

ASX RELEASE

28 February 2020

INCENTIAPAY ANNOUNCES 1H RESULTS FOR FY2020

SYDNEY - IncentiaPay Limited (ASX: **INP**, or the **Company**) has today announced its half year results for the period ended 31 December 2019.

Financial Highlights

- Revenue of \$22.47 million (1HFY19: \$44.29 million) predominantly due to reduced reliance on low margin gift cards
- Underlying EBITDA loss of \$4.6 million (1HFY19: loss of \$338k)
- Loss after tax of \$14.49 million (1HFY19: loss of \$12.0 million)
- \$3 million received outside 1H on 23 January 2020 as the 4th tranche of Suzerain's convertible loan
- Notice given by Suzerain to convert \$19.3 million of debt to equity
- Provision by Suzerain of an additional \$5.825 million of debt funding for growth capital
- Average revenue per transaction in new 2020 sales season increased by 29%

IncentiaPay's Chairman, Mr Stephen Harrison, said, "Whilst the Company has incurred a significant loss, and to date, there is a year-on-year decline in its top line revenue, the results are exactly as expected and in line with its Transformation Plan. In particular, the board is extremely pleased with the average 29% increase per membership purchased from the current sales season which commenced at the start of February.

"As a result of the planned cost out initiatives implemented from the Boards strategic review, the Company has a significant reduction in operational expenditure, which has yet to flow through to the P&L. There has also been planned increased spending across both Marketing and IT."

As previously announced, the Company has implemented a phased Transformation Plan which it is executing to. The tangible achievements from the period include:

- 1. Enhanced Digital Capability** – During the period, the Company launched a series of new Entertainment memberships, including a rolling 12-month subscription, which allows members to purchase at any time. This is expected to reduce revenue seasonality over time. In addition, Multi City and Multi Year membership options were also introduced. Since their release, the average revenue per membership purchased has increased by 29% from \$70 to \$90.
- 2. New Leadership Team in Place** - The Company appointed Henry Jones as its Chief Executive Officer. Henry has a diverse background across sales and technology notably with IBM in Australia, USA and Canada. The Company also appointed Ben Newling as Chief Operating

Officer, Toby Ellis as Chief Revenue Officer and Linda McDonald as Chief Customer Experience Officer. Stacey Hampton continues as the Company's General Manager of People. In addition, the Company is seeking to recruit a Chief Information Officer.

3. Cost Base Right Sized – As previously reported, the Company has removed \$14 million in annualised operating expenditure, closed six regional offices and will greatly reduce future printing and logistics costs due to the decision to go 100% digital.

Suzerain Converts Debt and Provides Additional Growth Capital

As previously announced Suzerain Investment Holdings Limited (**Suzerain**) has given the Company notice to convert \$19,300,257 of its debt into 410,643,766 ordinary shares (4.7c per share), leaving c\$500k of secured debt and has agreed to provide the Company with a further \$5.825 million loan facility.

This facility will enable the Company to pursue additional growth over the medium to long-term. A Pro-Forma December 2019 balance sheet is provided in the Appendix and shows adjustments based on the conversion.

Outlook

Whilst the past 18 months has not been without challenges, it has resulted in a simplified business to focus on the core Entertainment asset. The Company has removed significant operational expense, invested in key growth initiatives, put in place a stable and well experienced management team and is well capitalised to invest in strategic initiatives for future growth. The Company has a supportive shareholder base and we look forward to seeing results from the extensive work that has been undertaken to repair and build the foundations of the business.

For further information please contact:

Ben Newling
Company Secretary
Ben.newling@incentiapay.com

Appendix A, Pro-Forma Balance Sheet

	Note	As at 31-Dec-19 \$'000	Adjustments	Pro Forma 31-Dec-19 \$'000
Total current assets		11,363	3,000	14,363
Total non-current assets		27,970		27,970
TOTAL ASSETS		39,333	3,000	42,333
Current liabilities				
Trade and other payables		4,978		4,978
Lease liabilities	8	1,207		1,207
Borrowings	9	17,294	-16,794	500
Current tax liabilities		190		190
Deferred revenue	10	14,331		14,331
Provisions	7	702		702
Total current liabilities		38,702	-16,794	21,908
Non-current liabilities				
Lease liabilities	8	3,366		3,366
Borrowings	9	-	750	750
Provisions	7	78		78
Total non-current liabilities		3,444	750	4,194
TOTAL LIABILITIES		42,146	-16,044	26,102
NET ASSETS		-2,813	19,044	16,231
EQUITY				
Issued capital		96,756	19,300	116,056
Reserves		416		416
Retained earnings		-99,985	-256	-100,241
TOTAL EQUITY		-2,813	19,044	16,231

Note: Includes conversion of convertible loan and drawdown of tranche 4 of the Convertible Loan

Disclaimer: The pro-forma financial information above is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to the annual financial statements. The pro-forma financial information is not audited. The classification of the allocations between debt and equity may change in the future.

Half Year Report and Appendix 4D

IncentiaPay Limited (ABN 43 167 603 992)

Results for Announcement to the Market

This interim report of IncentiaPay Limited is provided to the Australian Securities Exchange (**ASX**) under ASX Listing Rule 4.2A.

1. Reporting Period Details

Current Reporting Period: Half Year Ended 31 December 2019
Previous Corresponding Period: Half Year Ended 31 December 2018

2. Results

	Movement	Half Year ended 31-Dec-19	Half Year ended 31-Dec-18
Revenue from ordinary activities(\$'000')#	DOWN 49%	22,466	44,291
Underlying EBITDA(\$'000')~	DOWN 1252%	(4,570)	(338)
Net Profit/(Loss) from ordinary activities after tax(\$'000')	DOWN 228%	(14,490)	(4,422)
Loss for the period attributable to members(\$'000')^	DOWN 20%	(14,490)	(12,049)
Net tangible assets per share (cents)	DOWN 1345%	(8.96)	(0.62)

#Excludes Interest received, see note 2 of the interim financial report.

~Non-IFRS Financial Information.

^ Loss for the period attributable to members for last year was restated, see note 11 of the interim financial report.

No interim dividend was paid or proposed for the period.

Note:

The information contained in this Appendix, and the attached Half Year Financial Report, do not include all the notes of the type normally included in annual financial statements. Accordingly, these reports are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Additional information supporting the Appendix 4D disclosure requirements can be found in the attached Directors' Report and the consolidated financial statements for the half-year ended 31 December 2019.

3. Underlying EBITDA

Underlying EBITDA for 1HFY2020 was a loss of (\$4.6) million. A calculation of Underlying EBITDA is shown below:

	Consolidated Group	
	Half Year ended 31-Dec-19 \$'000	Half Year ended 31-Dec-18 \$'000
Fee income-Paid advertising and Travel booking	1,224	1,881
Fee income-Consulting and media	209	3,339
Membership subscriptions	12,716	14,193
Corporate sales	2,113	3,143
Gift card sales	6,204	21,735
Total Revenue from ordinary activities#	22,466	44,291
Cost of gift cards	(6,116)	(21,278)
Operating Costs	(20,920)	(23,351)
Underlying EBITDA~	(4,570)	(338)

#Excludes Interest received, see note 2 of the interim financial report.

~Non-IFRS Financial Information.

Revenue

Revenue has continued to decline over the same period in the prior year, which reflects the trend leading up to a change in direction to 100% digital, and highlights the renewed focus of the business to long term profitability through product rationalisation.

The notable reduction associated with Fee Income - Consulting and Media is due to the divestment of Blackglass Pty Ltd that accounted for \$1.9m of the \$3.3m in the prior period. The remaining reduction of \$1.2m is driven by the loss of key customers associated with Entertainment Digital.

Gift card sales have reduced significantly due to the removal of David Jones and Chemist Warehouse from our catalogue. This reflects the key focus of the business to remove unprofitable gift cards from the operations.

Membership revenue has continued the downward trend reported in the annual report, due to declining book sales for the 19/20 season. This trend is the driver of the strategic review by the board, resulting in the decision to cease the production of a physical book. The new digital membership subscription was launched in November 2019, with a rolling 12-month subscription period, which underpins future growth initiatives.

Underlying EBITDA can be reconciled to Reported EBITDA as per the table below:

	Consolidated Group	
	Half Year ended 31-Dec-19 \$'000	Half Year ended 31-Dec-18 \$'000
Underlying EBITDA~	(4,570)	(338)
Bad debt written off	(2,966)	-
Impairment expense	(1,385)	-
Other one-off expenses	(767)	(993)
Restructuring costs	(1,886)	(107)
Shares based payment (Reversed)	730	-
Total One-off Expenses~	(6,274)	(1,100)
Reported EBITDA~	(10,844)	(1,438)
Depreciation and amortisation expense^	(3,243)	(1,106)
Net finance costs	(773)	(46)
Interest received	8	70
Operating Profit/(Loss) before income tax	(14,852)	(2,520)

~Non-IFRS Financial Information.

^The significant increase in depreciation and amortisation expense and net finance costs are mainly due to the application of new accounting standard, AASB 16. See note 13 of the interim financial report.

Bad debt written off

Bad debt written off relates to \$2.91m of deferred consideration for the sale of Bartercard business (See ASX release 24 Dec 2019 Settlement of Claim with TCM) and \$0.06m in Blackglass (a previous subsidiary) deferred consideration held for working capital adjustments. Current circumstances have rendered these amounts to be uncollectible.

Impairment expense

As a result of the Group's decision to seek expressions of interest with respect to Entertainment Digital's business assets, it has been assessed that the assets will not produce any future economic benefits to the Group, as such, the assets have been impaired to reflect this.

Other one-off expenses

The group reviewed its leasehold improvements, taking into consideration recent decisions relating to branches, and time remaining on leases. This resulted in the write off affected leasehold improvements of \$0.69m. The remaining \$0.07m of one-off other charges relates to set up fees for the convertible loan and previous entitlement offer.

Restructuring costs

During the 6 months ending 31 December 2019, large scale redundancies were finalised, and costs associated with book printing and property occupancy were removed from the business.

Shares based payment (Reversed)

The performance rights scheme was dissolved during the period resulting in the related shares-based expenses previously recognised being unwound.

Impact of AASB 16: Leases

As detailed in note 13 of the interim financial report, the group adopted AASB16: Leases from 1 July 2019. This standard introduces a change in the way leases are accounted for resulting in an increase in EBITDA due to property operating lease payments no longer accounted for in the profit and loss. For the period ending 31 December 2019, rent payments of \$0.8m were moved to the balance sheet to reduce lease liabilities, and were replaced with an increase in depreciation and finance costs.

4. Control gain or lost over entities in the half year

No control gain or lost over entities.

5. Non-IFRS Financial Information

Within this Appendix 4D the directors have presented a number of pieces of non-IFRS financial information, including a calculation of Underlying EBITDA, in order to better describe the underlying results of the business to users of this report. The directors believe that this additional disclosure allows users to better understand the business while it is navigating the current strategic review period. See section 3 above for a reconciliation of non-IFRS information to the IFRS results presented in the attached interim financial report.

6. Independent Auditor's Review

The condensed consolidated financial statements for IncentiaPay Limited and its controlled entities for the half year ended 31 December 2019 have been reviewed by the Group's independent auditors and a copy of their review report is included in the attached 31 December 2019 half-year financial report

7. Attachments

The Directors attach the following documents:

- The financial report of IncentiaPay Limited for the half year ended 31 December 2019.

Signed:

Date: 28 February 2019

Stephen Harrison

Chair

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INCENTIAPAY LIMITED

ABN 43 167 603 992

HALF-YEAR FINANCIAL REPORT

FOR THE SIX MONTHS ENDED
31 DECEMBER 2019

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The Directors present their report on the consolidated entity IncentiaPay Limited and its controlled entities ("INP" or "the Group") for the half year ended 31 December 2019.

Directors

The following persons were Directors of Incentiapay Limited during or since the end of the half year, up to the date of this report:

- Stephen Harrison
- Jeremy Thorpe
- Charles Romito
- Dean Palmer (Appointed 15 August 2019)

Company Secretary

Ben Newling

Review of Operations

IncentiaPay Limited "INP" or "the Company", is a leading provider of customer loyalty, incentives and coupon offerings through its primary asset, Entertainment.

INP recorded revenues from continuing operations of \$22.5m (H1FY18: \$44.4m), a loss after tax of \$14.5m (H1FY18: loss \$4.4m) and loss per share of 6.0 cents (H1FY18: loss 1.9 cents).

As highlighted in the Annual Report, the Board has undertaken a strategic review that identified the need to remove significant operational costs from the business. During the six months ending 31 December 2019, large scale redundancies were completed. and costs associated with printing, logistics and property have been removed from the business.

The Company continued progress to operationalise the three pillars of the strategic review, being:

1. The move to a hundred percent digital membership model.
2. Focus on core membership products.
3. Expand distribution beyond the 'not for profit' channels.

The Group enhanced its core digital product to allow a 12-month membership to commence at any time of the year. In time, it is expected that this will reduce the seasonality of the sales cycle currently in the business. In addition, the new product allows members to select a national or multi-year membership. This period has also seen a change of leadership with Henry Jones being appointed as CEO, taking over from Stephen Harrison, the Independent Chair, who was acting as Executive Chair.

Entertainment normally generate the bulk of its cash receipts during March to July when it launches the annual Entertainment membership in digital format through the network of more than 16,000 Not for Profit groups at various events throughout Australia and New Zealand. Consequently, the second half cash generated from operations will be significantly higher than the first half.

ASIC Instrument 2016 / 191 Rounding in Financials/Directors' Reports

The Group is of a kind referred to in ASIC Instrument 2016/191. Accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Events after the end of the Interim Period

On 27 February 2020, Suzerain opted to convert \$19,300,257 of their convertible loan into 410,643,766 ordinary shares at \$0.047 per share, in accordance with the Convertible Loan Agreement approved by shareholders at the AGM held in December 2019.

In addition, the Group entered into a new Loan Deed with Suzerain on 27 February 2020 for the provision of a \$5.83m facility (including associated borrowing costs). This facility will initially be unsecured with the view to obtaining shareholder approval for security at the Company's next Annual General Meeting, anticipated to be held in November 2020.

This facility will be used to expedite growth initiatives and contingency given the highly seasonal nature of the business.

The loan can be drawn in three tranches as follows:

- \$1,825,000 on or after 15 March 2020 (less \$750,000 already provided under the pre-existing short-term facility, and \$75,000 borrowing costs);
- \$1,000,000 on or after 15 April 2020; and
- \$3,000,000 on or after 15 December 2020.

Interest is payable at 10% pa and the loan repayment date is 31 December 2021.

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 page 3.

This Directors' report is signed in accordance with a resolution of the Board of Directors:

Dated this 28th day of February 2020



Stephen Harrison
Chair

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Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of IncentiaPay Limited

I declare that, to the best of my knowledge and belief, in relation to the review of IncentiaPay Limited for the half-year ended 31 December 2019 there have been:

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

KPMG

John Wigglesworth

Partner

Sydney

28 February 2020

INCENTIAPAY LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2019

	Note	Consolidated Group	
		Half-year ended 31-Dec-19 \$'000	Half-year ended 31-Dec-18 Restated* \$'000
Revenue	2	22,474	44,361
Direct expenses of providing services	3	(13,417)	(31,467)
Impairments	3	(1,385)	-
Employee expenses	3	(11,042)	(7,519)
Depreciation and amortisation expense	3	(3,243)	(1,106)
Building occupancy expense	3	(245)	(1,764)
Finance costs	3	(773)	(46)
Legal and professional costs		(293)	(917)
Website and communication		(1,104)	(1,301)
Bad debts written off	3	(2,966)	-
Other expenses		(2,858)	(2,761)
Operating Loss before income tax		(14,852)	(2,520)
Gain on disposal of equity accounted investment		-	600
Loss before income tax		(14,852)	(1,920)
Tax benefit / (expense)		362	(2,502)
Loss for the period from continuing operations		(14,490)	(4,422)
Loss for the period from discontinued operations		-	(7,627)
Net loss attributable to: Members of the parent entity		(14,490)	(12,049)
Other comprehensive income			
Gain arising from translating foreign controlled entities from continuing operations		10	169
Transfer of foreign currency translation reserve to loss of discontinued operations		-	(322)
Total comprehensive loss for the period		(14,480)	(12,202)
Loss per share			
Earnings from continuing operations		(6.0)	(1.9)
Loss from discontinued operations		-	(3.3)
Total		(6.0)	(5.2)

The accompanying notes form part of these financial statements
*See Note 11 for details about restatements

INCENTIAPAY LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		Consolidated Group	
		As at 31 Dec 2019 \$'000	As at 30 June 2019 \$'000
Current assets	Note		
Cash and cash equivalents		3,471	3,460
Deferred consideration		-	695
Trade and other receivables		1,145	2,728
Inventories		553	96
Other assets	5	6,194	7,853
Total current assets		11,363	14,832
Non-current assets			
Deferred consideration		-	2,414
Right of use asset	13	3,398	-
Property, plant and equipment		1,481	2,383
Deferred tax assets		4,081	3,717
Intangible assets	6	19,010	22,507
Total non-current assets		27,970	31,021
TOTAL ASSETS		39,333	45,853
Current liabilities			
Trade and other payables		4,978	5,941
Lease liabilities	8	1,207	-
Borrowings	9	17,294	4,169
Current tax liabilities		190	186
Deferred revenue	10	14,331	21,394
Provisions	7	702	1,833
Total current liabilities		38,702	33,523
Non-current liabilities			
Lease liabilities	8	3,366	-
Borrowings	9	-	466
Provisions	7	78	217
Total non-current liabilities		3,444	683
TOTAL LIABILITIES		42,146	34,206
NET ASSETS		(2,813)	11,647
EQUITY			
Issued capital		96,756	96,006
Reserves		416	1,136
Accumulated losses		(99,985)	(85,495)
TOTAL EQUITY		(2,813)	11,647

The accompanying notes form part of these financial statements

INCENTIAPAY LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		Ordinary share capital	Accumulated losses	Foreign currency translation reserve	Share based payments reserve	Total
	NOTE	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2018		94,892	(47,591)	215	660	48,176
Comprehensive income						
Loss for the period		-	(9,296)	-	-	(9,296)
Prior period restatement	11	-	(2,753)	-	-	(2,753)
Other comprehensive income						
Exchange differences on translation of foreign operations		-	-	169	-	169
Transfer of foreign currency translation reserve to loss of discontinued operations		-	-	(322)	-	(322)
Total comprehensive loss for period (Restated)¹		-	(12,049)	(153)	-	(12,202)
Transactions with owners, in their capacity as owners and other transfers						
Employee share based payments		-	-	-	103	103
Total transactions with owners and other transfers		-	-	-	103	103
Balance at 31 December 2018 (Restated)¹		94,892	(59,640)	62	763	36,077
	NOTE	Ordinary share capital	Accumulated losses	Foreign currency translation reserve	Share based payments reserve	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019		96,006	(85,495)	406	730	11,647
Comprehensive income						
Loss for the period		-	(14,490)	-	-	(14,490)
Other comprehensive income						
Exchange differences on translation of foreign operations		-	-	10	-	10
Total comprehensive loss for period		-	(14,490)	10	-	(14,480)
Transactions with owners, in their capacity as owners and other transfers						
Shares issued during the period ²		750	-	-	-	750
Employee share based payments ³		-	-	-	(730)	(730)
Total transactions with owners and other transfers		750	-	-	(730)	20
Balance at 31 December 2019		96,756	(99,985)	416	-	(2,813)

1. See note 11.

2. The placement shares have been issued pursuant to the acquisition agreement between the company and Sinetech Limited (Formerly the Gruden Group Limited).

3. The performance rights scheme was dissolved during the period. The related shares-based expenses previously recognised were reversed during the period.

INCENTIAPAY LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Consolidated Group		
	Note	Half-year ended 31-Dec-19 \$'000	Half-year ended 31-Dec-18 \$'000
Cashflows from operating activities			
Receipts from customers		19,373	41,568
Interest paid		(134)	(46)
Payments to suppliers and employees		(30,034)	(52,699)
Net cash used in operating activities		(10,795)	(11,177)
Cashflows from investing activities			
Purchase of property, plant and equipment		(25)	(917)
Purchase of intangibles		(68)	(1,178)
Proceeds from sale of businesses		-	3,238
Payments for bank guarantees		(830)	-
Proceeds from sale of unlisted equity investment		-	600
Net cash (used in)/provided by investing activities		(923)	1,743
Cashflows from financing activities			
Repayment of loans		-	(575)
Net Proceeds from borrowings		12,750	6,685
Principal element of lease payments		(1,014)	
Net cash provided by financing activities		11,736	6,110
Net increase/(decrease) in cash held		18	(3,324)
Effects of exchange rate changes on cash held		(7)	(138)
Cash and cash equivalents at beginning of financial period		3,460	9,664
Cash and cash equivalents at the end of the financial period in continuing operations		3,471	6,202

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Note 1 | Summary of Significant Accounting Policies

Basis of preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Incentiapay Limited and its controlled entities (referred to as the "consolidated group" or "group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 28 February 2020.

Going concern

The consolidated half-year financial report has been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

At 31 December 2019 the Group had cash on hand of \$3.5m, a net assets deficiency of \$2.8m and a net current asset deficiency of \$27.3m. During the half-year ended 31 December 2019, the Group incurred a net loss before tax from continuing operations of \$14.9m and incurred net cash outflows from operating activities of \$10.8m.

The Entertainment business launched its 100% digital offering in November 2019, which included a 12-month subscription period from date of activation. Consistent with the seasonal nature of the company's business, operating cash outflows have continued to be incurred subsequent to 31 December 2019 and up until 28 February 2020 as cash inflows from sales campaigns of the company's Entertainment membership product largely commence in March each year. It is anticipated that this seasonal nature will continue but will diminish over time.

Subsequent to half year end the Group received the final tranche of funding under the Convertible Loan Deed of \$3.0m.

Subsequent to half year end the Group entered into a new Loan Deed with Suzerain Investment Holdings Limited ('Suzerain') on 27 February 2020 for the provision of a \$5.83m facility (incorporating the existing unsecured short term loan detailed in note 9, and borrowing costs). This facility will be drawn down in three tranches over the next 12 months and is to be used to expedite growth initiatives and contingency given the highly seasonal nature of the business.

Included within current liabilities are two loan facilities totalling \$19.75m, of which \$16.75m was drawn down as at 31 December 2019 (refer to note 9). Subsequent to half year end, on 27 February 2020, Suzerain opted to convert

\$19.3m of their convertible loan into 410,643,766 ordinary shares at \$0.047 per share, in accordance with the Convertible Loan Agreement approved by shareholders at the AGM held on 20 December 2019.

This conversion has resulted in a reduction in the current asset deficiency and net asset deficiency of \$19.3m subsequent to 31 December 2019.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. These cash flow projections assume the Group generates positive net cash inflows from operations sufficient to meet the Groups ongoing operating expenditure.

The ongoing operation of the Group is dependent upon the Group achieving sufficient positive cash inflows from operations to meet its contractual commitments and/or the Group reducing expenditure in-line with available funding and/or the Group raising additional debt or equity funding, the achievement of which are inherently uncertain until realised.

These conditions give rise to material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations.

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Incentiapay Limited and all of its subsidiaries (also referred to as "the Group"). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Inter-company transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation.

Accounting policies of subsidiaries have been adjusted where necessary to ensure uniformity of the accounting policies adopted by the Group.

(b) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are

translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income. Otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- Assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the Statement of Financial Position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the Group disposes of the operation.

(c) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant taxation authority.

Receivables and payables are stated exclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the relevant taxation authority are presented as operating cash flows included in receipts from customers or payments to suppliers.

(d) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) Statement of Financial Position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

(e) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Instrument 2016 / 191. Accordingly, amounts in the financial statements and Directors' Report have been rounded off to the nearest \$1,000.

(f) New standards, interpretations and amendments adopted by the Group

Except for the below, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

AASB 16: Leases became applicable from 1 January 2019. The Group has changed its accounting policies and applied it commencing 1 July 2019.

The impact of the adoption of this standard and the new accounting policies are disclosed in note 13, Changes in accounting policies.

(g) Critical Accounting Estimates and Judgements

The Directors' estimates and judgments are incorporated into the financial statements and are based on historical knowledge and the best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and from within the Group.

Key estimates and judgements

Impairment – goodwill and other intangibles

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using the higher of fair value less costs of disposal or value-in-use calculations which incorporate various key assumptions.

Further details on the key estimates used in the impairment evaluation and the impairment recognised in respect of goodwill or other intangibles for the half-year ended 31 December 2019 can be found in note 6.

Impairment – cash debtor receivables

The Group assesses impairment of cash debtor receivables at the end of each reporting period by reference to the history of cash debtor collections.

INCENTIAPAY LIMITED AND CONTROLLED ENTITIES
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Note 2 | Revenue

Accounting policy

Other than for a limited number of exceptions, including leases, the revenue model in AASB 15 applies to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective AASB 15 provides the following five-step process:

- Identify the contract(s) with a customer,
- Identify the performance obligations in the contract(s),
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contract(s), and
- Recognise revenue when (or as) the performance obligations are satisfied.

In November 2019, Entertainment launched a completely digital version of the Entertainment membership that incorporates a rolling 12-month subscription period.

The subscription period commences when the membership is activated and expires after a period of 12 or 24 months, depending on subscription purchased.

The membership year for the 19/20 edition of the book runs from 1 June 2019 to 31 May 2020.

The Group satisfies its obligations as services are rendered to members during the period of membership. Benefits must be provided constantly throughout the period and Entertainment Publications has concluded that a straight-line basis is the most appropriate method.

- Fee income – Paid advertising: Revenue from Entertainment Publications marketing and merchant support fees through the placement of advertisements and the distribution of offers and promotions on behalf of businesses to members is recognised when the advertisement or offer is placed, distributed and invoiced. Revenue from the successful promotion of merchant offers is recognised when the transaction occurs which evidences the take up of the promotion.
- Fee income – Travel booking: Revenue from commission's receivable for bookings are recognised when the bookings are made, and it is paid for.
- Fee income - Consulting and media: Revenue relates to rendering of information technology consulting services and it is recognised by reference to the stage of completion of the contract.
- Membership Subscriptions: On commencement of memberships, Entertainment Publications enters into a performance obligation to deliver benefits in the form of special offers, discounts, promotions and booking facilities to members during the period of membership. A liability is recognised for unearned revenue for performance obligations to members that have not yet been satisfied. Payment for membership is made prior to the commencement of membership.
- Corporate sales: Entertainment Publications enters into contracts with corporate customers to develop a program of special offers, discounts, promotions and booking facilities for their customers or employees during the period applicable in the contract. Entertainment Publications has taken the view that the performance obligations defined in the contract should be bundled into one performance obligation centred around access to the program of benefits.
- Gift card sales: Revenue from the sale of gift cards on behalf of businesses to members is recognised when the gift card is provided to the customer and it is paid for.

Payment terms are highly varied for the different sources of revenue, different customers and contract terms are individually negotiated.

All revenue is stated net of the amount of goods and services tax (GST).

	Consolidated Group	
	Half-year ended 31-Dec-19 \$'000	Half-year ended 31-Dec-18 \$'000
Fee income-Paid advertising and Travel booking	1,224	1,881
Fee income-Consulting and media	209	3,339
Membership subscriptions	12,716	14,193
Corporate sales	2,113	3,143
Gift card sales	6,204	21,735
Revenue from ordinary activities	22,466	44,291
Interest received	8	70
Total Revenue	22,474	44,361

Note 3 | Expenses

	Consolidated Group	
	Half-year ended 31-Dec-19 \$'000	Half-year ended 31-Dec-18 \$'000
Direct expenses of providing services	13,417	31,467
Impairment of intangible assets	1,385	-
Employee expenses	11,042	7,519
Operational depreciation and amortisation costs	2,412	1,106
Amortisation of right of use assets	831	-
Total depreciation and amortisation expense	3,243	1,106
Rent	-	1,764
Variable lease expense	245	-
Building occupancy expense	245	1,764
Operational finance costs	643	46
Interest expense on lease liabilities	130	-
Total finance costs	773	46
Bad debts written off	2,966	-

Direct expenses of providing services

The decrease in direct expenses is predominantly due to the cost of gift cards purchased, which is in line with the reduction in gift card sales as a result of limiting what gift cards are available for members to purchase.

Impairment of intangible assets

See note 6.

Employee expenses

During the period, a restructure plan was agreed between Suzerain and the Group as part of the convertible loan agreement. Part of this plan included employee related restructure costs. In addition, as from 1 July 2019 the Group reduced employee expenses being capitalised to the balance sheet in relation to technology and software development. Furthermore, the change from a physical entertainment book to a digital membership has resulted in certain employee expenses no longer being disclosed within direct expenses. These factors have all contributed to the increased employee expenses in the current period.

Depreciation and amortisation expense

See note 13.

Building occupancy expense

See note 13.

Finance costs

See note 13.

Bad debts written off

Bad debts written off relates to \$2.91m of deferred consideration for the sale of a group of previous subsidiaries known as the Bartercard business, (see ASX release 24 Dec 2019 Settlement of Claim with TCM), and \$0.06m owing from Blackglass Pty Ltd also a previous subsidiary, for deferred consideration held for working capital adjustments. The Board has determined that these balances will not be recoverable.

Note 4 | Operating Segments

Accounting Policy

Reportable segments are identified on the basis of internal reports on the business units of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and assess its performance. Incentiapay Ltd manages the Group as one segment, being the Entertainment business.

The Group's segment results include a corporate category reflecting head office operations costs. This does not qualify as an operating segment in its own right.

Revenue by Geographical Location

Revenue, excluding revenue from discontinued operations, attributable to external customers is disclosed below based on the country in which the revenue is derived and billed

	Half-year ended 31-Dec-19 \$'000	Half-year ended 31-Dec-18 \$'000
Australia	20,021	41,263
New Zealand	2,453	3,098
Total	22,474	44,361

Note 5 | Other assets

Accounting policy

Prepayments relate to prepaid sales commissions paid to fundraisers for the sale of memberships, and costs incurred for the development of the fixed period membership package (See note 2).

	Consolidated Group	
	Half-year ended 31-Dec-19 \$'000	Year ended 30-Jun-19 \$'000
CURRENT		
Short term investment	1,033	391
Other current assets	294	198
Prepayments	4,867	7,264
TOTAL OTHER ASSETS	6,194	7,853

Note 6 | Intangible Assets

Accounting policy

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of the following items, over the acquisition date fair value of net identifiable assets acquired:

- the consideration transferred;
- any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- the acquisition date fair value of any previously held equity interest.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the financial statements.

Fair value re-measurements in any pre-existing equity holdings are recognised in the profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment at least annually and/or when other indicators of impairment exist and is allocated to the Group's cash-generating units or groups of cash-generating units, ("CGUs"). These CGUs represent the lowest level at which goodwill is monitored but are not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill of the entity that has been sold. Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

Technology, software and Database assets

Technology and software assets acquired separately are capitalised at cost. Where the technology and software asset has been acquired as part of a business acquisition, these assets are recognised at fair value as at the date of acquisition.

The useful lives of these assets are then assessed to be either finite or indefinite. Assets with a finite life are amortised over that life with the expense being recognised in the Profit and Loss. Expenditure on the development of technology and software assets are capitalised until the software is ready for use and then amortised over their expected useful life. The group has re-assessed the useful life of the software intangible asset and restated their expected useful life to 2 - 3 years (HY19: 4 - 5 years). Amortisation has been accelerated to reflect this, resulting in the asset being fully written down by 31 December 2020.

Change in accounting estimate

During the period the group has re-assessed the expected useful economic life of its software intangible assets and revised their expected useful lives to between 2 - 3 years (previously between 4 - 5 years). These changes have been applied with effect from 1 July 2019 and have resulted in an increase in amortisation expense for the half year ended 31 December 2019 of \$1.15m. The effect on future periods is that the remaining software intangible assets will be fully written down by 31 December 2020.

These assets are tested for impairment at least annually, within their relevant cash generating unit.

Brand names and international rights

The brand names and international rights were acquired in a separate transaction. These assets are recognised using the cost model, which requires an intangible asset to be recorded at cost less any accumulated amortisation and any accumulated impairment losses.

These intangible assets have been assessed as having an indefinite useful life as neither brand names nor international rights are subject to contractual or statutory time limits. There is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. As a result, no amortisation will be charged.

These assets are tested for impairment at least annually, within their relevant cash generating unit.

Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment includes the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where 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.

Impairment testing is performed at least annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

Movements in Intangible Assets

	Goodwill	Technology and software	Brand name & international rights	Other intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2018	29,341	14,588	3,659	1,692	49,280
Measurement period adjustment	1,858	(2,317)	-	459	-
Balance as at 1 July 2018	31,199	12,271	3,659	2,151	49,280
Additions	-	1,877	-	-	1,877
Disposals	(2,950)	(7,399)	(659)	(1,399)	(12,407)
Amortisation charge	-	(1,690)	-	-	(1,690)
Impairment	(14,553)	-	-	-	(14,553)
BALANCE AS AT 30 JUNE 2019	13,696	5,059	3,000	752	22,507
Balance as at 1 July 2019	13,696	5,059	3,000	752	22,507
Additions	-	68	-	-	68
Amortisation charge [^]	-	(2,180)	-	-	(2,180)
Impairment [*]	-	(633)	-	(752)	(1,385)
BALANCE AS AT 31 DECEMBER 2019	13,696	2,314	3,000	-	19,010

^{*}As a result of the Group's decision to seek expressions of interest with respect to Entertainment Digital business assets, it has been assessed that the assets will not produce any future economic benefits to the Group, as such, the assets have been impaired to reflect an estimate of their fair value less costs of disposal.

Goodwill is not amortised, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

[^] The group has re-assessed the useful life of the software intangible asset, largely comprising costs associated with capitalised web development. As a result of the strategic transformation within the business, the group has determined that the period over which the written down value will be consumed will be shorter than previously estimated. Amortisation has been accelerated to reflect this, resulting in the asset being fully written down by 31 December 2020.

Note 7 | Provisions

Accounting policy

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

	Consolidated Group			
	Employee Benefits \$'000	Restructuring Provision \$'000	Onerous Leases Provision	Total \$'000
YEAR ENDED 30 JUNE 2019				
Balance as at 1 July 2018	4,174	2,600	-	6,774
Utilised	-	(2,600)	-	(2,600)
(Utilised) /Additional provisions	(1,506)	-	635	(871)
Disposals	(1,253)	-	-	(1,253)
BALANCE AS AT 30 JUNE 2019	1,415	-	635	2,050
YEAR ENDED 31 DECEMBER 2019				
Balance as at 1 July 2019	1,415	-	635	2,050
(Utilised)*/(transferred)^provisions	(635)	-	(635)	(1,270)
BALANCE AS AT 31 DECEMBER 2019	780	-	-	780

* The release of employee benefits on departure of employees leaving the Group.

^The Group has applied the AASB 16 transition exemption to adjust the right-of-use asset by the amount previously recognised as an onerous lease provision. See note 13.

	Half-year ended 31-Dec-19 \$'000	Year ended 30-June-19 \$'000
ANALYSIS OF TOTAL PROVISIONS		
Current		-
Employee benefits	702	1,198
Onerous leases provision	-	635
Total current provisions	702	1,833
Non-current		
Employee benefits	78	217
Total non-current provisions	78	217
TOTAL PROVISIONS	780	2,050

Note 8 | Lease liabilities

Accounting policy

Refer note 13.

	Consolidated Group	
	Half-year ended 31-Dec-19 \$'000	Year ended 30-June-19 \$'000
CURRENT		
Lease liabilities	1,207	-
TOTAL CURRENT LEASE LIABILITIES	1,207	-
NON-CURRENT		
Lease liabilities	3,366	-
TOTAL NON-CURRENT LEASE LIABILITIES	3,366	-
TOTAL LEASE LIABILITIES	4,573	-

The Group has adopted AASB 16 using the modified retrospective approach from 1 July 2019 but has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions of this standard.

Note 9 | Borrowings

Accounting policy

Non-derivative loans and borrowings are financial liabilities with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

	Consolidated Group	
	Half-year ended 31-Dec-19 \$'000	Year ended 30-June-19 \$'000
CURRENT		
Lease incentive loan	-	140
Short term loan	750	-
Convertible loan	16,544	4,029
TOTAL CURRENT BORROWINGS	17,294	4,169
NON-CURRENT		
Lease incentive loan	-	466
TOTAL NON-CURRENT BORROWINGS	-	466
TOTAL BORROWINGS	17,294	4,635

Lease incentive loan (Unsecured)

As part of the initial application of AASB 16, the lease incentive loan was offset against the right of use assets at the date of initial application. See note 13.

Short term loan (Unsecured)

An additional facility with Suzerain of \$2.25m was drawn down during the quarter, of which \$0.75m was for the security deposit for the office premises in Harrington Street, Sydney and was scheduled to be repaid in April 2020. Subsequent to the approval of the Convertible Loan Deed and the loan security, the Convertible Loan Deed sets off an amount of \$1.5m from the short term loan. Refer note 14 for changes to the loan terms subsequent to half year end.

Date received	\$'000
9/12/2019	1,500
18/12/2019	750
27/12/2019	(1,500)
Total	750

Terms

Balance	Maturity date*
\$0.75m	30/04/2020

*Refer to note 14 for the changes to maturity date.

Balance	Standard interest rate
\$0.75m	10%pa

Convertible loan (Secured)

On the 9th of August 2019 the Group entered into a loan deed with Suzerain for total funding of \$19m to support working capital requirements and to restructure the business.

The following receipts of the funds have occurred:

Period received	\$'000
1 January 2019 to 30 June 2019	4,000
1 July 2019 to 31 December 2019	12,000
Period from 1 January 2020	3,000
Total	19,000

The loan is to be repaid on 30 September 2020 with interest capitalised at 10% per annum. During the AGM, the resolutions were passed to enter into a General Security Deed over the assets of the Group in the form attached to the Convertible Loan Deed and for the loan to be convertible to ordinary shares at the higher of \$0.047 per share or 30 days volume weighted average price prior to conversion. Subsequent to half year end, the convertible loan was fully converted to equity with the issuance of 410,643,766 ordinary shares in the Company Refer to note 14 for additional information.

Terms

Balance	Maturity date
\$19m	30/09/2020

Balance	Standard interest rate
\$19m	10%pa

Security
Security over all the Group's present and future property

Note 10| Deferred revenue

Accounting policy

Deferred revenue constitutes contract liabilities under AASB 15, as it relates to performance obligations to the members of the Group not yet satisfied. (See note 2)

	Consolidated Group	
	Half-year ended 31-Dec-19 \$'000	Year ended 30-June-19 \$'000
CURRENT		
Deferred Revenue	14,331	21,394
TOTAL DEFERRED REVENUE	14,331	21,394

	Deferred revenue \$'000
YEAR ENDED 30 JUNE 2019	
Balance as at 1 July 2018	22,001
Revenue deferred	36,758
Revenue recognised	(37,365)
BALANCE AS AT 30 JUNE 2019	21,394
HALF-YEAR ENDED 31 DECEMBER 2019	
Balance as at 1 July 2019	21,394
Revenue deferred	7,766
Revenue recognised	(14,829)
BALANCE AS AT 31 DECEMBER 2019	14,331

Note 11 | Restatement of prior period profit and loss

On 14 May 2018, the Group acquired 100% of the equity instruments in three wholly owned subsidiaries of Gruden Group Limited and thereby obtained control. The subsidiaries were Gruden Pty Ltd, MobileDEN Pty Ltd and Blackglass Pty Ltd. The fair value of the acquired intangible assets were presented on a provisional basis in the 30 June 2018 Annual Financial Report.

During the year ended 30 June 2019, the Group engaged an independent valuer to complete an assessment over the identifiable intangible assets acquired as part of these acquisitions, using industry adopted valuation techniques. As a result of the independent valuation, the fair value of the acquired intangible assets were restated. Included in the restated amounts is also an adjustment to remove inter-company loan balances that should not have been disclosed in the original purchase price allocation. We note that these inter-company assets and liabilities were fully eliminated on consolidation and therefore were correctly excluded from the consolidated Statement of Financial Position in the prior period. However, the adjustment to remove inter-company loan balances has resulted in the loss from discontinued operations at 31 December 2018 being restated due to the disposal of Gruden Pty Ltd on 13 December 2018. As a result, total assets and net assets reduced by \$2.75m.

Statement of profit or loss and other comprehensive income (extract)	31-Dec-18 As originally presented \$'000	Government division and Bartercard business Adjustment	31-Dec-18 Restated \$'000
Loss for the period from discontinued operations	(4,874)	(2,753)	(7,627)
Net loss attributable to:			
Members of the parent entity	(9,296)	(2,753)	(12,049)
Total comprehensive income/(loss) for the period	(9,449)	(2,753)	(12,202)
Earnings/(Loss) per share			
Basic earnings/(loss) per share (cents)			
Loss from continuing operations	(1.9)		(1.9)
Loss from discontinued operations	(2.1)	(1.2)	(3.3)
Total	(4.0)	(1.2)	(5.2)

Note 12 | Fair Value Measurement

Financial assets and liabilities are measured at either fair value or amortised cost. Fair value is 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. There have been no changes in the nature of the financial assets or liabilities or changes to the way the Group measures fair value since 31 Dec 2019. Refer to the 30 June 2019 consolidated financial statements for further information. All of the carrying amounts of financial assets and liabilities recognised in the consolidated interim financial statements approximate their fair value.

Note 13 | Change in accounting policies

This note explains the impact of the adoption of AASB 16 Leases on the Group's financial statements and discloses the impact of new accounting policies applicable from 1 January 2019.

Impact on the financial statements

The Group has adopted AASB 16 using the modified retrospective approach from 1 July 2019 and has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.35%.

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Lease liabilities recognised in the statement of financial position at the date of initial application:

	Jul-19 \$'000
Operating lease commitments disclosed as at 30 June 2019	6,352
Discounted using the lessee's incremental borrowing rate of at the date of initial application	5,485
Add/(Less): short term leases	-
Add/(Less): low-value leases	-
Add/(Less): adjustments as a result of a different treatment of extension and termination options*	-
Lease liability recognised as at 1 July 2019	5,485
Current lease liabilities	1,638
Non-current liabilities	3,847

* The Group has not included option extensions in the calculation as it is considered probable that option extensions will not be exercised.

All right of use assets was measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrual lease payments relating to that lease recognised in that balance sheet as at 30 June 2019.

The Group has adjusted the right of use asset at the date of initial application by \$0.6m, the amount of provision for onerous lease recognised in the statement of financial position immediately at the date of initial application.

The recognised right of use assets relates to the following types of assets:

	Dec-19 \$'000	Jul-19 \$'000
Properties	3,260	4,075
Equipment	138	179
Total right of use assets	3,398	4,254

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

Right of use asset – increase by \$4.25m
 Lease liabilities – increase by \$5.5m
 Lease incentive loan – decrease by \$0.61m
 Onerous lease provision – decrease by \$0.64m

The net impact on retained earnings on 1 July 2019 is nil as the group has applied the simplified transition approach and has not restated comparative amounts.

Impact on earnings

EBITDA increased by approximately \$821,609, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Reportable segments are identified on the basis of internal reports on the business units of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and assess its performance. Since the divestment of the Bartercard entities, Incentiapay Ltd manages the Group as one segment, being the Entertainment business. No allocation impact to segment earnings.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The lessee shall adjust the right of use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application;
- The exclusion of initial direct costs for the measurement of the right of use assets at the date of initial application; and

- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group's leasing activities and how these are accounted for

The Group leases various properties and equipment. Rental contracts are made for fixed periods of 2 to 4 years. The Group's leases may have extension options as described below. Leases terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

Until 30 June 2019, leases of properties and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payment, less any lease incentives receivable;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that lessee would have to pay to borrow the fund necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial costs; and
- Restoration costs.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Group is still reviewing its options to renew, as such, extension options are not included in the calculation.

This is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group.

Note 14 | Events after the end of the Interim Period

On 27 February 2020, Suzerain opted to convert \$19,300,257 of their convertible loan into 410,643,766 ordinary shares at \$0.047 per share, in accordance with the Convertible Loan Agreement approved by shareholders at the AGM held in December 2019.

In addition, the Group entered into a new Loan Deed with Suzerain on 27 February 2020 for the provision of a \$5.83m facility (including associated borrowing costs). This facility will initially be unsecured with the view to obtaining shareholder approval for security at the Company's next Annual General Meeting, anticipated to be held in November 2020.

This facility will be used to expedite growth initiatives and contingency given the highly seasonal nature of the business.

The loan can be drawn in three tranches as follows:

- \$1,825,000 on or after 15 March 2020 (less \$750,000 already provided under the pre-existing short-term facility. Refer note 9, and \$75,000 borrowing costs);
- \$1,000,000 on or after 15 April 2020; and
- \$3,000,000 on or after 15 December 2020.

Interest is payable at 10% pa and the loan repayment date is 31 December 2021.

Note 15 | Contingent liability

The company has received a claim from a former executive in relation to their prior employment. The Board of Directors have considered the claim and, based on advice received, determined that the likelihood of any material future payment is remote.

Directors' Declaration

In accordance with a resolution of the directors of Incentiapay Limited the Directors of the company declare that:

1. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. The financial statements and notes, as set out on pages 4 to 21, are in accordance with the Corporations Act 2001 and:
 - a) comply with Accounting Standard AASB 134: Interim Financial Reporting, and
 - b) give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of the performance for the half-year ended on that date.

The declaration is made in accordance with the resolution of the Board of Directors.

Dated this 28th day of February 2020



Stephen Harrison
Chair



Independent Auditor's Review Report

To the shareholders of IncentiaPay Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of IncentiaPay Limited.

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 IncentiaPay Limited is not in accordance with the *Corporations Act 2001*, including:

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

The **Half-year Financial Report** comprises:

- Consolidated interim statement of financial position as at 31 December 2019
- Consolidated interim statement of profit or loss and other comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the Half-year ended on that date
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises IncentiaPay Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Material uncertainty related to going concern – emphasis of matter

We draw attention to Note 1, "Going Concern" in the Half-year Financial Report. The conditions disclosed in Note 1, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Half-year Financial Report. Our conclusion is not modified in respect of this matter.



Restatement of comparatives – emphasis of matter

We draw attention to Note 11 to the Half-year Financial Report, which describes the restatement of prior period loss from discontinued operations as a result of management reassessing the acquisition accounting of previously acquired businesses within the provisional accounting window granted by the relevant Accounting Standard. Our review conclusion is not modified in respect of this matter.

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*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility 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 Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of IncentiaPay 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.

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

KPMG

John Wigglesworth

Partner

Sydney

28 February 2020