

Appendix 4D

Half-year report

1. Company details

Name of entity: Novatti Group Limited
ACN: 606 556 183
Reporting period: For the half-year ended 31 December 2019
Previous period: For the half-year ended 31 December 2018

2. Results for announcement to the market

	2019 \$	2018 \$	Change %
Revenues from ordinary activities	4,923,036	3,848,938	27.91%
Loss from ordinary activities after tax attributable to the owners of Novatti Group Limited	(6,752,841)	(2,514,216)	(169%)
Loss for the half-year attributable to the owners of Novatti Group Limited	(6,752,841)	(2,514,216)	(169%)

Dividends

In respect of the half-year ended 31 December 2019, there have been no dividends paid nor provided for.

Corporate and Financial Overview

Novatti's cash holding as at 31 December 2019 was \$2,233,635.

Novatti focus during the half-year has been on:

- Growth of its business units that create recurring and transaction processing revenues
- Signing and commencement of its Principal Issuing relationship with Visa
- Development of the banking licence application with APRA

Novatti has made extensive progress against all of these aims, with continued strong revenue growth against the prior calendar period, commencement of operations with Visa and the submission of the final application to APRA in November 2019.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.01	0.04

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable

6. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
High Impact	50.00%	50.00%	-	-
ATX Malaysia	50.00%	50.00%	3,737	112
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
Profit/(loss) from ordinary activities before income tax			3,737	112

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

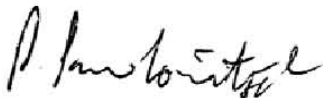
The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of Novatti Group Limited for the half-year ended 31 December 2019 is attached.

9. Signed



Signed _____
Peter Pawlowitsch
Chairman
Melbourne

Date: 27 February 2020

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Novatti Group Limited

ACN 606 556 183

Interim Report for the half-year ended 31 December 2019

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General information

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

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

Registered office and principal place of business

Level 3,
461 Bourke Street,
Melbourne Vic 3000

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2020.

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Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Novatti Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of Novatti Group Limited during the whole of the financial half-year, or part year per the respective appointment dates and up to the date of this report, unless otherwise stated:

Name	Office
Peter Pawlowitsch	Non-Executive Chairman
Peter Cook	Managing Director and Chief Executive Officer
Brandon Munro	Non-Executive Director
Kenneth Lai	Non-Executive Director
Paul Burton	Non-Executive Director
Steven Zhou	Non-Executive Director

Principal activities

The principal continuing activities of the Group consisted of:

- Growth of its business units that create recurring and transaction processing revenues
- Signing and commencement of its principal issuing relationship with Visa
- The provision of financial technology (FinTech) solutions for financial services enterprises and the processing of financial transactions
- Maintenance of compliance capabilities including AFSL and FCA (UK) licencing and AUSTRAC reporting.

In conjunction with its ongoing core operations, Novatti has undertaken extensive activities to create the opportunity for a bank license within the Group. This culminated in the formal application to APRA being finalised in November 2019 for a Restricted Authorised Deposit-taking Institution license.

Review of operations

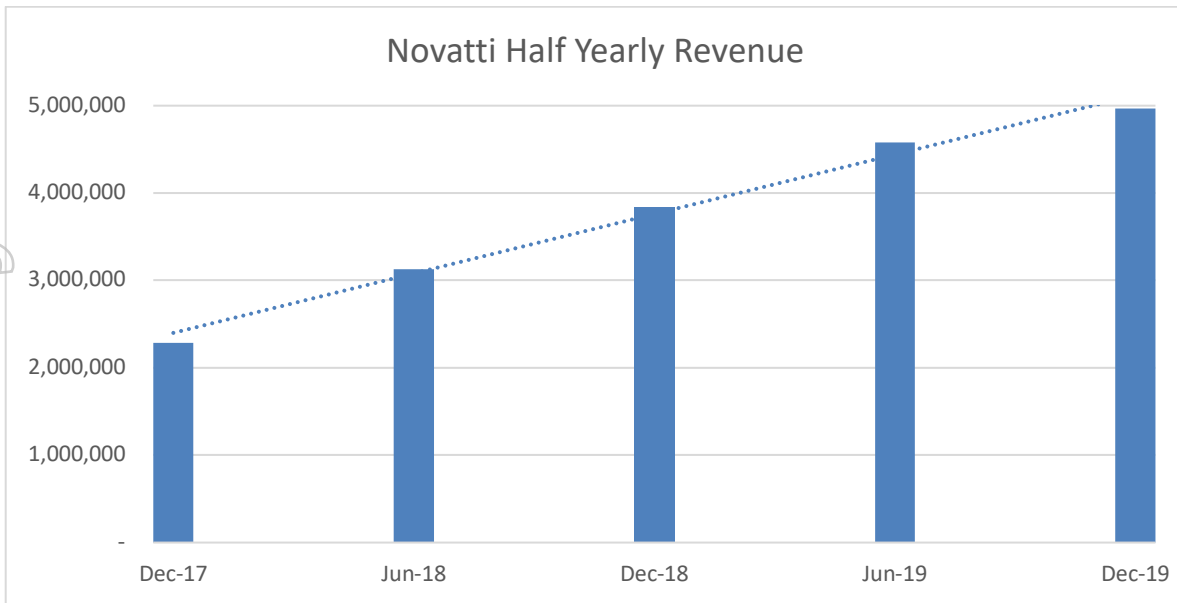
Highlights:

- Transaction processing revenue of over \$1.5M in the December quarter.
- Improvement of Normalised EBITDA from (\$1,552,538) to (\$1,162,628) compared to the corresponding half-year.
- Transaction processing now in excess of 50% of revenue.
- Lodgement of Restricted Bank Licence application to APRA. A team of qualified staff have been hired with relevant banking experience to establish relevant policies and procedures.
- Continued growth of revenue half on half (excluding R&D refund).
- The loss for the Group after providing for income tax amounted to \$6,752,841, prior year loss for the same period was \$2,514,216.
- The Group's revenue excluding the research and development refund claim as shown in the graph below continues to grow at a strong rate.

Normalised EBITDA

	31 Dec 2019	31 Dec 2018
	\$	\$
Loss after income tax expense for the half-year attributable to owners	(6,752,841)	(2,514,216)
Less		
Interest income	(13,113)	(6,118)
Add back		
Depreciation and amortisation	362,569	159,613
Finance charges	596,265	19,921
Tax and other indirect tax expenses	77,986	149,795
EBITDA with banking services	(5,729,134)	(2,191,005)
Add back		
Capitalised bank and EMI licencing costs impairment	3,010,256	-
Other banking services costs	406,052	-
EBITDA (excluding banking services)	(2,312,826)	(2,191,005)
Add back		
Share based payments expense recognised for the half-year	1,275,198	140,614
Less		
Merger and acquisition costs	(125,000)*	497,853
Normalised EBITDA	(1,162,628)	(1,552,538)

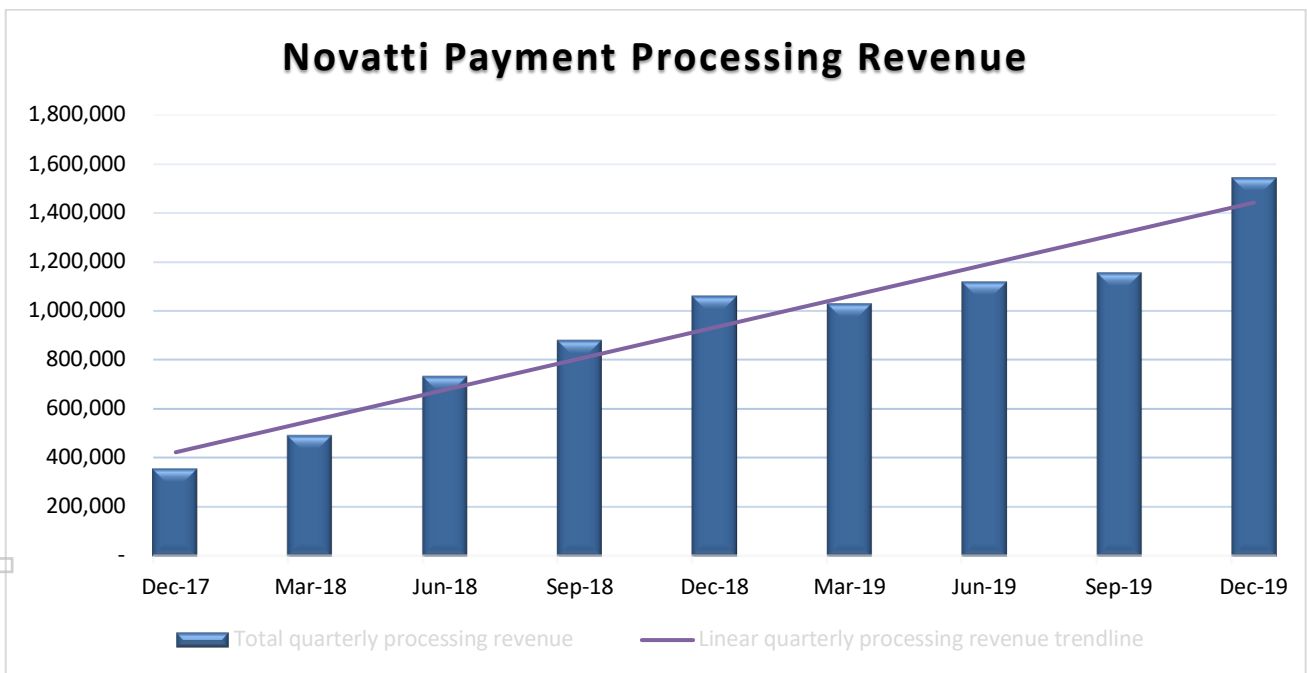
* Discount for early payment on consultancy fees.



Operating overview

Transaction processing

During the half-year ended 31 December 2019, the Group continues to show ongoing growth in transaction processing revenues, as shown in the graph below. For the December quarter, Novatti achieved \$1.5M of transaction processing revenue for a quarter for the first time.



Some notable partners added are:

- Alipay for direct merchant acquiring,
- Visa, Inc for Principal Issuer partnership
- Innovapay Brazil for payment processing
- Multiple Chinese payment processors for collection of online marketplace payments and
- Multiple remittance companies for provision of compliance and processing services.

Billing services

The Group's billing services division basis2 continues to perform in line with expectations.

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Banking

The company lodged its application to obtain a Restricted Authorised Deposit taking Institute (RADI) to the Australian Prudential Regulation Authority (APRA) in November 2018. Novatti's goal is to create Australia's leading migrant services bank through the offer of new banking services to Australian customers with a focus on new migrants.

Following ongoing consultation with APRA, on 12 November 2019 Novatti resubmitted the RADI licence application with all additional documents and information for the RADI licence application required by APRA, and this is currently being assessed by APRA.

Financial technology sales

Novatti has historically provided global sales of its Fintech platforms. Novatti continues to service existing customers and limitedly brings on new customers for technology network and platform sales where such sales are strategic to Novatti's core financial processing business. During the period, Novatti commenced one new Fintech technology client in the Buy Now Pay Later sector.

Corporate and Financial Overview

The Group's cash holding as at 31 December 2019 excluding client funds of \$2,233,635.

The Group is focused on driving the proportion of recurring and transaction revenues within the revenue segments of the group. In addition to its transactional revenue focus, the group is also positioning itself to become a leading migrant services bank leveraging digital technologies such that new sophisticated and meaningful services can be offered from a low cost digital bank.

Significant changes in the state of affairs

The 31 December 2019 half-year financial statements have been adjusted to impair the previously capitalised costs associated with the Restricted Authorised Deposit-taking Institution (RADI) license of \$2.9M and the previously capitalised costs associated with the Electronic Money Issuing license (EMI) of \$120K.

Other significant changes

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

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

Other than discussed, there were no other significant changes in the state of affairs of the Group during the financial half-year ended 31 December 2019.

Subsequent events

Following the end of the quarter, the Group also announced on the ASX the raising of \$10 million as direct equity into the banking subsidiary, conditional on the banking subsidiary obtaining its restricted banking licence. Once achieved, Novatti will no longer have direct responsibility for funding the banking unit.

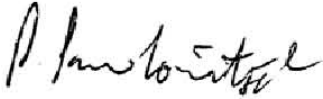
In February 2020, Novatti Group Ltd the parent entity, entered into an agreement with investors for an extension on its convertible note facility. The amount receivable is \$1.225million, bringing the total funds in from the parent entity's convertible note facility to \$3.5million. The terms and conditions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

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 on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Pawlowitsch
Chairman

27 February 2020
Melbourne

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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 half-year ended 31 December 2019 there have been:

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

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



N. S. Benbow
Director

Dated this 27th day of February, 2020

ACCOUNTANTS & ADVISORS

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Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 \$	Consolidated 31 Dec 2018 \$
Revenue	4	4,923,036	3,839,871
Other income	4	13,778	9,067
		<u>4,936,814</u>	<u>3,848,938</u>
Expenses			
Data management expenses		(128,024)	(102,916)
Client hosting fees and other direct services		(1,142,304)	(840,664)
Employee benefits		(5,853,975)	(3,559,502)
Depreciation and amortisation		(362,569)	(159,613)
Occupancy expenses		(64,662)	(112,414)
Finance charges		(242,245)	(19,921)
Foreign currency (losses)/gains		(98,539)	211,367
Marketing and selling expenses		150,086	(320,853)
Administrative and corporate costs		(278,016)	(502,213)
Share of net loss of joint ventures accounted for using the equity method		3,737	112
Due diligence costs		125,000	(497,853)
Gain/(loss) on embedded derivative – convertible note facility into Novatti Group Ltd the parent entity		148,145	-
Cost of debt – convertible note facilities		(354,020)	-
Impairment of capitalised bank licensing costs		(3,010,256)	-
Other expenses		(558,522)	(452,066)
		<u>(6,729,350)</u>	<u>(2,507,598)</u>
Loss before income tax expense		(6,729,350)	(2,507,598)
Income tax expense		(23,491)	(6,618)
		<u>(6,752,841)</u>	<u>(2,514,216)</u>
Loss after income tax expense for the half-year attributable to owners		(6,752,841)	(2,514,216)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		12,858	129,090
		<u>(6,739,983)</u>	<u>(2,385,126)</u>
Total comprehensive loss for the half-year attributable to Owners of Novatti Group Limited	12	<u>(6,739,983)</u>	<u>(2,385,126)</u>
		Cents	Cents
Basic and diluted loss per share		(4.04)	(1.60)

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

Statement of Financial Position

As at 31 December 2019

	Note	Consolidated 31 Dec 2019 \$	Consolidated 30 June 2019 \$
Assets			
Current assets			
Cash and cash equivalents		2,233,635	1,806,924
Trade and other receivables		2,524,494	4,287,947
Financial assets – funds in trust	5	17,309,765	3,754,633
Other current assets		471,796	533,807
Total current assets		<u>22,539,690</u>	<u>10,383,311</u>
Non-current assets			
Investments accounted for using the equity method		8,968	5,224
Other investments		860,000	800,000
Other non-current assets		225,657	78,704
Plant and equipment		622,864	623,124
Right-of-use assets	6	2,324,494	-
Intangible assets	7	2,599,793	4,645,343
Total non-current assets		<u>6,641,776</u>	<u>6,152,395</u>
Total assets		<u>29,181,466</u>	<u>16,535,706</u>
Liabilities			
Current liabilities			
Trade and other payables		3,925,250	4,641,419
Settlement and remittance funds payable	5	17,309,765	3,754,633
Unearned revenue		628,389	937,160
Loans		-	402,506
Lease liabilities	8	185,412	-
Convertible note facility	9	1,075,743	-
Interest payable on convertible note facility into Novatti Group Ltd the parent entity		18,086	-
Employee benefits		577,315	508,095
Total current liabilities		<u>23,719,960</u>	<u>10,243,813</u>
Non-current liabilities			
Employee benefits		52,518	51,502
Lease liabilities	8	2,306,854	117,334
Convertible note facility	9	2,073,064	-
Total non-current liabilities		<u>4,432,436</u>	<u>168,836</u>
Total liabilities		<u>28,152,396</u>	<u>10,412,649</u>
Net assets		<u>1,029,070</u>	<u>6,123,057</u>
Equity			
Issued capital	10	24,164,324	24,074,324
Reserves	11	2,204,365	2,180,965
Accumulated losses		(25,339,619)	(20,132,232)
Total equity		<u>1,029,070</u>	<u>6,123,057</u>

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

Statement of Changes in Equity

For the half-year ended 31 December 2019

	Issued capital \$	Share based payments reserve \$	Foreign currency translation reserve \$	Convertible notes reserve \$	Accumulated losses \$	Total equity \$
Consolidated Balance at 1 July 2019	24,074,324	1,651,193	529,772	-	(20,132,232)	6,123,057
Adjustment on initial application of AASB 16 – Leases, (note 1)	-	-	-	-	54,076	54,076
Balance at 1 July - restated	24,074,324	1,651,193	529,772	-	(20,078,156)	6,177,133
Loss after income tax expense for the half- year	-	-	-	-	(6,752,841)	(6,752,841)
Foreign exchange translation differences	-	-	12,858	-	-	12,858
Total Comprehensive Income	-	-	12,858	-	(6,752,841)	(6,739,983)
Transactions with owners in their capacity as owners:						
Issue of convertible notes	-	-	-	37,987	-	37,987
Lapse of expired share options	-	(1,491,378)	-	-	1,491,378	-
Issue of options from convertible notes*	-	188,735	-	-	-	188,735
Vesting of share based payments arrangements	90,000	1,275,198	-	-	-	1,365,198
Balance at 31 December 2019	24,164,324	1,623,748	542,630	37,987	(25,339,619)	1,029,070

*Novatti Group issued 2.275 million options on its convertible note facility to Noteholders. Refer to note 9.

For the half-year ended 31 December 2018

	Issued capital \$	Share based payments reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Consolidated Balance at 1 July 2018	22,234,239	1,265,108	427,723	(15,177,919)	8,749,151
Loss after income tax expense for the half-year	-	-	-	(2,514,216)	(2,514,216)
Foreign exchange translation differences	-	-	129,090	-	129,090
Total Comprehensive Income	-	-	129,090	(2,514,216)	(2,385,126)
Transactions with owners in their capacity as owners:					
Vesting of share based payments arrangements	-	140,614	-	-	140,614
Balance at 31 December 2018	22,234,239	1,405,722	556,813	(17,692,135)	6,504,639

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

Statement of Cash Flows

For the half-year ended 31 December 2019

	Consolidated 31 Dec 2019	Consolidated 31 Dec 2018
	\$	\$
Cash flows from operating activities		
Receipts from customers	14,427,652	15,617,330
Payments to suppliers and employees	(15,671,686)	(17,306,246)
Interest received	13,114	5,775
Interest paid	(52,462)	(30,295)
Research and development refund received	461,372	923,660
	<hr/>	<hr/>
Net cash used in operating activities	(822,010)	(789,776)
Cash flows from investing activities		
Payments for plant and equipment	(51,476)	(37,388)
Payments for security deposits	(146,953)	-
Payments for intangible assets	(1,138,788)	(830,582)
	<hr/>	<hr/>
Net cash used in investing activities	(1,337,217)	(867,970)
Cash flows from financing activities		
Proceeds from share issue	90,000	-
Proceeds from issue of convertible note facility	3,375,000	-
Cost of debt – convertible note facilities	(289,860)	-
Repayment of lease liabilities	(88,157)	-
Repayment of borrowings	(402,506)	-
	<hr/>	<hr/>
Net cash from financing activities	2,684,477	-
Net decrease in cash and cash equivalents	525,250	(1,657,746)
Cash and cash equivalents at the beginning of the financial half-year	1,806,924	4,509,142
Effects of exchange rate changes on cash and cash equivalents	(98,539)	211,366
	<hr/>	<hr/>
Cash and cash equivalents at the end of the financial half-year	2,233,635	3,062,762

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

Notes to the Financial Statements

Note 1. Significant accounting policies

The half-year financial report is a general purpose financial report that covers the consolidated position of Novatti Group Limited the legal parent (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019. The consolidated entity hereafter will be referred to as the 'Group')

This half-year financial report does not include all the notes of the type usually included in the annual financial report. It is recommended that this financial report be read in conjunction with the financial report for the year ended 30 June 2019 and any public announcements made by the Group during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

Basis of preparation

This condensed financial report has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

New, revised or amending accounting standards and interpretations adopted

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

Disclosures required by these standards that are deemed material have been included in this financial report on the basis that they represent a significant change in the information from that previously made available. Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the interim reporting period ended 31 December 2019.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases

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

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

	1 July 2019 \$
Assets	
Right-of-use assets	2,460,188
Liabilities	
Lease liabilities	(2,514,264)
Total adjustment on equity	
Reduction in opening retained losses as at 1 July 2019	54,076

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

	1 July 2019 \$
Operating lease commitments as at 1 July 2019	3,343,032
Weighted average incremental borrowing rate as at 1 July 2019	5.25%
Discounted operating lease commitments at 1 July 2019	2,549,613
Less:	
Commitments relating to short-term leases	(35,349)
Lease liabilities as at 1 July 2019	<u><u>2,514,264</u></u>

Right-of-use assets

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

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

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

Lease liabilities

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

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

Convertible note facilities

During the period 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.

Note 2. Critical accounting judgements estimates and assumptions

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value 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. Grant Thornton was engaged to conduct a valuation on the share options approved for the Directors of the Group at the notice of Annual General Meeting for FY19.

Options issued to staff and contractors in December 2019 are vested over three separate tranches over a period of 36 months. A probability was applied in the calculation of the total value of staff options ranging from 100% (tranche 1), 80% (tranche 2) and 60% (tranche 3) based on management's assessment of employment turnover for the vesting period and an applied volatility factor of 80%. Refer to note 11 for further details.

The incentive option issued to the Group's directors in FY18 and FY19 are based on market performance criteria as detailed in note 11.

Impairment of costs associated with the banking license and costs associated with the Electronic Money Issuing license

The Group's half-year results for 31 December 2019 includes the impairment of costs associated with its banking subsidiary's Restricted Authorised Deposit-taking Institution license (RADI) application, of \$2.9M and the previously capitalised costs associated with the Group's Electronic Money Issuing (EMI) license of \$120K. This adjustment positions the Group's banking arm for the commencement of its banking services in the upcoming period. Refer to note 7 Intangible Assets for further disclosure.

Convertible Note facility

The calculations of both the fair value of the convertible note with fixed conversion terms at initial recognition and the embedded derivative are considered to be Level 2 fair value assessments.

Specifically:

- The discount applied to the fixed conversion variable debt is drawn from like-for-like enterprises with similar credit profiles, taking into account current economic conditions and underlying risk-free interest rate data; and
- the calculation of the embedded derivative uses a Black-Scholes-Merton model and factors in key market available data, including underlying volatility rates and current spot rates of the Company's share price as well as the contractual features of the note.

Fair value and hierarchy of financial instruments

The Group's financial instruments are all classified as being valued applying Level 1 fair valuation techniques, with the exception of the following below:

- The Group's financial instruments relating to its convertible notes - refer above; and
- the Group's unlisted equity investments have been considered using Level 2 valuation techniques. These investments are valued at their latest available seed capital price or through observations of off-market exchanges of share capital in those investments between buyers and sellers.

Note 3. Operating segments

Identification of reportable operating segments

The Group is organised into four operating business segments:

1. Novatti Platform, incorporating enterprise sales and Maintenance & Support via the Novatti Platform,
2. Billing Solutions, incorporating basis2 operating under Novatti Incorporated,
3. Transaction Services incorporating Flexewallet Pty Ltd, Flexe Payments (South Africa) Pty Ltd, Flexe Payments Ltd, Vasco Pay Pty Ltd,
4. Banking, incorporating the banking services under Novatti IBA Pty Ltd. Novatti B Holding Company Pty Ltd holds its financial assets as its parent entity,
5. Novatti Group Limited, the legal parent that holds the financial assets for the Group.

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

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

Types of products and services

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

Novatti platform

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

Billing solutions

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

Transaction services

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

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

Vasco Pay Pty Ltd: Provides a payment system centred around reloadable prepaid cards that meets the needs and wants of international and local university and college students.

Banking Services

Novatti IBA Pty Ltd, on approval as a Restricted Authorised Deposit-Taking Institution ('RADI') or its banking license by APRA, Novatti IBA Pty Ltd will offer new banking services to Australian customers with a focus on the migrant demographic.

Intersegment transactions

Intersegment transactions were made at cost, or, cost plus agreed margin. 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.

The following tables present information for reportable operating segments for the half-year ended 31 December 2019 and 31 December 2018:

	Novatti Platform \$	Billing Solutions \$	Transaction Services \$	Banking Services \$	Novatti Group Limited \$	Total \$
Consolidated – 31 December 2019						
Revenue						
Sales to external customers	1,263,913	1,048,836	2,610,287	-	-	4,923,036
Total sales revenue	1,263,913	1,048,836	2,610,287	-	-	4,923,036
Other revenue	-	-	-	-	665	665
Total revenue	1,263,913	1,048,836	2,610,287	-	665	4,923,701
EBITDA	(1,113,167)	138,626	(277,843)	(3,403,197)	(1,073,553)	(5,729,134)
Depreciation and amortisation	(165,326)	(104,355)	(16,655)	(5,130)	(71,103)	(362,569)
Interest revenue	3,010	-	3,589	3	6,511	13,113
Finance costs	(93,815)	(569)	(39,330)	(13,852)	(94,679)	(242,245)
Other costs	-	(9,555)	(44,940)	(139,700)	(214,320)	(408,515)
Profit before income tax expense	(1,369,298)	24,147	(375,179)	(3,561,876)	(1,447,144)	(6,729,350)
Income tax expense	-	(19,381)	(4,110)	-	-	(23,491)
Profit after income tax expense	(1,369,298)	4,766	(379,289)	(3,561,876)	(1,447,144)	(6,752,841)

31 December 2019

Segment assets	4,523,750	1,873,797	19,870,864	82,601	2,830,454	29,181,466
Segment liabilities	4,575,430	336,104	19,440,687	1,375,366	2,424,809	28,152,396

Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	2,405,024	-	74,278	30,620	-	2,509,922
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AASB16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. Therefore, the current and comparative EBITDA are not directly comparable.

	Novatti Platform \$	Billing Solutions \$	Transaction Services \$	Banking Services \$	Novatti Group Limited \$	Total \$
Consolidated – 31 December 2018						
Revenue						
Sales to external customers	871,543	1,032,841	1,935,487	-	-	3,839,871
Total sales revenue	871,543	1,032,841	1,935,487	-	-	3,839,871
Other revenue	-	-	-	-	2,949	2,949
Total revenue	871,543	1,032,841	1,935,487	-	2,949	3,842,820
EBITDA	(964,048)	69,471	(400,814)	-	(895,614)	(2,191,005)
Depreciation and amortisation	(16,220)	(98,933)	(1,785)	-	(42,675)	(159,613)
Interest revenue	1,281	-	-	-	4,837	6,118
Finance costs	(11,988)	(363)	(6,116)	-	(1,454)	(19,921)
Other costs	(9,898)	(12,520)	(120,759)	-	-	(143,177)
Profit before income tax expense	(1,000,873)	(42,345)	(529,474)	-	(934,906)	(2,507,598)
Income tax expense	-	(6,618)	-	-	-	(6,618)
Profit after income tax expense	(1,000,873)	(48,963)	(529,474)	-	(934,906)	(2,514,216)

30 June 2019

Segment assets	2,112,875	2,872,489	7,124,600	1,782,082	2,643,660	16,535,706
Segment liabilities	2,427,419	472,741	6,204,495	-	1,307,994	10,412,649

Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	518,568	-	8,942	1,662,628	-	2,190,138
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Note 4. Revenue

	Timing of revenue recognition Services provided at point in time	Services provided over time	Consolidated 31 Dec 2019
Sales revenue:			\$
Platform	-	1,263,913	1,263,913
Billing solutions	599,168	449,668	1,048,836
Transaction processing	2,610,287	-	2,610,287
	<u>3,209,455</u>	<u>1,713,581</u>	<u>4,923,036</u>
Other revenue:			
Interest	-	13,113	13,113
Other income	665	-	665
	<u>665</u>	<u>13,113</u>	<u>13,778</u>
Total Revenue	<u>3,210,120</u>	<u>1,726,694</u>	<u>4,936,814</u>

	Timing of revenue recognition Services provided at point in time	Services provided over time	Consolidated 31 Dec 2018
Sales revenue:			\$
Platform	-	871,543	871,543
Billing solutions	630,130	402,711	1,032,841
Transaction processing	1,935,487	-	1,935,487
	<u>2,565,617</u>	<u>1,274,254</u>	<u>3,839,871</u>
Other revenue:			
Interest	-	6,118	6,118
Other income	-	2,949	2,949
	<u>-</u>	<u>9,067</u>	<u>9,067</u>
Total Revenue	<u>2,565,617</u>	<u>1,283,321</u>	<u>3,848,938</u>

Note 5. Position of funds in trust

Reconciliation of the amounts displayed in the table below represent the balance of client monies held in trust that is payable/receivable in the Statement of Financial Position in relation to the transaction services business of Novatti Group Limited. These funds held in separate bank accounts and are distributed under instructions within 24 hours.

Funds held for Settlement and Remittance

	Consolidated 31 Dec 2019	Consolidated 30 Jun 2019
	\$	\$
Remittance		
Settlement funds payable	13,964,190	1,934,582
Remittance funds payable	3,345,575	1,820,051
Cash and cash equivalents held in trust	<u>17,309,765</u>	<u>3,754,633</u>

Note 6. Right-of-use assets

	Consolidated 31 Dec 2019	Consolidated 30 Jun 2019
	\$	\$
Buildings – right of use	2,460,188	-
Less: Accumulated depreciation	(135,694)	-
	<u>2,324,494</u>	<u>-</u>

As part of the initial implementation of AASB16 on the 1 July 2019, the Group has recognised its operating rental agreements for its offices as right-of-use assets on its statement of financial position.

The Group leases buildings for its offices under agreements of two to ten years inclusive of options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group's rental offices are located in Melbourne and the United Kingdom.

Any short-term or low value lease agreements less than one year have been expensed as incurred and not capitalised as right-of-use assets. The Group's short-term lease contracts include the rental for the office premises in Sydney, Adelaide and India.

Note 7. Intangible assets

	Consolidated 31 Dec 2019	Consolidated 30 Jun 2019
	\$	\$
Intangible assets – at cost	3,432,611	5,305,858
Less: Accumulated amortisation	(832,818)	(660,515)
	<u>2,599,793</u>	<u>4,645,343</u>

	Goodwill	Brand Asset	Intellectual Property	Customer Lists	Licences	Software	Website	Total
2019	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance 1 July 2019	2,000	567,630	847,000	2,017,760	1,661,863	200,000	9,605	5,305,858
Foreign exchange translation difference	-	-	-	(1,779)	-	-	-	(1,779)
Additions	-	-	-	-	1,138,788	-	-	1,138,788
Impairment	-	-	-	-	(2,800,651)	(200,000)	(9,605)	(3,010,256)
Balance 31 December 2019	<u>2,000</u>	<u>567,630</u>	<u>847,000</u>	<u>2,015,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,432,611</u>
Accumulated amortisation								
Balance 1 July 2019	-	(59,637)	(177,657)	(423,221)	-	-	-	(660,515)
Amortisation expense	-	(28,428)	(42,675)	(104,355)	-	-	-	(175,458)
Foreign exchange translation difference	-	-	-	3,155	-	-	-	3,155
Balance 31 December 2019	<u>-</u>	<u>(88,065)</u>	<u>(220,332)</u>	<u>(524,421)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(832,818)</u>
Net book value								
As at 1 July 2019	2,000	507,993	669,343	1,594,539	1,661,863	200,000	9,605	4,645,343
Balance 31 December 2019	<u>2,000</u>	<u>479,565</u>	<u>626,668</u>	<u>1,491,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,599,793</u>

During November 2018, Novatti's management team submitted an application to the Australian Prudential Authority (APRA) for a Restricted Authorized Deposit-taking Institution license (ADI license). Due to the difficulty in assessing the potential financial impact of the granting of the license and notwithstanding the uncertainty as to when the licence will be granted by APRA, the Directors have determined as at 31 December 2019 that the costs in relation to its license should be impaired from the statement of financial position. The full impact of this impairment charge has been recorded as a charge to the statement of profit or loss and other comprehensive income.

Note 8. Lease liabilities

	Consolidated 31 Dec 2019 \$	Consolidated 30 Jun 2019 \$
Current		
Office lease liabilities for Melbourne and United Kingdom	185,412	
Non-current		
Lease incentive liability – Melbourne office	-	117,334
Office lease liabilities for Melbourne and United Kingdom	2,306,854	-
	2,492,266	117,334

Note 9 Convertible note facilities

	Consolidated 31 Dec 2019 \$	Consolidated 30 Jun 2019 \$
Current		
Loan payable - Convertible note facility for \$1.1M at 0% pa	1,075,743	-
Non-current		
Embedded derivative – Convertible note facility for \$2.275M	554,183	-
Loan payable – Convertible note facility for \$2.275M at 9% pa	1,518,881	-
	2,073,064	-

\$2.275 million 9% convertible note facility**- Proceeds from issue \$2,275,000, less transaction costs of \$150,150.**

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

The primary terms of the convertible note facility are:

Issuer: Novatti Group Ltd

Face value: \$2.275M (\$1 per note)

Interest: 9% pa – payable quarterly based on the face value

Term: 15 November 2019 to 30 July 2021

Conversion price: Lesser of

i. \$0.25 and

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

Bonus options issued as attaching to the convertible notes: 2.275 million options exercisable at \$0.25 per share fixed price exercisable any time before 30 October 2022. The value attached to the options is \$188,735, classified in equity reserve. Refer to Statement of Changes in Equity, on page 12 and note 11.

\$1.1million convertible note facility**- Proceeds from issue \$1,100,000 less transaction costs of \$139,710.**

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

The primary terms of the convertible note facility are:

Issuer: NBHC

Holder: AFIG

Face value: \$1.1M

Interest: nil

Term: 8 November 2019 to 31 March 2020.

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

The value attached to the conversion of notes into NBHC shares is equal to \$37,987, classified in equity reserve. Refer to note 11

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

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

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

The convertible notes are unsecured.

Note 10. Issued capital and contributed equity

Ordinary shares

	No.	31 Dec 19 \$	No.	30 Jun 19 \$
Opening Balance 1 July 2019	166,879,214	24,074,324	157,508,333	22,234,239
Fully paid ordinary shares on exercise of options - 28 February 2019*	-	-	84,500	21,954
Placement to further the Company's application for a restricted banking licence – 29 March 2019	-	-	9,286,381	1,950,140
Placement fee to corporate adviser for share placement	-	-		(132,009)
Take up of fully paid ordinary shares at \$0.21 – 25 November 2019	238,096	50,000	-	-
Fully paid ordinary shares at \$0.20 on exercise of options – 31 December 2019*	200,000	40,000	-	-
Closing Balance	167,317,310	24,164,324	166,879,214	24,074,324

*For further information please refer to the ASX announcements page on the respective date of issue.

The issue of 238,096 ordinary shares subscribed by the Chairman as part of the Group's funding of \$2M from sophisticated investors in FY19, was ratified by shareholders at the Group's Annual General Meeting (AGM) held on the 25 November 2019.

Note 11. Equity reserve

	Consolidated 31 Dec 2019 \$	Consolidated 30 Jun 2019 \$
Option reserve	1,623,748	1,651,193
Convertible note option reserve	37,987	-
Foreign currency reserve	542,790	529,772
	2,204,525	2,180,965

Option reserve

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

The following options form part of the reserve for the half-year ended 31 December 2019:

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

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

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

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

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

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

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

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

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

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

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

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

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

In FY18 at the AGM of shareholders, 9.5 million unlisted incentive options were approved to be issued to Group’s Directors at an exercise price of \$0.19.

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

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

See the terms and conditions in Schedule 3 of the Notice of 2018 AGM for further details.

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

Milestone 1: The 20-day VWAP achieving a price greater than or equal to 130% of the November 2018 20-day VWAP at any time during the period commencing 1 December 2018 and ending 30 November 2019 (inclusive).

Milestone 2: The 20-day VWAP achieving a price greater than or equal to 160% of the November 2018 20-day VWAP at any time during the period commencing 1 December 2018 and ending 30 November 2020 (inclusive).

Milestone 3: The 20-day VWAP achieving a price greater than or equal to 190% of the November 2018 20-day VWAP at any time during the period commencing 1 December 2018 and ending 30 November 2021 (inclusive).

The exercise price for the incentive options will be equal to the November 2018 20-day VWAP. The incentive options will expire on 30 November 2022.

The fair value of these Director's options issued by the Group are valued at "grant date" using the Binomial model.

Convertible note option reserve

As part of the Group's convertible note facility issued during the half-year ended 31 December 2019:

- i. the bonus options exercisable for a fixed number of shares (2,275,000 shares) for a fixed price (\$0.25 per share) has been categorised as equity.
- ii. The conversion of the 1.1 million convertible note resulting in a fixed number of shares (1,100,000 million Novatti B Holding Company shares) for a fixed price (\$1 per share) has been classed as equity under the 'fixed' test guidelines of AASB 132 Financial Instruments Presentation (2014)

Accordingly, the equity component of the financial instrument is never remeasured in subsequent reporting periods. Please see note 10 for further information on the terms of the convertible notes.

Foreign currency reserve

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

Note 12. Earnings per share

	Consolidated 31 Dec 2019 \$	Consolidated 31 Dec 2018 \$
Loss after income tax	(6,752,841)	(2,514,216)
Loss after income tax attributable to the owners of Novatti Group Limited	<u>(6,752,841)</u>	<u>(2,514,216)</u>
Weighted average number of ordinary shares outstanding during the year:		
Number used in calculating Earnings Per Share	166,925,798	157,508,322
Number of potential ordinary shares that are considered to be antidilutive*	18,370,000	31,288,351
Basic and diluted earnings per share	(4.02)	(1.60)

* As the Group has incurred a loss for the half-year ended 31 December 2019, the number of potential ordinary shares on offer are not dilutive.

Note 13. Contingent liabilities

There exists a bank guarantee for offices leased in Melbourne. As at 31 December 2019 this totalled \$78,704 (30 June 2019: \$78,031). No other guarantees exist.

The parent entity had no contingent liabilities as at 31 December 2019.

Note 14. Events after the reporting period

On the 6 of January 2020 Novatti Group had entered into a binding heads of agreement (HOA) for additional capital funding and technology investment into Novatti B Holding Company Pty Ltd (NBHC), Novatti's banking

services subsidiary, from new Hong Kong and Australian strategic financial services and fintech investors. The investment will comprise a cash subscription for ordinary shares in NBHC of up to \$10 million and a technology contribution to NBHC at up to \$8 million of ordinary shares.

The capital to be raised will enable NBHC to fund its Tier 1 capital requirements for the Restricted Authorised Deposit-taking Institution (RADI) licence from the Australian Prudential Regulation Authority (APRA), working capital for its operations during the RADI phase and the costs of the application for the full Authorised Deposit-taking Institution (ADI) licence.

The investors comprise Hong Kong-based Fortune Fund Investment (Asia) Limited (Fortune Fund) and Australia-based Sydney Digital Currency Exchange Limited (SDCE).

The HOA provides for equity cash funding over three stages of up to \$10 million in aggregate. The first two stages, comprising \$8 million in aggregate, are required to be held in escrow prior to the grant of the RADI licence and will be invested after grant. The third stage, comprising a further \$2 million in aggregate, is required to be invested after grant. Up to a further \$8 million in equity will be issued to the investor group and additional strategic investors on the provision of requisite banking technology and support arrangements to NBHC.

Combined with Novatti's current equity holding (of \$20 million), the converting note agreement for \$1.1M with AFIG and allowances for directors, management and consultants' equity, the post-money valuation for NBHC is \$40 million.

On the 18 of February 2020, Novatti Group Ltd the parent entity, entered into an agreement for an extension on its convertible note facility (for \$2.275million), with two sophisticated investors. The amount receivable is \$1.225million, bringing the total funds in from the parent entity's convertible note facility to \$3.5million. The terms and conditions of the extension is identical to those of the original convertible note deed pole taken up by Novatti Group Ltd on 15 November 2019.

There are no other matters or circumstances that have arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 15. Fair value measurement

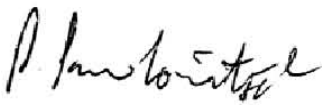
The net fair value of financial assets and liabilities approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Directors' Declaration

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Pawlowitsch
Chairman

27 February 2020
Melbourne

For personal use only

Novatti Group Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Novatti Group Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Novatti Group Limited is not in accordance with the Corporations Act 2001 including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

Responsibilities of the Directors for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

ACCOUNTANTS & ADVISORS

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As the auditor of Novatti Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

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 27th day of February, 2020

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