
	<u>4,907</u>	<u>5,645</u>		
	2021	2021	2020	2020
	No.	\$'000	No.	\$'000
Opening balance	3,500,001	5,645	-	-
Convertible notes issued during the year	-	-	3,500,001	4,600
Transaction costs associated with issue	-	-	-	(214)
Movement attributable to fair value of embedded derivative	-	1,687	-	828
Interest charged on convertible notes over period	-	253	-	431
Conversion of convertible notes into shares during the year	(1,882,500)	(1,883)	-	-
Additional shares issued on settlement of interest	-	(395)	-	-
Repayment of convertible notes for cash	-	(400)	-	-
	<u>1,617,501</u>	<u>4,907</u>	<u>3,500,001</u>	<u>5,645</u>
Closing balance				

\$2.275 million 9% convertible note facility

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

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

The primary terms of the convertible note facility are:

Issuer: Novatti Group Ltd

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

Term: 15 November 2019 to 30 July 2021

Conversion price:

Lesser of

i. \$0.25 and

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

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Note 17. Current liabilities - convertible note facilities (continued)

\$1.225 million 9% convertible note facility

- Proceeds from issue \$1,225,000, less transaction costs of \$64,000.

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

The primary terms of the convertible note facility are:

Issuer: Novatti Group Ltd

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

Term: 18 February 2020 to 30 July 2021

Conversion price:

Lesser of

- i. \$0.25 and
- ii. lowest share issue price under any capital raising by Novatti Group Ltd between the date of issue of the notes and the date of receipt of conversion notice.

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

As part of its convertible note, the Group's embedded derivative was subsequently valued at fair value as at 30 June 2021, with gains or losses recognised in the statement of profit or loss and other comprehensive income. The embedded derivatives were valued using the Black-Scholes valuation method. Key valuation inputs are as follows:

- Valuation date: 30 June 2021
- Stock price: \$0.26 (26 cents)
- Strike price: \$0.25 (25 cents)
- Expiry date: 30 July 2021
- Volatility: 80%
- Risk free rate: 0.49%

\$1.1 million convertible note facility

- Proceeds from issue \$1,100,000 less transaction costs of \$140,000.

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

This note was transferred to Novatti Group Limited during the year.

The primary terms of the convertible note facility are:

Issuer: NBHC Holder:

AFIG Face value: \$1.1M Interest: nil

Term: 8 November 2019 to 31 March 2020

Conversion formula: If NBHC obtains its Restricted Authorised Deposit-taking Institution (RADI) license from the Australian Prudential Regulation Authority (APRA), the facility automatically converts into the number of NBHC shares equal to 5.5% of its issued capital, (1,100,000 NBHC shares based on 20M shares on issue at the time of agreement). The value attached to the conversion of notes into NBHC shares is equal to \$37,987, classified in equity reserve.

\$400,000 of the \$1.1M was repaid during the year with the remaining balance due to be repaid in cash.

Note 18. Equity - issued capital

	Consolidated			
	2021	2020	2021	2020
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>244,203,326</u>	<u>185,210,500</u>	<u>44,144</u>	<u>26,685</u>

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Note 18. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 July 2019	166,879,214	24,074
Take up of fully paid ordinary shares	25 November 2019	238,096	50
Fully paid ordinary shares on exercise of options	31 December 2019	200,000	40
Issue of shares as consideration for acquisition of Emersion Pty Ltd	2 April 2020	16,725,000	2,208
Issue of shares to Directors in lieu of fees	9 June 2020	1,061,342	202
Conversion of director options	24 June 2020	106,848	53
Issue of shares for the settlement of convertible note debt		-	58
Balance	30 June 2020	185,210,500	26,685
Issue of shares on conversion of convertible notes	3 July 2020	700,000	183
Issue of shares on exercise of options	3 July 2020	175,000	-
Issue of placement shares to institutional and sophisticated investors	7 July 2020	40,000,000	10,000
Issue of placement shares to Directors	15 September 2020	800,000	200
Issue of shares in lieu of consultancy fees	15 September 2020	200,000	50
Issue of shares on cashless exercise of options	5 November 2020	51,038	18
Issue of shares on exercise of options	8 December 2020	20,000	6
Issue of shares on conversion of convertible notes and compound interest	26 February 2021	844,811	354
Issue of shares on exercise of options	26 February 2021	280,000	87
Issue of shares on conversion of convertible notes and compound interest	19 March 2021	406,332	170
Issue of shares on exercise of options	19 March 2021	115,000	39
Issue of shares in lieu of consultancy fees	19 March 2021	115,163	29
Issue of shares on conversion of convertible notes	24 March 2021	1,660,000	696
Issue of shares on exercise of options	24 March 2021	250,000	83
Issue of shares on conversion of convertible notes	23 April 2021	1,618,032	875
Issue of shares on exercise of options	23 April 2021	210,000	71
Issue of placement shares to sophisticated investors	13 May 2021	6,833,713	3,000
Issue of shares on conversion of convertible notes	21 May 2021	190,000	103
Issue of shares on exercise of options	21 May 2021	55,000	17
Issue of shares on exercise of options	28 May 2021	500,000	166
Issue of shares on conversion of convertible notes and compound interest	4 June 2021	1,381,084	925
Issue of shares on exercise of options	4 June 2021	300,000	100
Issue of shares on conversion of convertible notes and compound interest	15 June 2021	1,125,153	753
Issue of shares on exercise of options	18 June 2021	1,162,500	386
Cash received for exercise of options		-	18
Cost of capital raising		-	(870)
Balance	30 June 2021	<u>244,203,326</u>	<u>44,144</u>

Ordinary shares

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

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

Share buy-back

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

Note 18. Equity - issued capital (continued)

Capital risk management

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

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

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

Note 19. Equity - reserves

	Consolidated	
	2021	2020
	\$'000	\$'000
Foreign currency reserve	577	620
Share-based payments reserve	3,226	1,756
	<u>3,803</u>	<u>2,376</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The option reserve is used to record the fair value of options issued to employees and directors as part of their remuneration. It is also used to record the fair value of options in other share-based payment transactions. The balance is transferred to Issued Capital when options are exercised and balance is transferred to retained earnings when options lapse.

Note 20. Equity - non-controlling interest

	Consolidated	
	2021	2020
	\$'000	\$'000
Issued capital	2,000	-
Accumulated losses	(31)	-
	<u>1,969</u>	<u>-</u>

Details	Date	Shares	Issue Price	\$ \$'000
Opening Balance	01/07/2020	-	\$0.00	-
Issue of shares*	03/05/2021	5,000,000	\$0.40	2,000
Closing Balance as at 30 June 2021		<u>5,000,000</u>		<u>2,000</u>

*As announced on 3 May 2021, BC Investment Group Holdings, through a wholly-owned subsidiary, has invested \$2m into the Company's dedicated banking subsidiary, Novatti B Holding Company Pty Ltd (NBHC), as part of a seed funding round, to acquire a 19.9% share of NBHC.

Note 20. Equity - non-controlling interest (continued)

For the year ended 30 June 2021, NBHC incurred a loss after tax of \$1,567,000 (NCI portion amounting to \$31,000). As at 30 June 2021, the financial position included total assets of \$2,066,000 and total liabilities of \$385,000, amounting to net assets of \$1,681,000.

Note 21. Equity - dividends

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

Note 22. Financial instruments

Financial risk management objectives

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

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

Principal financial instruments

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

- Cash at bank and on deposit
- Trade receivables
- Financial assets
- Trade and other payables
- Lease liabilities
- Convertible note facilities

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

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

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

Note 22. Financial instruments (continued)

Credit risk

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

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

Transactional sales obligations are settled generally on 21-day terms and after receipt from distributors.

The Group undertakes transactions with a large number of customers and regularly monitors payments in accordance with credit terms, the financial assets that are neither past due nor impaired, are expected to be received in accordance with the credit terms. Refer to note 7 trade and other receivable for the ageing analysis.

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

Market risk

Foreign currency risk

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

In order to monitor the continuing effectiveness of this policy, the Board receives a monthly forecast, analysed by the geographical region's cash balances, commitments and receipts, converted to the Group's main functional currency, Australian Dollars (AUD).

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

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

Consolidated	Assets		Liabilities	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
CAD	1,219	3,463	(1,109)	(693)
USD	1,090	1,052	(206)	(227)
EUR	11,428	9,218	(432)	(188)
GBP	-	35	(15)	(36)
NZD	2,544	-	-	-
	<u>16,281</u>	<u>13,768</u>	<u>(1,762)</u>	<u>(1,144)</u>

The following tables below illustrate the sensitivity of the net result for the year and equity in regard to the Group's financial assets and financial liabilities compared with the currency on deposit and AUD exchange rate. It assumes a +/- 5% change in the exchange rate for the year ended at 30 June 2021. This percentage has been determined based on average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date. This assumes that other variables, in particular interest rates, remain constant.

Note 22. Financial instruments (continued)

Consolidated - 2021	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
CAD	5%	(5)	-	5%	6	-
USD	5%	(42)	-	5%	47	-
EUR	5%	(524)	-	5%	579	-
GBP	5%	1	-	5%	(1)	-
NZD	5%	(121)	-	5%	134	-
		<u>(691)</u>	<u>-</u>		<u>765</u>	<u>-</u>

Consolidated - 2020	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
CAD	5%	(132)	-	5%	146	-
USD	5%	(39)	-	5%	43	-
EUR	5%	(430)	-	5%	475	-
GBP	5%	-	-	5%	-	-
NZD	5%	-	-	5%	-	-
		<u>(601)</u>	<u>-</u>		<u>664</u>	<u>-</u>

Price risk

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

If the fair value of investments increased by 10% this would have increased total comprehensive income for the Group by \$103,000. A decrease of 10% would have reduced total comprehensive income by the same amount.

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

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

2021	Level 1	Level 2	Level 3	Total
Assets	\$'000	\$'000	\$'000	\$'000
Shares in unlisted entities	-	-	1,030	1,030
2020	Level 1	Level 2	Level 3	Total
Assets	\$'000	\$'000	\$'000	\$
Shares in unlisted entities	-	-	860	860

Note 22. Financial instruments (continued)

Reconciliation	2021 \$'000	2020 \$'000
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	860	800
Additions	364	60
Disposals	(560)	-
Revaluation increments	366	-
Closing fair value	<u>1,030</u>	<u>860</u>

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

Liquidity risk

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

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

As at 30 June 2021, the financial liabilities of the Group include:

- Trade and other payables. For further details including breakdown of balances, refer to trade and other payables in note 13 for a breakdown of account balances
- Lease liabilities. Refer to note 15 for a summary of the outstanding lease liabilities
- Convertible note facilities. Refer to note 17 for a summary of terms and conditions

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

Remaining contractual maturities

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

Consolidated - 2021	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables and other payables	-	6,817	-	-	-	6,817
<i>Interest-bearing - fixed rate</i>						
Borrowings	-	700	-	-	-	700
Convertible note facilities	9.00%	4,207	-	-	-	4,207
Lease liabilities	5.21%	247	1,971	-	-	2,218
Total non-derivatives		<u>11,971</u>	<u>1,971</u>	-	-	<u>13,942</u>

Novatti Group Limited
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Note 22. Financial instruments (continued)

Consolidated - 2020	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables and other payables	-	5,853	-	-	-	5,853
<i>Interest-bearing - fixed rate</i>						
Convertible note facilities	-	1,100	-	-	-	1,100
Convertible note facilities	9.00%	-	4,545	-	-	4,545
Lease liabilities	5.21%	245	2,233	-	-	2,478
Total non-derivatives		7,198	6,778	-	-	13,976

Note 23. Key management personnel disclosures

Compensation

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

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	1,313,631	924,544
Post-employment benefits	80,782	75,271
Long-term benefits	18,697	15,697
Share-based payments	427,632	885,740
	1,840,742	1,901,252

Note 24. Remuneration of auditors

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

	Consolidated	
	2021	2020
	\$	\$
<i>Audit services - William Buck</i>		
Audit or review of the financial statements	86,000	90,500
<i>Other services - William Buck</i>		
Preparation of the tax return and associated tax services (including R&D)	49,460	72,635
	135,460	163,135

Note 25. Contingent liabilities

Programs managed under the Novatti Visa licence requires Novatti clients to maintain 6 days float in accounts held by Novatti for the client. Where a client's business model fails, their float held by Novatti, is used to settle outstanding card payments. In the unlikely event that the client funds fall short of clearing their outstanding Visa settlements, the cash on deposit will be used for the shortfall.

The consolidated entity had no other contingent liabilities as at 30 June 2021 and 30 June 2020.

Note 26. Related party transactions

Parent entity

Novatti Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

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

Transactions with related parties

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

Receivable from and payable to related parties

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

Loans to/from Directors

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

Loans to/from related parties

Loan provided to the Group's joint venture partner, Hi Impact. This loan agreement is for a total of USD 24,462 (AUD 30,307) as at 30 June 2021 (FY20, USD 18,335 (AUD 26,611)). The loan is on commercial terms and interest has been calculated daily at 6% per annum.

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

Terms and conditions

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

Note 27. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2021	2020
	\$'000	\$'000
Loss after income tax	(7,391)	(2,812)
Total comprehensive income	(7,391)	(2,812)

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Note 27. Parent entity information (continued)

Statement of financial position

	Parent	
	2021	2020
	\$'000	\$'000
Total current assets	42,956	31,083
Total assets	46,759	32,116
Total current liabilities	7,901	629
Total liabilities	7,901	5,174
Equity		
Issued capital	47,061	29,602
Share-based payments reserve	3,825	2,318
Accumulated losses	(12,028)	(4,978)
Total equity	<u>38,858</u>	<u>26,942</u>

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

There exists a prepaid deposit for offices leased in Melbourne. As at 30 June 2021, this totalled \$83,010 (FY20: \$79,169). No other prepaid deposit exist.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 (2020: Nil).

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 (2020: Nil).

Significant accounting policies

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

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

Note 28. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021	2020
		%	%
Novatti Group Ltd Subsidiaries			
Novatti Pty Ltd	Australia	100.0%	100.0%
Flexe Payments Ltd	United Kingdom	100.0%	100.0%
Flexe Payments Pty Ltd	South Africa	100.0%	100.0%
Flexe Payments (MLT) Ltd	Malta	100.0%	100.0%
Novatti Commerce Solutions Inc.	Canada	100.0%	100.0%
Novatti Commerce Solutions (MLT) Ltd	Malta	100.0%	100.0%
Novatti Technologies Ltd	United Kingdom	100.0%	100.0%
Novatti Inc.	United States of America	100.0%	100.0%
Vasco Pay Pty Ltd	Australia	100.0%	100.0%

Note 28. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
Novatti B Holding Pty Ltd	Australia	80.1%	100.0%
Novatti IBA Pty Ltd	Australia	80.1%	100.0%
Novatti Billing Solutions Pty Ltd	Australia	100.0%	100.0%
Flexe Payments (AUS) Pty Ltd	Australia	100.0%	100.0%
UAB Novtec Global	Lithuania	100.0%	100.0%
Emersion Systems Pty Ltd	Australia	100.0%	100.0%
Novatti Acquiring Services (AUS) Pty Ltd	Australia	100.0%	-
Novatti Tech Europe Ltd	Cyprus	100.0%	-
Novatti Acquiring Holdings Pty Ltd	Australia	100.0%	-
Novatti Emersion Inc.	United States of America	100.0%	-
Novatti Pty Ltd Subsidiaries			
Flexewallet Pty Ltd	Australia	100.0%	100.0%
Flexewallet (NZ) Ltd	New Zealand	100.0%	100.0%
TransferBridge Pty Ltd	Australia	100.0%	100.0%

Note 29. Events after the reporting period

The impact of Coronavirus (COVID-19) pandemic is ongoing and while there have been mixed financial and operational impacts for the Consolidated Entity up to 30 June 2021, it is not practical to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 2 July 2021, Novatti launched a \$45 million capital raising under a \$40 million placement and a \$5 million share purchase plan to expand its presence in existing markets, enter new markets, and acquire a 19.9% interest in Reckon Limited (ASX:RKN).

On 9 July 2021, Novatti completed Tranche 1 of its capital raising, by issue of 51,120,472 fully paid ordinary shares at \$0.55 per share, raising \$28,116,260 before costs.

On 13 July 2021, Novatti completed its previously announced acquisition of a 19.9% interest in Reckon Limited (ASX:RKN) by payment of \$22.5 million for acquisition of 22.5 million shares in Reckon and associated costs.

During July 2021, Novatti issued 6,080,000 fully paid ordinary shares upon conversion of 1,520,000 convertible notes (4 for 1). On 4 August 2021, Novatti settled the remaining 97,500 convertible notes by way of repayment or redemption and had no further convertible notes on issue.

On 6 August 2021, Novatti completed the share purchase plan and issued 452,742 fully paid ordinary shares at \$0.55 raising \$249,000 before costs.

On 20 August 2021, Novatti held a General Meeting for the ratification of shares issued prior and for the adoption of the 2021 Novatti Employee Incentive plan, and approval for issue of shares for Tranche 2 of the capital raising. On August 27 2021, Novatti completed Tranche 2 of the capital raising by the issue of 21,606,801 fully paid ordinary shares at \$0.55 per share, raising \$11,883,740 before costs.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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

	Consolidated	
	2021	2020
	\$'000	\$'000
Loss after income tax expense for the year	(11,843)	(10,960)
Adjustments for:		
Depreciation and amortisation	1,481	905
Write off of property, plant and equipment	111	-
Share-based payments	2,180	1,602
Unrealised foreign exchange (gain) / loss	1	201
Impairment of capitalised bank licensing costs	-	3,010
Loss / (gain) on convertible notes	2,860	(727)
Movements in reserves	-	375
Equity investments received for services rendered	(364)	(60)
Share of joint venture loss / (profit)	33	(17)
Non-cash finance charges	1,094	1,900
Gain on investments at fair value through profit or loss	(366)	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,714)	(12,666)
Increase in trade and other payables	963	15,015
Increase in employee benefits	427	262
Increase/(decrease) in deferred income	(262)	(76)
Net cash used in operating activities	<u>(5,399)</u>	<u>(1,236)</u>

Note 31. Earnings per share

	Consolidated	
	2021	2020
	\$'000	\$'000
Loss after income tax	(11,843)	(10,960)
Non-controlling interest	31	-
Loss after income tax attributable to the owners of Novatti Group Limited	<u>(11,812)</u>	<u>(10,960)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>228,847,775</u>	<u>171,307,937</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>228,847,775</u>	<u>171,307,937</u>
	Cents	Cents
Basic earnings per share	(5.162)	(6.398)
Diluted earnings per share	(5.162)	(6.398)

As at 30 June 2021, the Group has 36,070,835 unlisted option on issue. These options are considered to be non-dilutive whilst the Group is in a loss position.

Note 32. Share-based payments

Options issued under employee share option plan

Novatti Group Limited
Notes to the financial statements
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Note 32. Share-based payments (continued)

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

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

The options granted in FY21 were calculated based on the Binomial model method of calculation for share-based payments.

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

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

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

2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
27/11/2018	30/11/2022	\$0.190	9,000,000	-	-	(3,666,665)	5,333,335
25/11/2019	30/11/2023	\$0.200	3,500,000	-	(166,667)	(333,333)	3,000,000
19/12/2019	19/12/2022	\$0.200	5,370,000	-	(355,000)	(265,000)	4,750,000
10/07/2020	10/07/2023	\$0.200	-	850,000	-	-	850,000
10/07/2020	01/03/2024	\$0.200	-	441,667	-	-	441,667
10/07/2020	01/03/2025	\$0.200	-	441,667	-	-	441,667
10/07/2020	01/03/2026	\$0.200	-	66,666	-	-	66,666
10/07/2020	31/12/2022	\$0.200	-	3,200,000	-	-	3,200,000
26/10/2020	26/10/2023	\$0.300	-	1,000,000	-	-	1,000,000
25/11/2020	30/11/2024	\$0.270	-	2,500,000	-	-	2,500,000
22/12/2020	22/12/2023	\$0.275	-	3,600,000	-	-	3,600,000
22/12/2020	14/10/2023	\$0.300	-	2,000,000	-	-	2,000,000
05/05/2021	05/05/2024	\$0.750	-	100,000	-	-	100,000
08/02/2021	08/02/2024	\$0.300	-	200,000	-	-	200,000
07/04/2021	07/04/2024	\$0.600	-	100,000	-	-	100,000
05/04/2021	05/04/2024	\$0.300	-	300,000	-	-	300,000
31/05/2021	31/05/2024	\$0.750	-	400,000	-	-	400,000
			17,870,000	15,200,000	(521,667)	(4,264,998)	28,283,335
Weighted average exercise price			\$0.185	\$0.273	\$0.200	\$0.191	\$0.237

2020

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

Novatti Group Limited
Notes to the financial statements
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Note 32. Share-based payments (continued)

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility %	Dividend yield %	Risk-free interest rate %	Fair value at grant date
10/07/2020	10/07/2023	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	01/03/2024	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	01/03/2025	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	01/03/2026	\$0.285	\$0.200	80.00%	-	0.98%	\$0.166
10/07/2020	31/12/2022	\$0.285	\$0.200	80.00%	-	0.98%	\$0.162
10/07/2020	31/12/2022	\$0.285	\$0.200	80.00%	-	0.98%	\$0.143
10/07/2020	31/12/2022	\$0.285	\$0.200	80.00%	-	0.98%	\$0.111
26/10/2020	26/10/2023	\$0.275	\$0.300	70.00%	-	0.98%	\$0.121
26/10/2020	26/10/2023	\$0.275	\$0.300	70.00%	-	0.98%	\$0.099
26/10/2020	26/10/2023	\$0.275	\$0.300	70.00%	-	0.98%	\$0.068
25/11/2020	30/11/2024	\$0.270	\$0.270	70.00%	-	0.30%	\$0.111
25/11/2020	30/11/2024	\$0.270	\$0.270	70.00%	-	0.30%	\$0.114
25/11/2020	30/11/2024	\$0.270	\$0.270	70.00%	-	0.30%	\$0.119
22/12/2020	22/12/2023	\$0.240	\$0.275	70.00%	-	0.98%	\$0.102
22/12/2020	22/12/2023	\$0.240	\$0.275	70.00%	-	0.98%	\$0.083
22/12/2020	14/10/2023	\$0.240	\$0.300	70.00%	-	0.98%	\$0.092
22/12/2020	14/10/2023	\$0.240	\$0.300	70.00%	-	0.98%	\$0.076
22/12/2020	14/10/2023	\$0.240	\$0.300	70.00%	-	0.98%	\$0.048
05/05/2021	05/05/2024	\$0.635	\$0.750	70.00%	-	0.98%	\$0.266
08/02/2021	08/02/2024	\$0.265	\$0.300	70.00%	-	0.98%	\$0.114
08/02/2021	08/02/2024	\$0.265	\$0.300	70.00%	-	0.98%	\$0.092
08/02/2021	08/02/2024	\$0.265	\$0.300	70.00%	-	0.98%	\$0.062
07/04/2021	07/04/2024	\$0.505	\$0.600	70.00%	-	0.98%	\$0.210
07/04/2021	07/04/2024	\$0.505	\$0.600	70.00%	-	0.98%	\$0.168
05/04/2021	05/04/2024	\$0.495	\$0.300	70.00%	-	0.98%	\$0.295
05/04/2021	05/04/2024	\$0.495	\$0.300	70.00%	-	0.98%	\$0.268
05/04/2021	05/04/2024	\$0.495	\$0.300	70.00%	-	0.98%	\$0.233
31/05/2021	31/05/2024	\$0.620	\$0.750	70.00%	-	0.98%	\$0.243
31/05/2021	31/05/2024	\$0.620	\$0.750	70.00%	-	0.98%	\$0.203
31/05/2021	31/05/2024	\$0.620	\$0.750	70.00%	-	0.98%	\$0.131
31/05/2021	31/05/2024	\$0.620	\$0.750	70.00%	-	0.98%	\$0.231

These options have different tranches with different vesting periods.

Bonus options issued for convertible notes

On 30 March 2020 the Group issued 3,500,000 bonus options to the convertible note holders. These options were valued using the Binomial model method of calculation for share-based payments.

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

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
15/11/2019	30/10/2022	\$0.25	2,275,000	-	(800,000)	-	1,475,000
18/02/2020	30/10/2022	\$0.25	1,225,000	-	(112,500)	-	1,112,500
			<u>3,500,000</u>	<u>-</u>	<u>(912,500)</u>	<u>-</u>	<u>2,587,500</u>

Note 32. Share-based payments (continued)

Options issued to consultants

On 15 September 2020, the Group issued 7,000,000 unquoted options to consultants in lieu of investor relation service fees. These options were valued using Black-Scholes valuation model.

Set out below are summaries of options granted to consultants:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
15/09/2020	31/12/2021	\$0.25	7,000,000	-	(1,800,000)	-	5,200,000
			<u>7,000,000</u>	<u>-</u>	<u>(1,800,000)</u>	<u>-</u>	<u>5,200,000</u>

Novatti Group Limited
Directors' declaration
30 June 2021

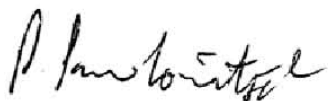
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors



Peter Pawlowitsch
Chairman

31 August 2021

Novatti Group Limited

Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Novatti Group Limited (the Company) and its controlled entities (together, the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

ACCOUNTANTS & ADVISORS

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REVENUE RECOGNITION	
Area of focus	How our audit addressed it
<p>Consistent with the prior year the Group continues to enter into agreements with new trading partners for generating new sources of income and include the following:</p> <ul style="list-style-type: none"> - Platform sales; - Software as a Service fees (Saas); - Support and maintenance fees; and - Licence fees. <p>The Group continues to expand its product and service offerings and geographical reach; this has necessitated transacting with customers to which the Group has limited or no trading history. As a consequence, some of these customers have long payment terms which have impacted the age of the Group's book of debtors.</p> <p>Each revenue stream requires a bespoke revenue recognition model to ensure that revenue is only recognised:</p> <ol style="list-style-type: none"> a) when a performance milestone is achieved; b) can be reliably measured; and c) there is a low likelihood for dispute by the customer for revenues that are recognised which are beyond that originally scoped at the inception of the engagement. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> - Determining whether revenue recognised is in-compliance with the Group's accounting policies; - Identifying and verifying the achievement of performance milestones and recognition of revenue relative to the accretion of that achievement; - Agreeing revenue streams to a sample of underlying contracts with third parties; - Examining the existence of revenue, both by testing to contract, invoicing and to subsequent receipt of the revenue from the customer; - Examining significant aged debtors for evidence of collectability and/or dispute with the services provided; and - Analytically reviewing the reasonableness of accrued revenue and billings-in-advance accounts. <p>We also assessed the appropriateness of disclosures attached to revenues and expected credit losses on receivables, particularly those mandatorily required by the Accounting Standards AASB 15 and AASB 9.</p>
ACCOUNTING FOR CONVERTIBLE NOTES	
Area of focus	How our audit addressed it
<p>The Group issued three tranches of convertible notes during the prior period to meet its working capital needs and to continue to finance its project of applying for an ADI licence from APRA.</p> <p>In-addition to this, bonus call options were issued to investors concurrently with those notes in order to incentivise their investment in the convertible notes. The fair value of these call options has been accounted in the amortised cost of the convertible note.</p>	<p>Our audit procedures involved the following:</p> <ul style="list-style-type: none"> — We obtained management's updated model and assessed the appropriateness of changes in variables that has occurred since the last reporting date that have been used to determine the value of the derivative liability and finance charges imputed into the convertible notes; — We addressed the impact of any conversions and exercises of the convertible notes;



<p>The conversion features in these convertible notes, which is recognised as an embedded derivative, has been accounted for a fair value through the profit or loss. The directors commissioned an external expert to assess the fair value of this derivative at inception and at each reporting date thereafter.</p>	<ul style="list-style-type: none"> — We assessed the continued amortisation of options issued to the convertible note holders which were valued in equity at their grant date by applying the Black-Scholes option pricing model; and
<p>During the year one of these convertible note tranches was exercised during the period, while the remaining two (including some of the bonus options) were partially converted into ordinary fully paid shares.</p>	<ul style="list-style-type: none"> — We also reviewed the disclosures of the convertible notes made in the financial statements to ensure that they were appropriate and complete.
INVESTMENT IN RECKON	
Area of focus	How our audit addressed it
<p>On 30 June 2021 the Company announced that it had entered into share purchase agreements, subject to the completion of a capital raising, to acquire a share interest in Reckon Limited (Reckon) for \$17m.</p> <p>On 2 July 2021 the Company advised the market that it had completed the capital raising necessary to fulfil the acquisition and Reckon concurrently advised the market of a change to its substantial shareholding interest, which aligned with a change to Reckon's share register.</p> <p>The directors consider that the fact that the capital raising requirement and the transfer of shares by the vendor shareholders of Reckon to Novatti, which were obligations under the contract, meant that the share purchase agreement, as at 30 June 2021 was yet to be completed.</p> <p>Accordingly, neither the capital raising nor the investment are reflected in the Statement of Financial Position as at 30 June 2021 but are disclosed as subsequent events in the financial statements.</p>	<p>Our audit procedures involved the following:</p> <ul style="list-style-type: none"> — Discussing the structuring and timing of the transaction with management; — Inspecting the announcements made to the ASX by both parties, examining the share purchase agreements, records of share transfer and representations made by the corporate advisor to the transaction; — Ensuring that the corporate advisor's role to facilitating the transaction was appropriately accrued in the period to which the underlying transaction took place; and — Cross-checking the disclosures of the transaction in the financial statements to our audit work.



Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2021 but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.



In our opinion, the Remuneration Report of Novatti Group Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

William Buck

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

A handwritten signature in black ink, appearing to read 'N. S. Benbow'.

N. S. Benbow
Director

Melbourne, 31st August, 2021

Novatti Group Limited
Shareholder information
30 June 2021

The shareholder information set out below was applicable as at 27 August 2021.

Ordinary shares	Number of holders of ordinary shares	Number of ordinary shares	% of ordinary shares
1 to 1,000	275	210,695	0.07
1,001 to 5,000	1,343	3,781,865	1.17
5,001 to 10,000	657	5,331,518	1.65
10,001 to 100,000	1,283	44,793,510	13.85
100,001 and over	280	269,383,253	83.26
	<u>3,838</u>	<u>323,500,841</u>	<u>100.00</u>
Holding less than a marketable parcel	158	93,695	0.02
Unquoted options	Number of holders of unquoted options	Number of unquoted options	% of unquoted options
5,001 to 10,000	6	60,000	0.17
10,001 to 100,000	40	2,082,500	5.78
100,001 and over	40	33,890,835	94.05
	<u>86</u>	<u>36,033,335</u>	<u>100.00</u>

Novatti Group Limited
Shareholder information
30 June 2021

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	27 August 2021	% of total shares issued
	Number held	
1. BRAYTER LIMITED	46,631,507	14.41
2. CITICORP NOMINEES PTY LIMITED	21,702,529	6.71
3. CS THIRD NOMINEES PTY LIMITED	21,456,989	6.63
4. QING LI	12,500,000	3.86
5. CORANGAMITE PTY LTD (LAKE CORANGAMITE A/C)	11,507,904	3.56
6. MADAM QING LI	10,407,452	3.22
7. EMERSION SOFTWARE SYSTEMS PTY LTD	6,355,226	1.96
8. J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,243,310	1.93
9. UBS NOMINEES PTY LTD	5,236,975	1.62
10. MR FREEMAN XIN WAN (AFU FAMILY A/C)	4,000,000	1.24
11. BRISPOT NOMINEES PTY LTD (HOUSE HEAD NOMINEE A/C)	3,975,904	1.23
12. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,927,096	1.22
13. PORTMAN TRADING PTY LTD	3,909,091	1.21
13. BROADGATE INVESTMENTS PTY LTD	3,909,091	1.21
14. JINGTIAN LI	3,571,428	1.10
15. DASISTAS PTY LTD (DASISTAS SUPER FUND A/C)	3,427,802	1.06
16. NATIONAL NOMINEES LIMITED	3,044,871	0.94
17. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,628,781	0.81
18. MR WEI LI	2,500,000	0.77
19. MR PAUL MCLAREN	2,262,500	0.70
20. WASHINGTON H SOUL PATTINSON AND COMPANY	2,000,000	0.62
	<u>181,198,456</u>	<u>56.01</u>

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	36,033,335	86

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

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
BRAYTER LIMITED	46,631,507	14.41
CITICORP NOMINEES PTY LIMITED	21,702,529	6.71
CS THIRD NOMINEES PTY LIMITED	21,456,989	6.63

Novatti Group Limited
Shareholder information
30 June 2021

Voting rights

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

Ordinary shares

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

There are no other classes of equity securities.

Securities subject to voluntary escrow

Class	Expiry date	Number of shares
Ordinary shares	19 December 2021	11,250

Use of funds

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

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