



novattigroup.com

ANNUAL REPORT 2019

Välkomna

歡迎

پي ڪري پا

स्वागत

پي ڪري پا

أهلا بكم

ਜੀ ਆਇਆਂ ਨੂੰ

خوش آمدید

ସମ୍ବର୍କମ

Bienvenido

بسم الله سائين

WELCOME

Witamy

Καλώς ἦλθατε

Karibu

Bienvenue

Selamat datang

Pasok po kayo

Benvenuto

歡迎

Добро пожаловать

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Directors	Peter Pawlowitsch Peter Cook Brandon Munro Paul Burton Kenneth Lai Steven Zhou
Company secretary	Ian Hobson
Registered office and principal place of business	Australia Level 3, 461 Bourke Street, Melbourne VIC 3000 +61 3 9011 8490
Share register	Automic Registry Services 267 St Georges Terrace, Perth WA 6000 +61 8 9324 2099
Auditor	William Buck Level 20, 181 William Street, Melbourne VIC 3000
Solicitors	Milcor Legal Level 1, 6 Thelma Street, West Perth WA 6005
Bankers	National Australia Bank Level 1, 330 Collins Street, Melbourne VIC 3000
Stock exchange listing	Novatti Group Limited shares are listed on the Australian Securities Exchange (ASX code: NOV)
Website Corporate Governance Statement	www.novattigroup.com www.novattigroup.com/investors/corporate-governance
Australian Financial Services Licence	AFSL No. 448066
Financial Conduct Authority	FCA No. 900631 as an appointed representative of CFS-ZIPP Ltd (FCA No. 900027) for issuance of e-money products

CHAIRMAN'S LETTER

Dear fellow shareholder,

Novatti continues to grow and succeed as a leading Fintech payments and technology company. The continuing focus on building recurring and financial processing revenue streams has been rewarded with Novatti now having increased more predictable and larger revenue streams. This is highlighted by the growth in financial processing revenues from \$1.8M in FY18 to \$4.1M in FY2019. Overall, total revenues grew to \$8.89M, up 40% from \$6.36M in FY18.

This growth has been driven by the following achievements during the year:

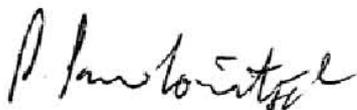
- Launch of chinapayments.com bill payment service
- Increase in B2B processing partnerships
- Integration of basis2 billing solution
- Impact of the acquisition of Vasco Pay prepaid card business in FY18
- Launch of Australian outbound remittance services
- Launch of inbound Australian remittance settlement services

In conjunction with this strong growth in the core operations of Novatti, Novatti has undertaken extensive activities to create the opportunity for a bank licence within the Group. This culminated in the formal application to APRA in November 2018 for a Restricted Authorised Deposit taking Institution licence, which has then continued through APRA's review process during the remainder of the financial year.

Driving growth and shareholder value remains paramount for the Board and Management and the Company is in its best position in this regard since listing on the ASX with the percentage of transactional and recurring revenue now being 49% up from 33% in FY18 providing a solid base to grow from. The Company's targets for the FY20 financial year are:

- Continue to focus on growing the Company's recurring and transactional revenues
- Receive a restricted bank licence from APRA
- Leverage the Novatti Payments Platform into new revenue opportunities
- Assess strategic acquisition opportunities

On behalf of the Board, I would like to thank all staff and contractors for their contribution to the Company and look forward to their support in the coming year.



PETER PAWLOWITSCH

Chairman

REVIEW OF OPERATIONS



OVERVIEW

The Group growth as a leading Fintech payments and technology company is evident in this year. The ongoing focus on building recurring and financial processing revenue streams has been realised with increased predictable and larger revenue streams. This is further emphasised with the increase in financial processing revenues from \$1.8M in FY18 to \$4.1M in FY19. Overall total revenues grew to \$8.89M, up 40%, from \$6.36M in FY18.

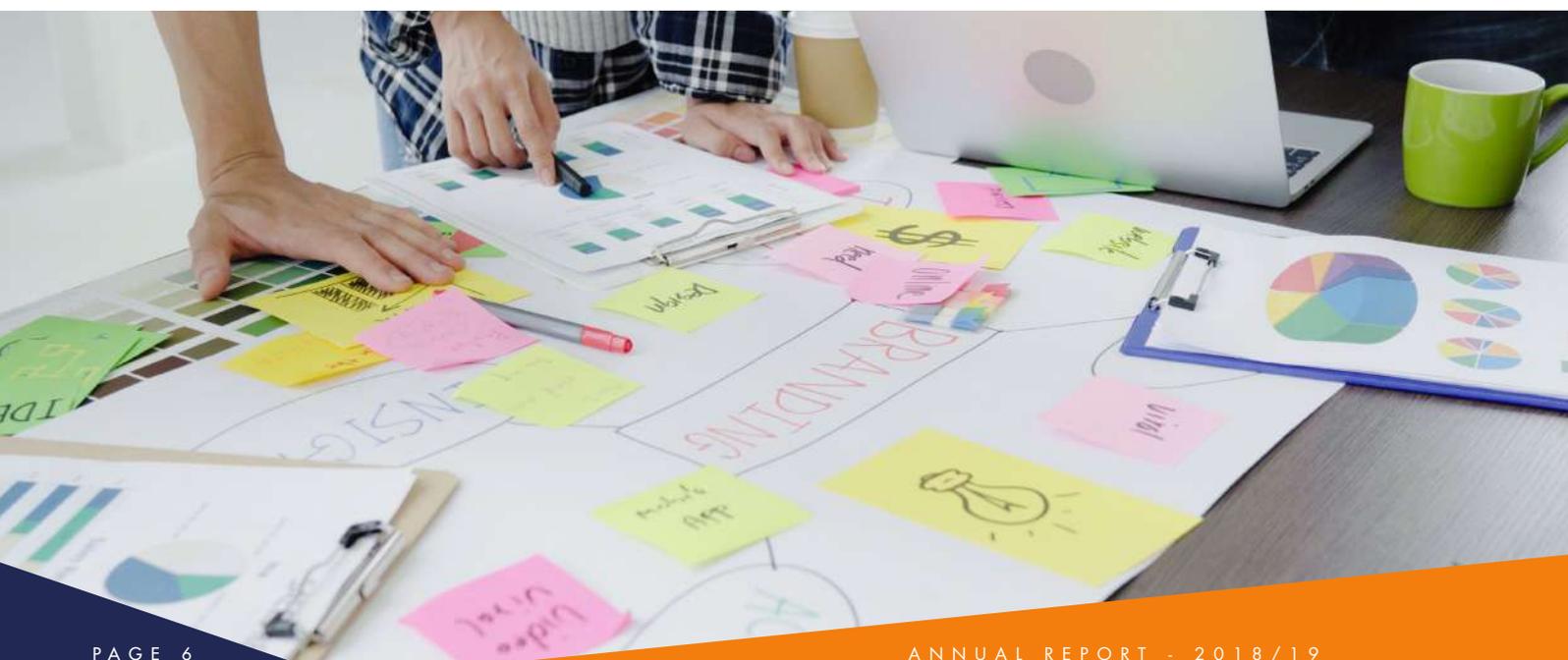
**Overall total revenues grew to \$8.89M,
up 40%, from \$6.36M in FY18**



In conjunction with this strong growth in the core operations of Novatti, Novatti has undertaken extensive activities to create the opportunity for a bank licence within the Group. This culminated in the formal application to APRA in November 2018 for a Restricted Authorised Deposit-taking Institution licence, which has then continued through APRA's review process during the remainder of the financial year.

CORPORATE SHARE HIGHLIGHTS

Date	Number of Shares – Novatti Group Ltd	Summary
01 July 2018	157,508,333	Number of shares on issue at commencement of financial year
28 February 2019	84,500	Conversion of Options to Shares
29 March 2019	9,286,381	Placement to further the Company's application for a restricted banking licence and working capital.



BUSINESS OPERATIONS

In FY2019, Novatti committed resources to two major growth strategies:

1. Drive growth in existing revenue streams and development additional related financial processing revenue streams

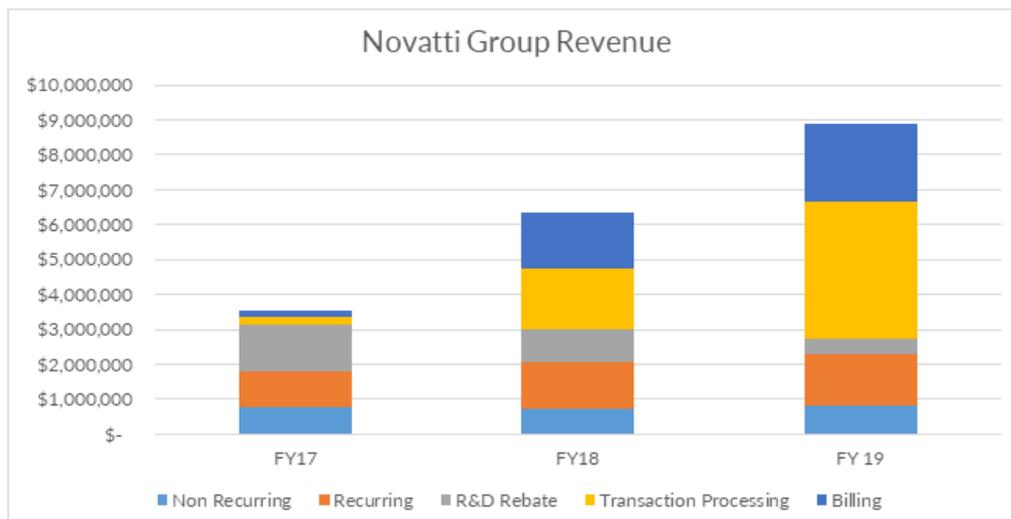
FY2019 has seen Novatti increase the mix of predictable recurring and transactional revenues as a component within the overall revenues. The majority of revenues are now increasingly recurring and financial transaction revenues. Such revenues include platform usage, support and SAAS fees, and transaction processing fees. Strong growth has been attained within all of the lines of business and revenue streams including Chinapayments.com, Remittances, Vasco prepaid cards, Flexepin and the Platform sales. New initiatives including agreements with Bank of Shanghai, IBM World Wire, SendFX, SplitPay and many new B2B partnerships auger well for additional growth.

2. Create a new digital bank, with initial activities focussed on gaining a Restricted banking licence

Novatti lodged its formal application to APRA in November 2018 for a Restricted Authorised Deposit taking Institution licence which has then continued through APRA's review process during the remainder of the financial year. During FY19 the banking team operated with between 8 and 13 staff plus specialist external service providers who were variously involved in creating the application, defining the technology roll-out, planning the go to market strategy and preparing for the launch of banking services. The company is well prepared to receive a Restricted bank licence and move to an operational phase.

REVENUE RESULTS

The execution of the long term growth strategies have continued to evidence with the continued strong growth in the year on year revenue results as below:



During the year the Group continued its transition away from non recurring revenue to transactional and recurring revenues.

THE NOVATTI PLATFORM



The Novatti Platform is the technology foundation of the Group and enables a vast variety of solutions to be deployed on-site or in the cloud. The platform offers highly scalable transaction processing and stored value account management systems. The Novatti Platform is deployed with an array of mobile and alternative payment functionality to telecommunication and financial service companies globally. The platform can be implemented across an expansive range of internal and external systems such as banks, ATMs, Point of Sale (POS) terminals, mobile phones, web portals, POS systems, prepaid and post-paid billing systems, and telecommunications infrastructure.

Novatti is focused on increasing financial inclusion to unbanked or under-banked societies in developing nations with minimal access to traditional bank accounts. The innovative technologies enable new and cost-effective payment service to solve the needs in emerging marketplaces, where the internet and mobile penetration is rapidly growing.

The Novatti Platform consists of a variety of software modules. Each module can be delivered as a standalone solution or integrated with another module (including existing systems) utilising a common backbone messaging system. The individual modules can be implemented to support the following payment applications:

- Digital wallets
- Mobile money
- Voucher management
- Distribution and activation of virtual and physical vouchers such as prepaid gift cards or prepaid debit cards
- Airtime distribution (also known as e-top-up, pin-less top-up, mobile top-up or mobile recharge)
- International and domestic bill payments
- International and domestic remittances
- Agency banking to enable branchless banking in remote or isolated areas

Revenues from the Novatti Platform are classified as either Non-Recurring or Recurring.

FINANCIAL PROCESSING SERVICES

Financial licences

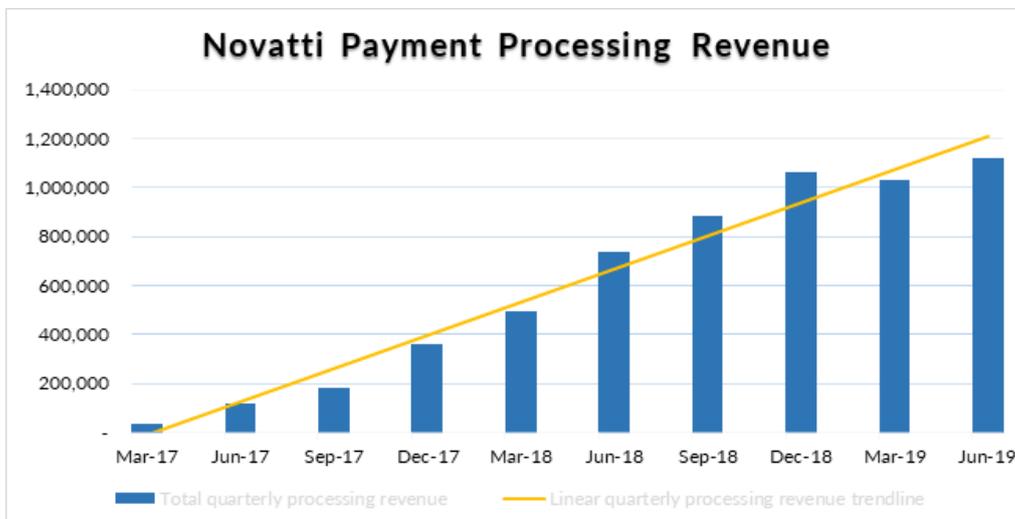
Novatti subsidiary Flexewallet Pty Ltd holds an Australian Financial Services Licence (AFSL No. 448066) for non-cash payments, is registered with AUSTRAC and is a member of the Financial Ombudsman Scheme in Australia.

Novatti subsidiary Flexe Payments (UK) Ltd is approved by the Financial Conduct Authority (FCA No. 900631) as an appointed representative of CFS-ZIPP Ltd (FCA No. 900027) for the issuance of e-money products. CFS-Zipp has passported the e-money licence it holds into all the states of the European Union, effectively allowing Flexe Payments (subject to the appropriate notification) to operate in these countries.



Transaction Processing Growth

The increasing focus of the Group is to build our Financial Processing Services. For FY19, these revenues were derived from B2B partnerships both in Australia and overseas growth in these partnerships has seen resultant growth in transaction processing revenues.





Flexepin continues to grow strongly through increased distribution to new countries and new merchants accepting the voucher as a payment method. Strongest growth has been in Canada, with good growth potential also being seen in new markets in LATAM, Europe and Africa.

Revenues from this stream are classified as Transaction Processing.



The Group has continued to develop hard-to-get strategic B2B relationships to grow into the remittance market. Novatti provides a full service including technology, compliance and banking services for our B2B customers to enable them to operate as outbound and inbound remittance providers. Novatti underpins its remittance services with its Australian Remittance Network Provider status and the AFSL along with the oversight of the compliance team.

Revenues from this stream are classified as Transaction Processing.



basis2 provides an extensive solution set to enable utility clients to manage the billing of their subscribers. Revenues include licencing, support and professional services and are highly predictable over the year.

Revenues from this stream are classified as Billing.



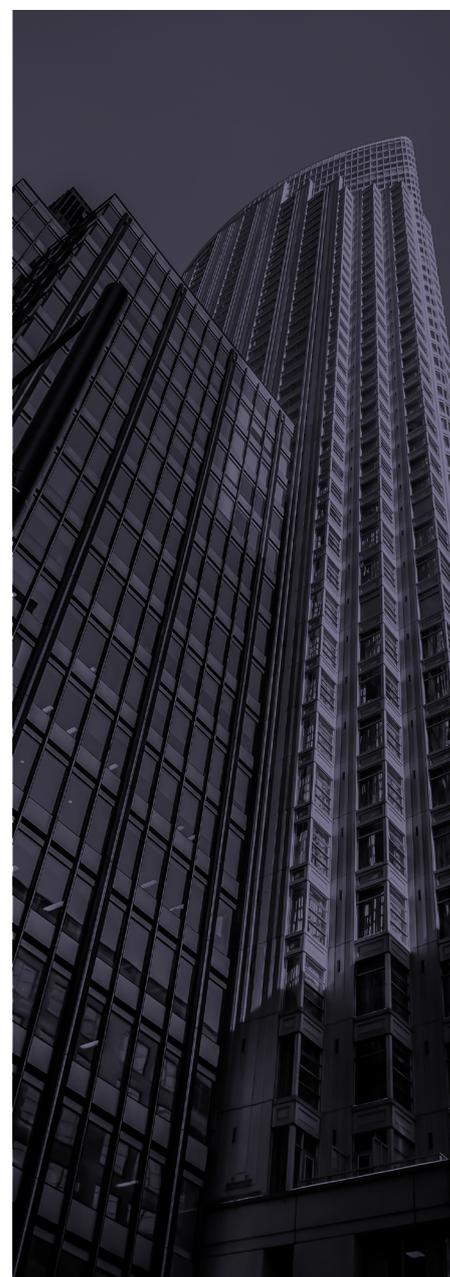
The Group has entered into a number of partnerships with companies that are involved in bringing new Chinese methods to Australia to allow Chinese consumers to more easily pay for goods and services. Novatti has used its licencing and compliance capabilities and its technology to facilitate these services. With over 1.2M Chinese tourists and over 200,000 Chinese students in Australia, plus e-commerce purchases to Australian websites, the Chinese payment methods herald major new financial transaction streams in Australia. Novatti is well positioned to be a strong beneficiary. Novatti also brought to market during FY18 the www.chinapayments.com bill payment service that enable Chinese consumers both in Australia and China to pay Australian BPay bills with their Chinese digital wallet service.

Revenues from this stream are classified as Transaction Processing.



In June 2018, the Group acquired Vasco Pay, a provider of prepaid reloadable Visa cards. These reloadable Visa cards enable consumers to have a flexible payment instrument linked to a bank account that also includes access to a range of rewards and consumer discounts. Target markets include international students, migrants and corporate disbursements.

Revenues from this stream are classified as Transaction Processing.



DIRECTORS' REPORT



DIRECTORS

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

- PETER PAWLOWITSCH
- BRANDON MUNRO
- PAUL BURTON
- PETER COOK
- KENNETH LAI
- STEVEN ZHOU

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Novatti Group Limited (referred to hereafter as the 'Company', 'Novatti' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

INFORMATION ON DIRECTORS

Name:	Peter Pawlowitsch
Title:	Non-Executive Chairman
Qualifications:	BCom, CPA, MBA, FGIA
Experience and expertise:	Peter is an accountant by profession, with extensive experience as a director and officer of ASX-listed entities. He brings to the team experience in operational management, business administration and project evaluation in the IT, hospitality and mining sectors gained during the last 15 years
Other current directorships:	Non-Executive Chairman of Family Zone Cyber Safety Ltd (24 September – present), Non-Executive Director of VRX Silica Ltd (formerly Ventor Resources Ltd) (12 February 2010 – present), Dubber Corporation Ltd (20 September 2011 – present) and Knosys Ltd (16 March 2015 – present)
Former directorships (last 3 years):	Rewardle Holdings Ltd
Special responsibilities:	None
Interests in shares:	2,343,750 ordinary shares
Interests in options:	2,500,000



Name:	Paul Burton
Title:	Non-Executive
Qualifications:	Chartered Accountant
Experience and expertise:	Paul has over 14 years of leadership experience in the payments industry and was the CEO of Datacash Group Plc, a payments gateway company bought by MasterCard. Datacash had a significant presence in Africa and Paul steered the Company's expansion in that market
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	None
Interests in options:	1,000,000



Name:	Kenneth Lai
Title:	Non-Executive
Qualifications:	BSc Majoring in Computer Science
Experience and expertise:	MD of Hong Kong-based investment firm Prestige Team Limited, which has interests in payment processing, real estate, digital marketing and information technology support services
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	12,918,750 ordinary shares
Interests in options:	1,000,000



Name:	Brandon Munro
Title:	Non-Executive
Qualifications:	BEco, LLB, Grad Dip Applied Finance & Investment from the Securities Institute of Australia, GAICD, F.Fin
Experience and expertise:	Brandon is a corporate lawyer by profession with executive experience leading ASX listed companies. He brings regulatory, governance, mergers and acquisitions and capital markets knowledge to the team
Other current directorships:	Managing Director of Bannerman Resources Ltd (9 March 2016 – present)

Former directorships (last 3 years):	Department 13 Ltd (formerly Kunene Resources Ltd), Rewardle Holdings Ltd
Special responsibilities:	None
Interests in shares:	1,562,500 ordinary shares
Interests in options:	1,500,000



Name:	Peter Cook
Title:	Managing Director and Chief Executive Officer
Qualifications:	BSc, Grad Dip Computing, Grad Dip Securities, GAICD
Experience and expertise:	Peter has over 25 years of experience as a director and executive with companies including Coopers & Lybrand (now PWC), Catsco Pty Ltd and Advanced Network Management Pty Ltd (Telstra joint venture company) and many start-up technology companies. Peter's career has been largely based on founding and leading multiple telecommunications and payments companies. Unidial Pty Ltd and Ezipin Canada Inc. are such examples and all with successful exits to private and public companies. Peter was a non-executive Director and Deputy Chairman of ASX-listed Senetas Corporation Limited from June 1999 to January 2006
Other current directorships:	P2P Transport Limited (22 November 2017 – present)
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	11,107,904 ordinary shares
Interests in options:	2,500,000



Name:	Steven Zhou
Title:	Non-Executive
Qualifications:	BSc, Grad Dip Computing, Grad Dip Securities, GAICD
Experience and expertise:	Steven has extensive experience in start-up financial services businesses in China and Australia
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	None
Interests in options:	1,000,000

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

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

COMPANY SECRETARY

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

MEETINGS OF DIRECTORS

The number of meetings of the Group's Board of Directors (the 'Board') held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Attended	Held
Peter Pawlowitsch	11	11
Peter Cook	11	11
Brandon Munro	11	11
Paul Burton	11	11
Kenneth Lai	5	11
Steven Zhou	7	11

Held: represents the number of meetings held during the time the director held office.

The Group will not have a separate Audit and Risk Committee until such time as the Board is of a sufficient size and structure, and the Group's operations are of a sufficient magnitude, for a separate committee to be of benefit to the Group. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under the written terms of reference for that committee, including but not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Group, the Group's internal financial control system and risk management systems and the external audit functions.

The Board has not established a Nomination and Remuneration Committee as the role of the committee will be undertaken by the full Board.

REVIEW OF 2019 FINANCIAL RESULTS



The loss for the Group after providing for income tax amounted to \$4,954,313 across all regions to support growth.

The Group's net asset position as at 30 June 2019 was \$6,123,057 with \$1,806,924 held in cash or cash equivalents.

The loss of the Group for 30 June 2019 is summarised below:

	2019 \$	2018 \$
Net loss from operations	(4,954,313)	(2,069,034)
Add		
Interest	(10,282)	(18,592)
Less		
Depreciation and amortisation	389,337	290,682
Finance charges	75,664	22,433
Tax and other indirect tax expenses	245,006	61,599
EBITDA	(4,254,588)	(1,712,912)
Less		
Option expense	386,085	136,629
Due diligence costs	497,853	818,218
EBITDA (underlying)*	(3,370,650)	(758,065)
Cash	1,806,924	4,509,142
Operating cash flow	(2,103,520)	(3,376,374)

* Underlying EBITDA excludes option expenses, share fundraising expenses, depreciation, amortisation, withholding tax and VAT unclaimed.

The factors that are considered to affect Total Shareholders Return ('TSR') are summarised below:

	2019 \$	2018 \$	2017 \$	2016 \$
Share price at financial year end	0.165	0.225	0.115	0.14
Total dividends declared (cents per share)	-	-	-	-
Basic losses per share (cents per share)	(3.09)	(1.53)	(5.03)	(9.06)

DIVIDENDS

There were no dividends paid, provided nor declared as at 30 June 2019.

Significant changes in the state of affairs

Share Placements

On 29 March 2019, Novatti Group Limited announced the placement of 9,286,381 shares. This placement to sophisticated investors raised \$1.95M and was completed in order to further the Company's application for a restricted banking licence and working capital.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No other matter or circumstance has arisen since 30 June 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.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

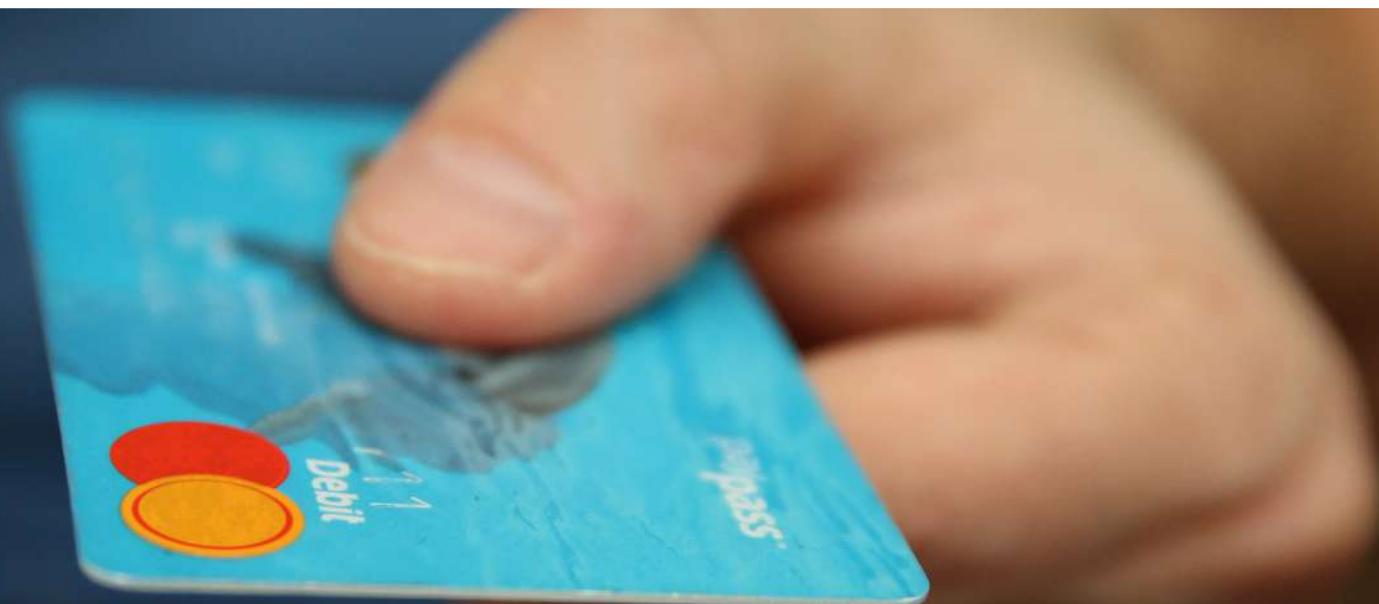
The Group will continue its principal activity of sales and deploying the Novatti Platform, transaction and billing services.

Novatti lodged its application to APRA for a restricted Authorised Deposit-Taking Institution (ADI) or banking licence in November 2018. The focus of such a banking licence is to offer new banking services to Australian customers with a focus on new migrants. Novatti is currently building future banking services customers by way of its remittance services, Vasco prepaid card services and its China Payments bill payment services. Novatti is regularly engaging with APRA as it continues its review on Novatti's bank licence application. In parallel, Novatti is continuing to expand its banking services team in preparation for launch assuming a successful application. In line with its growth strategy, the Company intends to apply for a full non-restricted ADI in due course.

The Group's board is cognisant that significant funding is required to maintain the business plan for the subsidiary that is seeking the bank licence. Novatti undertakes ongoing discussions with strategic and financial partners that will support the bank licence and associated business plan. Without appropriate funding, Novatti would need to review this business plan and reduce its involvement in this project. Such a reduction would see that the activities for the bank licence application and operations would largely be put on hold pending financing. At the date of this report the board has a number of funding options for the bank licence opportunity.

ENVIRONMENTAL REGULATION

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



REMUNERATION REPORT (AUDITED)



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

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

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

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

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

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

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency
- Performance linkage/alignment of executive compensation

As there is currently no Nomination and Remuneration Committee, the full Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

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

Alignment of shareholders' interests:

- Rewards capability and experience
- Reflects competitive reward for contribution to growth in shareholder wealth
- Provides a clear structure for earning rewards

In accordance with best practice corporate governance, the remuneration structure of non-executive directors and executives are separate.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. For the FY19 financial period there was no advice from independent remuneration consultants. The Chairman's fees are determined independently to the fees of other non-executive directors based on similar roles in the external market. The Chairman is not present at any discussions relating to the determination of his remuneration. Non-executive directors do receive share options.

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

EXECUTIVE REMUNERATION

The Group's remuneration policy for executive directors and senior management is designed to promote superior performance and long-term commitment to the Group.

Remuneration policies and arrangements for the Key Executive Members of the Group including the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer are reviewed by the Board and ratified each year.

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

The executive remuneration and reward framework has three components:

- Fixed remuneration including base pay and non-monetary benefits
- Short-term performance incentives
- Long-term incentives

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

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

Novatti Group's business objective:
To provide global software technology, utility billing and payment services. Through technology and services, Novatti helps economies, corporations and consumers digitise cash transactions.

<p style="text-align: center; margin: 0;">ALIGN THE INTERESTS OF EXECUTIVES WITH SHAREHOLDERS</p> <ul style="list-style-type: none"> • The remuneration strategy incorporates "at-risk" components, including both short and long-term elements delivered in equity • Performance is assessed against a suite of financial and non-financial measures relevant to the success of the Company and generating returns for shareholders 	<p style="text-align: center; margin: 0;">ATTRACT, MOTIVATE AND RETAIN HIGH PERFORMING INDIVIDUALS</p> <ul style="list-style-type: none"> • Remuneration is competitive with companies of a similar size and complexity • Deferred and long-term remuneration is designed to encourage long-term consistent performance and employee retention
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Remuneration Component	Vehicle	Purpose	Link to performance
Fixed Remuneration	Consisting of base salary, superannuation and non-monetary benefits. Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.	To provide competitive fixed remuneration set with reference to role, market, experience and performance.	Reviewed annually by the Board, based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.
Short Term Incentive	Is paid in cash.	This is designed to reward executives for their contribution to the achievement of annual Group, business unit and individual outcomes.	Directly linked to pre-agreed KPIs. Reviewed regularly with the relevant executive member. Final performance is determined by the Board.
Long Term Performance	Equity including Options, Shares and/or Rights.	Reward executives for their contribution to the creation of shareholder value over the longer term.	It aims to align the targets of the business units with the targets of those executives responsible for meeting those targets.

DETAILS OF THE INCENTIVE PLANS USED:

Short Term Incentive program (STI)

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

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

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

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

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

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

The results of the STI financial performance measures are listed in the remuneration table below, on page 21.

Long Term Incentive program (LTI)

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

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

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

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

The table below sets out the summary information for key executives of their options vesting and their lapsing date of options as LTI awards for FY19.

2019

Name	Start date	No. of Options vested in 2019	No. of Options lapsed/ cancelled	Balance not vested	Lapsing date for Options
Peter Cook	27 Nov 2018	833,334	-	1,666,666	30 Nov 2022
Alan Munday	12 Nov 2015	250,000	250,000	-	30 June 2019
Steven Stamboultgis	12 Nov 2015	200,000	200,000	-	30 June 2019
Total		1,283,334	450,000	1,666,666	

Refer to table on page 24 for details.

2018

Name	Start date	No. of Options vested in 2018	No. of Options lapsed/ cancelled	Balance not vested	Lapsing date for Options
Peter Cook	12 Nov 2015	-	-	-	30 June 2019
Alan Munday	12 Nov 2015	250,000	-	250,000	30 June 2019
Steven Stamboultgis	12 Nov 2015	200,000	-	200,000	30 June 2019
Total		450,000	-	450,000	

Refer to table on page 25 for details.

DETAILS OF REMUNERATION

Amounts of remuneration

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

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

- 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

Other key management personnel

- Alan Munday – Group Chief Operating Officer
- Steven Stamboultgis – Chief Financial Officer

2019	Cash salary & fees	Non-monetary	Long service leave	Annual leave	Share-based payments exp in yr equity – settled	Superannuation	Total	Fixed rem	At risk STI	At risk LTI	Share-based payments as a proportion of total rem
	\$	\$	\$	\$	\$	\$	\$	%	%	%	%
Non-Executive Directors:											
Peter Pawlowitsch (Chairman)	104,560	-	-	-	131,833	6,940	243,333	46	-	54	54
Kenneth Lai	-	-	-	-	52,733	-	52,733	-	-	100	100
Paul Burton	-	-	-	-	52,733	-	52,733	-	-	100	100
Brandon Munro	38,814	-	-	-	79,100	3,687	121,601	35	-	65	65
Steven Zhou	33,485	-	-	-	52,733	3,181	89,399	41	-	59	59
Executive Directors:											
Peter Cook	335,432	45,568	7,180	31,223	131,833	19,000	570,236	77	-	23	23
Other Key Management Personnel:											
Alan Munday	261,196	-	4,956	(9,207)	-	20,531	277,476	100	-	-	-
Steven Stamboultgis	191,781	-	2,854	3,930	-	18,219	216,784	100	-	-	-
	965,268	45,568	14,990	25,946	500,965	71,558	1,624,295				

2018	Cash salary & fees	Non-monetary	Long service leave	Annual leave	Share-based payments exp in yr equity – settled	Superannuation	Total	Fixed rem	At risk STI	At risk LTI	Share-based payments as a proportion of total rem
	\$	\$	\$	\$	\$	\$	\$	%	%	%	%
Non-Executive Directors:											
Peter Pawlowitsch (Chairman)	59,361	-	-	-	12,903	5,639	77,903	83	-	17	17
Kenneth Lai	-	-	-	-	5,919	-	5,919	-	-	100	100
Paul Burton	-	-	-	-	70,432	-	70,432	-	-	100	100
Brandon Munro	36,530	-	-	-	12,903	3,470	52,903	76	-	24	24
Steven Zhou	26,429	-	-	-	-	2,571	29,000	100	-	-	-
Executive Directors:											
Peter Cook	190,290	48,317	2,042	3,064	64,513	20,049	328,275	81	-	19	19
Other Key Management Personnel:											
Alan Munday	200,913	-	1,717	3,565	9,677	19,543	235,415	96	-	4	4
Steven Stamboultgis	164,384	-	1,287	10,939	7,742	15,616	199,968	96	-	4	4
	677,907	48,317	5,046	17,568	184,089	66,888	999,815				

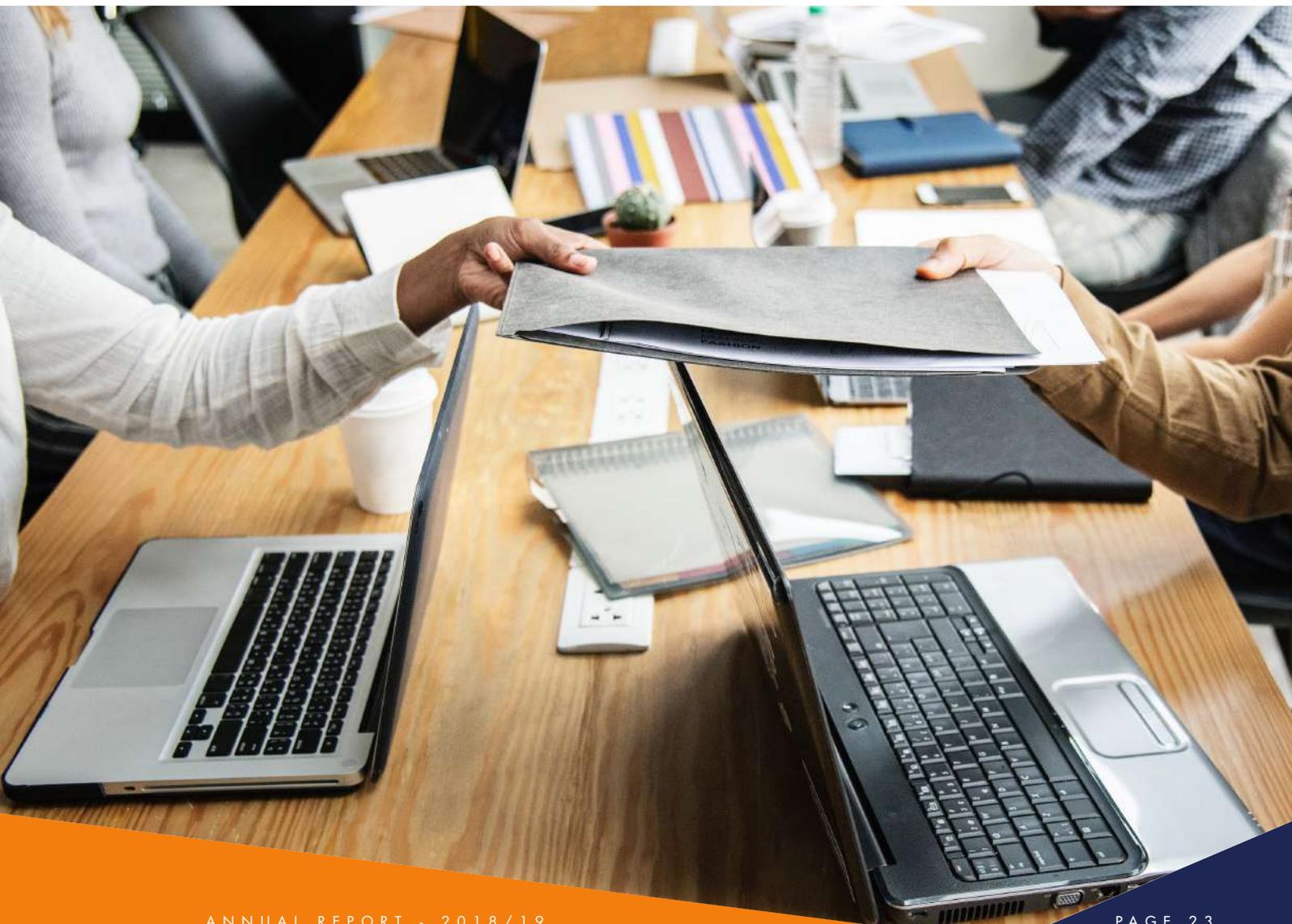
SERVICE AGREEMENTS

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

Name:	Peter Cook
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	20 November 2015
Term of agreement:	The term is not fixed.
Remuneration:	Base salary of \$400,000 (including statutory superannuation). 2.5M incentive options exercisable at \$0.19 upon the achievement of three milestones. (Refer to the milestones listed under Share-based compensation granted and issued below)
Annual Review	Remuneration is subject to an annual review to be conducted by the Board. Factors to be considered include personal competency progression, achievement of personal development targets and KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.
Bonus:	None.
Termination:	The agreement may be terminated, (A) by either party without cause with six months' notice, or at the election of the Group, immediately with payment in lieu of six months' notice (subject to the limitation of the Corporations Act and Listing Rules). (B) By the Group on one months' notice, if the executive is unable to perform his duties due to illness, accident or incapacitation, for three consecutive months or a period aggregating more than three months in any 12-month period.

Name:	Alan Munday
Title:	Group Chief Operating Officer
Agreement commenced:	20 November 2015
Term of agreement:	The term is not fixed.
Remuneration:	Base salary of \$300,000 (including statutory superannuation).
Annual Review	Remuneration is subject to an annual review to be conducted by the Board. Factors to be considered include personal competency progression, achievement of personal development targets and KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.
Bonus:	None.
Termination:	The agreement may be terminated, (A) without cause, with three months' notice from the Group or two months from the executive, or payment in lieu of notice at the Group's election (subject to the limitation of the Corporations Act and Listing Rules). (B) by Novatti on one month's notice, if the executive is unable to perform his duties due to illness, accident or incapacitation, for three consecutive months or a period aggregating more than three months in any 12-month period or (C), summarily following material breach or in the case of serious misconduct.

Name:	Steven Stamboultgis
Title:	Chief Financial Officer
Agreement commenced:	20 November 2015
Term of agreement:	The term is not fixed.
Remuneration:	Base salary of \$210,000 (including statutory superannuation).
Annual Review	Remuneration is subject to an annual review to be conducted by the Board. Factors to be considered include personal competency progression, achievement of personal development targets and KPIs, company remuneration policy, its financial position and current market equivalent positions. KPIs to be agreed each year and may be varied by mutual agreement.
Bonus:	None.
Termination:	The agreement may be terminated by either party without cause with three months' notice, or in the case of the Group, immediately with payment in lieu of notice (subject to the limitation of the Corporations Act and Listing Rules), by the executive on one month's notice, if Steven is unable to perform his duties due to illness, accident or incapacitation, for three months or a period aggregating more than three months in any 12 month period, or summarily following material breach or in case of serious misconduct.



SHARE-BASED COMPENSATION GRANTED AND ISSUED

Options granted

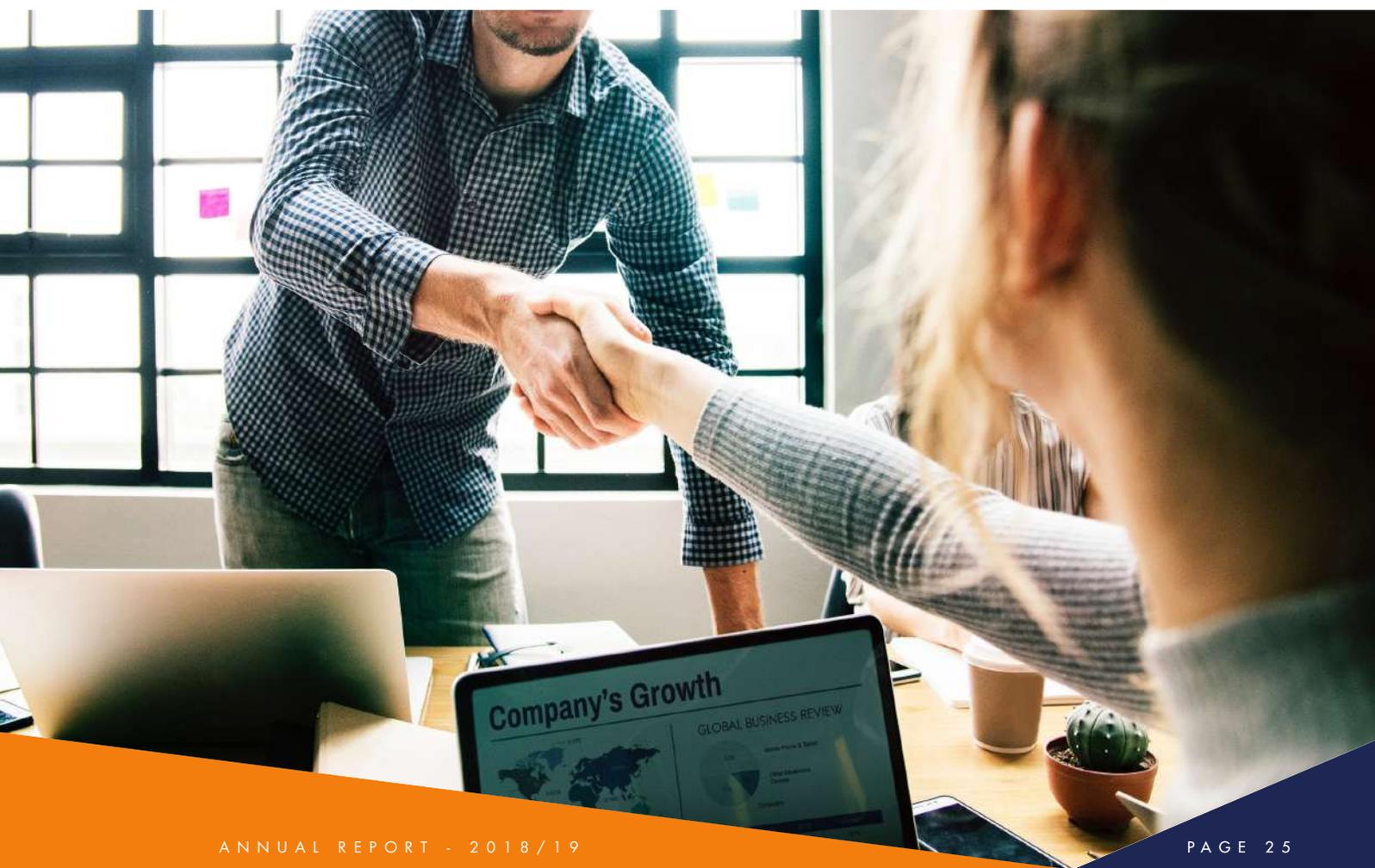
The Group granted an aggregate of 9.5M options to directors with vesting linked to the achievements of certain specified milestone events for the year ended 30 June 2019 as follows:

- Milestone 1: Options vest when 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). This milestone was achieved on 22 March 2019
- Milestone 2: Options vest when 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). This milestone is yet to be reached
- Milestone 3: Options vest when 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). This milestone is yet to be reached
- 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 after which date all of the incentive options not yet exercised automatically lapse
- The fair value of the options are valued at "grant date" using the Binomial model

No other shares or options were issued as part of compensation for the year ended 30 June 2019.

2019	Grant date	Grant number	Fair value per option at grant date	Opening balance Options	Opening balance vested	Balance vested during the yr	Options lapsed during yr	Value Options lapsed during the yr	Expiry date	First ex date	Last ex date
Directors											
Executive Directors											
Peter Cook	12 Nov 15	5,000,000	\$0.20	5,000,000	5,000,000	-	5,000,000	292,655	30 Jun 19	12 Nov 15	30 Jun 19
Peter Cook	27 Nov 18	2,500,000	\$0.1947	-	-	833,334	-	-	30 Nov 22	22 Mar 19	30 Nov 22
Other key management personnel:											
Alan Munday	12 Nov 15	250,000	\$0.20	250,000	250,000	-	250,000	16,300	30 Jun 19	1 Jul 16	30 Jun 19
Alan Munday	12 Nov 15	250,000	\$0.20	250,000	250,000	-	250,000	16,300	30 Jun 19	1 Jul 17	30 Jun 19
Alan Munday	12 Nov 15	250,000	\$0.20	250,000	-	250,000	250,000	16,300	30 Jun 19	1 Jul 18	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	\$0.20	200,000	200,000	-	200,000	11,706	30 Jun 19	1 Jul 16	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	\$0.20	200,000	200,000	-	200,000	11,706	30 Jun 19	1 Jul 17	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	\$0.20	200,000	-	200,000	200,000	11,706	30 Jun 19	1 Jul 18	30 Jun 19
Non-executive directors											
Peter Pawlowitsch	12 Nov 15	1,000,000	\$0.20	1,000,000	1,000,000	-	1,000,000	58,531	30 Jun 19	12 Nov 15	30 Jun 19
Peter Pawlowitsch	27 Nov 18	2,500,000	\$0.1947	-	-	833,334	-	-	30 Nov 22	22 Mar 19	30 Nov 22
Brandon Munro	12 Nov 15	1,000,000	\$0.20	1,000,000	1,000,000	-	1,000,000	58,531	30 Jun 19	12 Nov 15	30 Jun 19
Brandon Munro	27 Nov 18	1,500,000	\$0.1947	-	-	500,000	-	-	30 Nov 22	22 Mar 19	30 Nov 22
Kenneth Lai	31 May 16	375,000	\$0.25	375,000	375,000	-	375,000	9,712	30 Jun 19	31 May 17	30 Jun 19
Kenneth Lai	31 May 16	375,000	\$0.25	375,000	375,000	-	375,000	9,712	30 Jun 19	31 May 18	30 Jun 19
Kenneth Lai	27 Nov 18	1,000,000	\$0.1947	-	-	333,334	-	-	30 Nov 22	22 Mar 19	30 Nov 22
Paul Burton	12 Nov 15	5,000,000	\$0.20	5,000,000	5,000,000	-	5,000,000	292,655	30 Jun 19	12 Nov 15	30 Jun 19
Paul Burton	31 May 16	375,000	\$0.25	375,000	375,000	-	375,000	9,712	30 Jun 19	31 May 17	30 Jun 19
Paul Burton	31 May 16	375,000	\$0.25	375,000	375,000	-	375,000	9,712	30 Jun 19	31 May 18	30 Jun 19
Paul Burton	27 Nov 18	1,000,000	\$0.1947	-	-	333,334	-	-	30 Nov 22	22 Mar 19	30 Nov 22
Steven Zhou	27 Nov 18	1,000,000	\$0.1947	-	-	333,334	-	-	30 Nov 22	22 Mar 19	30 Nov 22
Total		24,350,000		14,850,000	14,400,000	3,616,670	14,850,000	825,238			

2018	Grant date	Grant number	Fair value per option at grant date	Opening balance Options	Opening balance vested	Balance vested during the yr	Options lapsed during yr	Value Options lapsed during the yr	Expiry date	First ex date	Last ex date
Directors											
Executive Directors											
Peter Cook	12 Nov 15	5,000,000	\$0.20	5,000,000	5,000,000	-	-	-	30 Jun 19	12 Nov 15	30 Jun 19
Other key management personnel											
Alan Munday	12 Nov 15	250,000	\$0.20	250,000	250,000	-	-	-	30 Jun 19	1 Jul 16	30 Jun 19
Alan Munday	12 Nov 15	250,000	\$0.20	250,000	-	250,000	-	-	30 Jun 19	1 Jul 17	30 Jun 19
Alan Munday	12 Nov 15	250,000	\$0.20	250,000	-	-	-	-	30 Jun 19	1 Jul 18	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	\$0.20	200,000	200,000	-	-	-	30 Jun 19	1 Jul 16	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	\$0.20	200,000	-	200,000	-	-	30 Jun 19	1 Jul 17	30 Jun 19
Steven Stamboultgis	12 Nov 15	200,000	\$0.20	200,000	-	-	-	-	30 Jun 19	1 Jul 18	30 Jun 19
Non-executive directors											
Peter Pawlowitsch	12 Nov 15	1,000,000	\$0.20	1,000,000	1,000,000	-	-	-	30 Jun 19	12 Nov 15	30 Jun 19
Brandon Munro	12 Nov 15	1,000,000	\$0.20	1,000,000	1,000,000	-	-	-	30 Jun 19	12 Nov 15	30 Jun 19
Kenneth Lai	31 May 16	375,000	\$0.25	375,000	375,000	-	-	-	30 Jun 19	31 May 17	30 Jun 19
Kenneth Lai	31 May 16	375,000	\$0.25	375,000	-	375,000	-	-	30 Jun 19	31 May 18	30 Jun 19
Paul Burton	12 Nov 15	5,000,000	\$0.20	5,000,000	5,000,000	-	-	-	30 Jun 19	12 Nov 15	30 Jun 19
Paul Burton	31 May 16	375,000	\$0.25	375,000	375,000	-	-	-	30 Jun 19	31 May 17	30 Jun 19
Paul Burton	31 May 16	375,000	\$0.25	375,000	-	375,000	-	-	30 Jun 19	31 May 18	30 Jun 19
Steven Zhou	-	-	-	-	-	-	-	-	-	-	-
Total		14,850,000		14,850,000	13,200,000	1,200,000	-	-			



Options granted carry no dividend or voting rights.

9.5M options were granted to Directors during the year ended 30 June 2019.

Values of options over ordinary shares exercised and lapsed for Directors and other key management personnel during the year ended 30 June 2019 are set out below:

2019	Number of Options granted during the yr	Value of Options granted during the yr	Value of Options ex. during the yr	Value of Options lapsed during the yr
Name	\$	\$	\$	\$
Peter Pawlowitsch	2,500,000	290,542	-	58,531
Peter Cook	2,500,000	290,542	-	292,655
Brandon Munro	1,500,000	174,325	-	58,531
Kenneth Lai	1,000,000	116,217	-	19,424
Paul Burton	1,000,000	116,217	-	312,079
Steven Zhou	1,000,000	116,217	-	-
Alan Munday	-	-	-	48,900
Steven Stamboultgis	-	-	-	35,118
Total	9,500,000	1,104,060	-	825,238

2018	Number of Options granted during the yr	Value of Options granted during the yr	Value of Options ex. during the yr	Value of Options lapsed during the yr
Name	\$	\$	\$	\$
Peter Pawlowitsch	-	-	-	-
Peter Cook	-	-	-	-
Brandon Munro	-	-	-	-
Kenneth Lai	-	-	-	-
Paul Burton	-	-	-	-
Steven Zhou	-	-	-	-
Alan Munday	-	-	-	-
Steven Stamboultgis	-	-	-	-
Total	-	-	-	-

The factors that are considered to affect Total Shareholders Return ('TSR') are summarised below:

	2019 \$	2018 \$	2017 \$	2016 \$
Share price at financial year end	0.165	0.225	0.115	0.14
Total dividends declared (cents per share)	-	-	-	-
Basic losses per share (cents per share)	(3.09)	(1.53)	(5.03)	(9.06)

DISCLOSURES RELATING TO THE DIRECTORS & SENIOR MANAGEMENT



ADDITIONAL DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

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

	Bal at the start of the yr	Received as part of rem	Additions	Disposals/ other	Bal at the end of the year
Ordinary shares					
Peter Pawlowitsch	2,343,750	-	-	-	2,343,750
Peter Cook	11,107,904	-	-	-	11,107,904
Brandon Munro	1,562,500	-	-	-	1,562,500
Kenneth Lai	12,918,750	-	-	-	12,918,750
Paul Burton	-	-	-	-	-
Steven Zhou	-	-	-	-	-
Alan Munday	50,000	-	-	-	50,000
Steven Stamboultgis	20,000	-	-	-	20,000
Total	28,002,904	-	-	-	28,002,904

Option holding

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

	Bal at the start of the yr	Granted	Exercised	Expired	Bal at the end of the yr
Options over ordinary shares					
Peter Pawlowitsch	1,000,000	2,500,000	-	1,000,000	2,500,000
Peter Cook	5,000,000	2,500,000	-	5,000,000	2,500,000
Brandon Munro	1,000,000	1,500,000	-	1,000,000	1,500,000
Kenneth Lai	750,000	1,000,000	-	750,000	1,000,000
Paul Burton	5,750,000	1,000,000	-	5,750,000	1,000,000
Steven Zhou	-	1,000,000	-	-	1,000,000
Alan Munday	750,000	-	-	750,000	-
Steven Stamboultgis	600,000	-	-	600,000	-
Total	14,850,000	9,500,000	-	14,850,000	9,500,000*

* For vesting conditions, please refer to page 24 'Share-based compensation granted and issued'.

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

Services

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

Loans from Directors:

Novatti Group Ltd entered into a loan agreement on 10 June 2019, for \$600,000 with an entity associated with Peter Pawlowitsch. The loan drawn down as at 30 June 2019 was \$400,000. The interest rate payable on the loan facility is 12% per annum. Repayment of the loan and accrued interest occurred on 30 July 2019.

For further information on the terms of the loan agreement, refer to Note 22.

Current and non-current liabilities to a Director:

There are no other current or non-current liabilities outstanding to Directors of the Group as at 30th June 2019.

This concludes the remuneration report, which has been audited.

Shares under option

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

Grant date	Expiry date	Ex. price	Opening number under option	Expired	Options converted to Shares	Closing number under option
12 Nov 15	30 Jun 19	\$0.20	13,750,000	13,750,000	-	-
12 Nov 15	30 Jun 19	\$0.20	1,150,000	1,150,000	-	-
12 Nov 15	30 Jun 19	\$0.20	1,150,000	1,150,000	-	-
12 Nov 15	30 Jun 19	\$0.20	1,150,000	1,150,000	-	-
8 Jan 16	30 Jun 19	\$0.20	2,859,250	2,859,250	-	-
3 Feb 16	30 Jun 19	\$0.20	750,000	750,000	-	-
8 Feb 16	30 Jun 19	\$0.20	2,005,750	1,921,250	84,500	-
31 May 16	30 Jun 19	\$0.25	1,500,000	1,500,000	-	-
24 Jun 16	30 Jun 19	\$0.20	2,036,334	2,036,334	-	-
21 Jul 16	31 Dec 19	\$0.20	1,000,000	-	-	1,000,000
27 Nov 18	30 Nov 22	\$0.1957	9,500,000	-	-	9,500,000*
Total			36,851,334	26,266,834	84,500	10,500,000

* See page 24 'Share-based compensation granted and issued'.

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

Shares issued upon the exercise of options

84,500 shares were issued by Novatti Group Limited during the year ended 30 June 2019 up to the date of this report as a result of the exercise of options granted.

Indemnity and insurance of officers

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

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

INDEMNITY AND INSURANCE OF AUDITOR

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

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

PROCEEDINGS ON BEHALF OF THE GROUP

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

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 20 to the financial statements.

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

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





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 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink on a white rectangular background. The signature appears to be 'P. Pawlowitsch'.

Peter Pawlowitsch
Chairman

26 September 2019
Melbourne

The Board of Directors of Novatti Group Limited ('Novatti', 'Group' or the 'Company') is responsible for corporate governance.

The Board has chosen to prepare the Corporate Governance Statement ('CGS') in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the CGS may be available on the Company's website.

Accordingly, a copy of the Company's CGS is available on the Novatti Group website at www.novattigroup.com under the Corporate Governance section.

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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2019
there have been:

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

William Buck

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

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

N. S. Benbow
Director

Dated this 26th day of September, 2019

ACCOUNTANTS & ADVISORS

Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

FINANCIAL REPORT



GENERAL INFORMATION

The 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 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 the date of signing the attached Director's Declaration.



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Note	Consolidated 2019	Consolidated 2018
		\$	\$
Revenue	4	8,416,464	5,421,432
Other income	4	473,938	942,252
Total Revenue		8,890,402	6,363,684
Expenses			
Client hosting fees and other direct services		(1,879,065)	(741,864)
Employee benefits		(7,684,661)	(5,244,607)
Depreciation and amortisation expense	11 & 12	(389,337)	(290,663)
Occupancy		(336,365)	(191,736)
Finance charges		(75,664)	(22,433)
Foreign currency translation (losses)/gains		(248,644)	75,750
Travel expenses		(478,069)	(370,048)
Marketing and selling expenses		(602,196)	(346,872)
Insurance		(157,977)	(88,032)
Data management expenses		(226,394)	(102,399)
Share of net profit of joint ventures accounted for using the equity method		(40)	(224)
Accounting fees		(160,167)	(128,738)
Due diligence costs		(497,853)	(235,229)
Public company running costs		(246,957)	(339,114)
Other expenses		(831,567)	(406,509)
Loss before income tax expense		(4,924,554)	(2,069,034)
Income tax expense	5	(29,759)	-
Loss after income tax expense for the year attributable to owners		(4,954,313)	(2,069,034)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		102,049	471,892
Total comprehensive income for the year attributable to owners		(4,852,264)	(1,597,142)

		2019 Cents	2018 Cents
Basic and diluted loss per share	29	(3.09)	(1.53)

The above statement of Profit or Loss and Other Comprehensive Income ('OCI') should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	Consolidated 2019	Consolidated 2018
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	6	1,806,924	4,509,142
Trade and other receivables	8	4,287,947	4,155,983
Financial assets – funds in trust	7	3,754,633	2,210,873
Other current assets	9	612,511	162,450
Total current assets		10,462,015	11,038,448
Non-current assets			
Investments accounted for using the equity method		5,224	4,969
Other investments	10	800,000	-
Plant and equipment	11	623,124	142,507
Intangible assets	12	4,645,343	3,236,191
Total non-current assets		6,073,691	3,383,667
Total assets		16,535,706	14,422,115
Liabilities			
Current liabilities			
Trade and other payables	13	4,641,419	2,419,725
Settlement and remittance funds payable	14	3,754,633	2,210,873
Unearned revenue	15	937,160	660,532
Loans	22	402,506	-
Employee benefits		508,095	358,067
Total current liabilities		10,243,813	5,649,197
Non-current liabilities			
Employee benefits		51,502	23,767
Lease incentive		117,334	-
Total non-current liabilities		168,836	23,767
Total liabilities		10,412,649	5,672,964
Net assets		6,123,057	8,749,151
Equity			
Issued capital	16	24,074,324	22,234,239
Reserves	17	2,180,965	1,692,831
Accumulated losses		(20,132,232)	(15,177,919)
Total equity		6,123,057	8,749,151

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Consolidated	Issued capital \$	Share-based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
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 year	-	-	-	(4,954,313)	(4,954,313)
Transactions with owners in their capacity as owners:	22,234,239	1,265,108	427,723	(20,132,232)	3,794,838
Shares issued during the period net of transaction costs	1,840,085	-	-	-	1,840,085
Vesting of share-based payments	-	386,085	-	-	386,085
Foreign exchange translation differences	-	-	102,049	-	102,049
Balance at 30 June 2019	24,074,324	1,651,193	529,772	(20,132,232)	6,123,057

For the year ended 30 June 2018

Consolidated	Issued capital \$	Share-based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	14,296,835	1,128,479	(44,169)	(13,108,885)	2,272,260
Loss after income tax expense for the year	-	-	-	(2,069,034)	(2,069,034)
Transactions with owners in their capacity as owners:	14,296,835	1,128,479	(44,169)	(15,177,919)	203,226
Shares issued during the period net of transaction costs	7,937,404	-	-	-	7,937,404
Vesting of share-based payments	-	136,629	-	-	136,629
Foreign exchange translation differences	-	-	471,892	-	471,892
Balance at 30 June 2018	22,234,239	1,265,108	427,723	(15,177,919)	8,749,151

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	Consolidated 2019	Consolidated 2018
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		27,464,350	33,894,283
Payments to suppliers and employees (inclusive of GST)		(30,380,369)	(37,266,137)
Interest received		(35,496)	17,913
Receipt of research and development rebate		923,660	-
Interest and other finance costs paid		(75,665)	(22,433)
Net cash used in operating activities	28	(2,103,520)	(3,376,374)
Cash flows from investing activities			
Payment for acquisition of Vasco Pay Pty Ltd		-	(150,000)
Payment for acquisition of investment partnership		(200,000)	-
Joint venture Hi Impact – Loan		-	(11,257)
Loans to investment businesses		(200,000)	-
Proceeds from sale of plant and equipment		-	1,502
Receipts of adjustments from basis2 purchase in FY18		-	242,935
Payments for banking licence		(1,662,628)	(208,840)
Payments for plant and equipment		(527,511)	(139,467)
Net cash used in investing activities		(2,590,139)	(265,127)
Cash flows from financing activities			
Loans from related parties		400,000	-
Proceeds from issue of shares		1,972,094	7,542,060
Share issue transaction costs		(132,009)	(121,312)
Net cash provided from financing activities		2,240,085	7,420,748
Net increase/(decrease) in cash and cash equivalents		(2,453,574)	3,779,246
Cash and cash equivalents at the beginning of the financial year		4,509,142	654,146
Effects of exchange rate changes on cash and cash equivalents		(248,644)	75,750
Cash and cash equivalents at the end of the financial year	6	1,806,924	4,509,142

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

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

Basis of Preparation

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

Critical accounting estimates

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the legal parent entity is disclosed in Note 23.

Principles of consolidation

These are the financial statements of Novatti Group Limited (the 'Company') and its controlled entities (the 'Group') as at 30 June 2019.

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

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

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

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 financial year ended 30 June 2019.

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 year ended 30 June 2019.

The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

AASB 9 Financial Instruments

Measurement and classification

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. In this regard, the Group has determined that the adoption of AASB 9 has impacted on the classification of financial instruments as follows:

Class of Financial Instrument	Measurement under AASB 139 (i.e. prior to 1 July 2018)	New measurement category under AASB 9 (i.e. from 1 July 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Funds held in trust	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost
Investments	Fair value	Fair value with gains or losses recognised through other comprehensive income in statement of profit or loss and other comprehensive income

The change in classification has not resulted in any re-measurement adjustments at 1 July 2018.

Impairment of financial assets

In relation to financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, all balances are assessed to have low credit risk as they are held with reputable financial institutions.

The Directors have assessed the requirements of AASB 9 and have determined there is no impact on the Group for the financial year ended 30 June 2019.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118, revenue and several revenue related interpretations. The new standard had been first adopted from 1 July 2018. The Group has adopted the 'Modified Retrospective' method of transition under AASB 15 Revenue from Contracts with Customers.

The Group has undertaken a full assessment of the impact of AASB 15. Based on the Group's assessment, this standard has not had a material impact on the transactions and balances when it was first adopted for this year ended 30 June 2019. For maintenance and support services where

revenue is billed either yearly or quarterly in advance depending on the terms of the service agreement, it is the practice of the Group to apportion revenue. Maintenance and support income is apportioned across the period over which the customer consumes the service, such that any unused portion of the annual or quarterly invoices will be deferred and recognised in the balance sheet.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

To determine whether to recognise revenue the Group follows a five-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligations are satisfied

Revenue is recognised either at a point in time or over time when (or as) the Group satisfies performance obligations by transferring the promised services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations where applicable and reports these as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives consideration, the Group recognises a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due. The Group derived the following revenue:

Platform sales

Deployment and the support of specialist mobile and alternative payment technology. There are two primary components, the recognition of revenue on the completion and delivery of agreed milestones that are recognised at the stage of performance completion and the revenue for ongoing maintenance and support, recognised on a straight-line basis, monthly over the subscription term.

Billing solutions

Provision of technologically advanced billing and customer information system platforms for the utilities industry. Yearly licence fees are amortised over the relevant year and professional services revenue is recognised in the month the service is provided at that point in time.

Transaction sales

Included within transaction sales are:

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

Revenue from transaction sales are recognised in the month at the point in time for which the transaction takes place.

Interest

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

Unearned revenue

Unearned revenue includes revenue from clients whereby services are billed in advance of their anniversary dates and have outstanding services owing for the financial year ended 30 June 2019.

Accrued revenue

Accrued revenue includes revenue from the sales of services unbilled as at 30 June 2019.

Other revenue

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

Government grants

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

Operating segments

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

Financial Instruments

The Group's financial instruments recognised in the statement of financial position consists of trade receivables and payables, investments and cash held in trust for remittance and settlement services.

Recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments including investments are initially measured at fair value. Transactions costs are included as part of initial measurement, except for financial assets at fair value through profit or loss.

Classification and subsequent measurement

The Group assesses its financial instruments and these are subsequently measured at amortised cost using the effective interest method, or fair value through other comprehensive income or fair value through profit or loss. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

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

Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any evidence that a financial asset or Group of financial assets is impaired. Evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.



Cash and cash equivalents

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

Trade and other receivables

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

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

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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



Income tax

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

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

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

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

Plant and equipment

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and

subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

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

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

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

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

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

Intangible assets

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

Customer lists	10 years
Intellectual Property: Technology – Billing Software	10 years
Vasco Pay brand	10 years

Intangible assets acquired in a business combination

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or Groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any

impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment of tangible and intangible assets

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

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

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

Trade and other payables

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

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, which are provided to employees in exchange for the rendering of services.

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

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

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

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



Issued capital

Ordinary shares are classified as equity.

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

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

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. When it is not recoverable, it is then recorded separately on the statement of profit or loss and other comprehensive income. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019.



The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

Standard	Mandatory date for annual reporting periods beginning on or after	Reporting period standard adopted by the Group
AASB 16 Leases	1 January 2019	1 July 2019
Interpretation 23 Uncertainty over income tax treatments	1 January 2019	1 July 2019

AASB 16 Leases

Management has considered the impact of AASB 16 – Leases and has prepared a detailed calculation to quantify the impact as at the adoption date of 1 July 2019. AASB 16 introduces a single lessee accounting model on the statement of financial position. As a result the Group, as a lessee, from the application date will recognise right of use assets to represent its right to use the underlying assets and lease liabilities to represent its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group plans to apply AASB 16 using the modified retrospective approach. Based on the analysis undertaken and the recent contractual terms for the leases entered into by the Group, the standard is not expected to have a material impact on the transactions and balances in the prior financial year. The expected cumulative impact of the implementation of this standard as at 1 July 2019 is set out below.

	Total expected dollar value
Total expected value of right of use asset	1,748,557
Total expected value of lease liability	1,829,951
Total expected impact to retained earnings	(81,394)

NOTE 2. CRITICAL ACCOUNTING JUDGMENTS, 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.

Valuation of Vasco Pay brand

The Vasco Pay brand asset value has been calculated using the discounted cash flow method. A discount rate of 10.75% has been applied in assessing its value. The brand name is expected to generate cash flows via the attraction of customers to the credit card program manager offering. Stannards was contracted to complete the valuation of the brand on behalf of the Group.

Assessment of earn-outs payable for Vasco Pay Pty Ltd

The calculation of the earn-outs will be determined as per the agreed terms of contract. The Vasco Pay business is transitioning itself into acting as a credit card program manager. The earn-outs for FY20 and FY21 will be based on income generated from the new credit card program. As FY20 progresses and the new credit card program gains traction, the Directors of the Group will be in a better position to determine whether the earn-outs can be provided for FY20 and FY21. Refer to Note 26 'Business combination'.

Estimation of useful lives of finite life intangible assets

The Group engages the services of expert consultants in order to determine the valuation, estimated useful lives and related amortisation charges for its finite life intangible assets. Grant Thornton was engaged to conduct the valuation on Customer lists and Intellectual Property Technology – Billing Software and they provided the estimated useful lives for these assets. Stannards provided the estimated useful life on the Vasco Pay brand as part of its valuation.

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

Recovery of deferred tax assets

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

Fair value and hierarchy of financial investment assets

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

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

The financial asset investments acquired in FY19 have been classified by the Group in level 3. These investments are in private entities where obtaining input values is not readily possible. Input values recognised were based on judgement and most recent transaction values.

Refer to Note 18 for further information on how the financial asset investments have been categorised and valued in accordance with the hierarchy.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgment. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.



NOTE 3. OPERATING SEGMENTS

Identification of reportable operating segments

The Group is organised into five 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 B Holding Company Pty Ltd
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 Processing

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

Intersegment transactions

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

Intersegment receivables, payables and loans

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

Operating segment information

Consolidated – 30 June 2019	Novatti Platform \$	Billing Solutions \$	Transaction Services \$	Banking Services \$	Novatti Group Limited \$	Total \$
Revenue						
Sales to external customers	2,289,873	2,224,146	3,902,445	-	-	8,416,464
Intersegment sales						
Total sales revenue	2,289,873	2,224,146	3,902,445	-	-	8,416,464
Other revenue	-	-	-	-	463,656	463,656
Total revenue excluding interest revenue	2,289,873	2,224,146	3,902,445	-	463,656	8,880,120
EBITDA	(1,771,002)	248,963	(1,793,756)	(66,231)	(872,562)	(4,254,588)
Depreciation and amortisation	(43,021)	(198,153)	(63,509)	-	(84,654)	(389,337)
Interest revenue	4,760	-	15	-	5,507	10,282
Finance costs	(29,637)	(795)	(39,508)	-	(5,724)	(75,664)
Other costs	(9,899)	(28,849)	(176,499)	-	-	(215,247)
Profit/(loss) before income tax expense	(1,848,799)	21,166	(2,073,257)	(66,231)	(957,433)	(4,924,554)
Income tax expense	-	(29,759)	-	-	-	(29,759)
Profit/(loss) after income tax expense	(1,848,799)	(8,593)	(2,073,257)	(66,231)	(957,433)	(4,954,313)
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
Employee Benefits	4,678,844	42,287	2,397,542	-	565,988	7,684,661
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

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

Revenue from Australian customers is \$2,038,278 (FY18: \$1,161,589).

Revenue from customers in other countries is \$6,378,186 (FY18: \$4,259,862).

Revenue from a single customer in a country other than Australia is \$1,959,434 (FY18: \$675,914).

Consolidated – 30 June 2018	Novatti Platform \$	Billing Solutions \$	Transaction Services \$	Novatti Group Limited \$	Total \$
Revenue					
Sales to external customers	2,062,654	1,580,475	1,778,303	-	5,421,432
Intersegment sales					
Total sales revenue	2,062,654	1,580,475	1,778,303	-	5,421,432
Other revenue	-	-	-	923,660	923,660
Total revenue excluding interest revenue	2,062,654	1,580,475	1,778,303	923,660	6,345,092
EBITDA	(1,502,842)	216,581	(32,234)	(394,417)	(1,712,912)
Depreciation and amortisation	(22,903)	(183,126)	-	(84,634)	(290,663)
Interest revenue	-	-	-	18,592	18,592
Finance costs	(19,106)	(698)	(1,773)	(856)	(22,433)
Other costs	(2,091)	(8,576)	(50,931)	(20)	(61,618)
Profit/(loss) before income tax expense	(1,546,942)	24,181	(84,938)	(461,335)	(2,069,034)
Income tax expense	-	-	-	-	-
Profit/(loss) after income tax expense	(1,546,942)	24,181	(84,938)	(461,335)	(2,069,034)
Segment Assets	2,305,470	2,676,754	4,819,106	4,620,785	14,422,115
Segment Liabilities	1,205,237	435,381	3,655,012	377,334	5,672,964
Employee Benefits	3,785,823	30,930	1,025,625	402,231	5,224,607
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	348,307	-	-	567,630	915,937

NOTE 4. REVENUE

Timing of revenue recognition

	Services provided at point in time	Services provided over time	Consolidated 2019 \$
Sales revenue:			
Platform	-	2,289,873	2,289,873
Billing Solutions	1,418,910	805,236	2,224,146
Transaction processing	3,902,445	-	3,902,445
	5,321,355	3,095,109	8,416,464
Other revenue:			
Interest	-	10,282	10,282
Other income	463,656	-	463,656
	463,656	10,282	473,938
Revenue	5,979,791	2,910,611	8,890,402

Timing of revenue recognition

	Services provided at point in time	Services provided over time	Consolidated 2018 \$
Sales revenue:			
Platform	-	2,062,654	2,062,654
Billing Solutions	812,487	767,988	1,584,475
Transaction processing	1,778,303	-	1,778,303
	3,362,778	2,062,654	5,421,432
Other revenue:			
Interest	-	18,592	18,592
Other income	923,660		923,660
	923,660	18,592	942,252
Revenue	4,286,438	2,081,246	6,363,684

NOTE 5. INCOME TAX EXPENSE

	Consolidated 2019 \$	Consolidated 2018 \$
Reconciliation of Income tax expense to prima facie tax payable		
Loss before Income Tax	(4,924,554)	(2,069,034)
Prima facie income tax on loss at the domestic tax rate of Novatti Group Ltd of 27.5%	(1,354,252)	(568,984)
Adjustment for tax rate differences in foreign jurisdictions	23,800	9,899
Adjustment for tax payable in foreign jurisdictions	27,395	-
Adjustment for tax exempt research and development tax incentive received	(126,695)	(254,007)
Adjustments from prior periods	20,546	(54,641)
Adjustments from prior periods year income tax losses utilised in current period	-	(6,165)
Adjustment for changes in tax rates	-	4,358
Adjustment for non-deductible expenses:		
- Share-based payments expense	107,563	71,148
- Adjustment for R&D accounting expense included within R&D incentive	291,252	583,923
- Other non-deductible expenses	21,075	2,889
	(992,774)	(211,580)
Current year tax losses not brought to account	814,248	1,121,245
Current year temporary differences not brought to account	520,084	(382,190)
Adjustments in respect of current income tax of previous year	(311,799)	(529,283)
Adjustments for changes in tax rates	-	(4,358)
Prior year income tax losses utilised in the current year	-	6,166
Income tax expense	29,759	-
Deferred tax assets not brought to account:		
Unused tax losses for which no deferred tax asset has been recognised	9,132,742	9,251,114
Deductible temporary differences for which no deferred tax asset has been recognised	1,850,028	119,626
	10,982,770	9,370,740
Potential tax benefit @ 27.5% (2018: 27.5%)	3,020,262	2,576,954

NOTE 6. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2019 \$	Consolidated 2018 \$
Cash on hand	7,910	6,914
Cash at bank	1,799,014	4,502,228
	1,806,924	4,509,142

Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents	1,806,924	4,509,142
Balance as per statement of cash flows	1,806,924	4,509,142

NOTE 7. 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 2019 \$	Consolidated 2018 \$
Settlement funds payable*	1,934,582	1,498,840
Remittance funds payable*	1,820,051	712,033
Cash and cash equivalents held in trust	3,754,633	2,210,873

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

NOTE 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2019 \$	Consolidated 2018 \$
Trade receivables	3,787,197	2,787,629

Impairment of receivables

The Group's trade and other receivables have been reviewed for indicators of impairment. Trade receivables were not found to be impaired and a provision has not been recorded.

The Group did not consider a provision required in relation to credit risk based on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

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

	Consolidated 2019 \$	Consolidated 2018 \$
Current	1,462,811	891,056
0 to 3 months overdue	-	70,022
3 to 6 months overdue	467,979	441,281
Over 6 months overdue	1,856,407	1,385,270
	3,787,197	2,787,629
Other receivables		
Accrued revenue	500,750	1,368,354
Total trade and other receivables	4,287,947	4,155,983

Management are of the opinion that these receivables are reflective of fair value and should not be impaired.

Within the over 6 months overdue balance for FY19 and FY18 is a security deposit receivable. FY19 security deposit receivable was \$130,572 (AUD/USD \$0.7023). Prior the value was \$123,849 (AUD/USD \$0.7405).

NOTE 9. OTHER CURRENT ASSETS

	Consolidated 2019 \$	Consolidated 2018 \$
Prepayments	144,184	73,715
Security term deposit	99,739	33,233
Loan to unlisted entity*	200,610	-
Other	167,978	55,502
	612,511	162,450

* Terms of loan agreement include:

Principal amount: \$200,000

Term: 12 months from the first drawdown. The loan was first drawn down on 20 May 2019.

Interest: 6%

Repayment: The principal is repayable at the expiry of the term. The borrower may extend the date for repayment by up to 6 months. The borrower may repay all or any portion of the principal and interest prior to the end of the loan term.

Conversion: Where the principal amount and interest has not been repaid within 6 months after the end of term, as may be extended, the lender may convert some or all of the monies outstanding into fully paid ordinary shares in the borrower.

Security: The borrower charges in favour of the lender all its right, title and interest in present and after acquired property including any interest to grant a security interest. The charge continues to real property. The borrower has no power to create any security in the collateral ranking in priority or equal rank to the agreement without obtaining the lender's prior written consent.

NOTE 10. OTHER INVESTMENTS

	Consolidated 2019 \$	Consolidated 2018 \$
Investment in SendFX Pty Ltd*	560,000	-
Investment in Slice Payments Pty Ltd*	240,000	-
	800,000	-

* SendFX has issued Novatti Group Ltd 200,000 shares for a deemed issue price of \$1 and 360,000 shares in consideration as payment for services provided.

• Slice Payments Pty Ltd has issued Novatti Group Ltd 300,000 shares in consideration as payment for services provided for deemed issue.

Movements in fair value will occur in subsequent periods through the profit or loss. At 30 June 2019, fair value was equal to cost.

NOTE 11. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

	Consolidated 2019 \$	Consolidated 2018 \$
Plant and equipment – at cost	626,781	568,824
Less: accumulated depreciation	(471,657)	(432,253)
	155,124	136,571
Leasehold fixtures and fittings – at cost	495,636	41,005
Less: accumulated depreciation	(27,636)	(35,069)
	468,000	5,936
Total plant and equipment	623,124	142,507

Reconciliations

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

2019	Plant & Equipment at cost \$	Leasehold Fixtures & Fittings at cost \$	Total \$
Gross carrying amount			
Balance 1 July 2018	568,824	41,005	609,829
Additions	57,957	469,553	527,510
Disposals	-	(14,922)	(14,922)
Balance 30 June 2019	626,781	495,636	1,122,417
Accumulated depreciation			
Balance 1 July 2018	(432,253)	(35,069)	(467,322)
Disposals	-	14,922	14,922
Depreciation expense	(39,404)	(7,489)	(46,893)
Balance 30 June 2019	(471,657)	(27,636)	(499,293)
Net book value			
As at 1 July 2018	136,571	5,936	142,507
Balance 30 June 2019	155,124	468,000	623,124

2018	Plant & Equipment at cost \$	Leasehold Fixtures & Fittings at cost \$	Total \$
Gross carrying amount			
Balance 1 July 2017	436,513	41,005	477,518
Additions	139,468	-	139,468
Disposals	(7,157)	-	(7,157)
Balance 30 June 2018	568,824	41,005	609,829
Accumulated depreciation			
Balance 1 July 2017	(420,297)	(30,830)	(451,127)
Disposals	6,708	-	6,708
Depreciation expense	(18,664)	(4,239)	(22,903)
Balance 30 June 2018	(432,253)	(35,069)	(467,322)
Net book value			
As at 1 July 2017	16,216	10,175	26,391
Balance 30 June 2018	136,571	5,936	142,507

NOTE 12. INTANGIBLES

	Consolidated 2019 \$	Consolidated 2018 \$
Intangible assets – at cost	5,305,858	3,471,652
Less: accumulated amortisation	(660,515)	(235,461)
	4,645,343	3,236,191

2019	Goodwill \$	Brand Asset \$	Intel- lectual Property \$	Custom- er Lists \$	Licences \$	Software \$	Website \$	Total \$
Balance 1 July 2018	569,630	-	847,000	1,846,182	208,840	-	-	3,471,652
Foreign exchange translation difference*	-	-	-	171,578	-	-	-	171,578
Reclassification of Goodwill to Brand Asset•	(567,630)	567,630	-	-	-	-	-	-
Additions	-	-	-	-	1,453,023	200,000	9,605	1,662,628
Disposals	-	-	-	-	-	-	-	-
Balance 30 June 2019	2,000	567,630	847,000	2,017,760	1,661,863	200,000	9,605	5,305,858
Accumulated amortisation Balance 1 July 2018	-	-	(93,003)	(142,458)	-	-	-	(235,461)
Amortisation expense	-	(59,637)	(84,654)	(198,153)	-	-	-	(342,444)
Foreign exchange translation difference*	-	-	-	(82,610)	-	-	-	(82,610)
Balance 30 June 2019	-	(59,637)	(177,657)	(423,221)	-	-	-	(660,515)
Net book value								
As at 1 July 2018	569,630	-	753,997	1,703,724	208,840	-	-	3,236,191
Balance 30 June 2019	2,000	507,993	669,343	1,594,539	1,661,863	200,000	9,605	4,645,343

* In accordance with AASB 121 the foreign exchange variance between the cost of the Intangible Asset and accumulated amortisation for the period is AUD 88,968. This is a result of the conversion of the carrying amount of Customer Lists from USD 1,119,897 to AUD 1,594,539, using an exchange rate average over the period of AUD 0.7148 to USD 1.

• Please refer to Note 26 'Business combination'.

Major additions to intangible assets over the financial reporting period ended 30 June 2019; include additions to licences, software and website. These additions relate to the costs incurred in pursuit of the Group's RADl application, which is in the process of being approved by APRA. These costs will not be amortised as the life of the banking licence is infinite. Costs in relation to the software and website will begin to be amortised when the RADl is granted. The banking licence will be subject to impairment testing from the time it has been granted.

2018	Goodwill \$	Intellectual Property \$	Customer Lists \$	Licences \$	Total \$
Balance 1 July 2017	2,000	847,000	1,846,182	-	2,695,182
Additions	567,630	-	-	208,840	776,470
Balance 30 June 2018	569,630	847,000	1,846,182	208,840	3,471,652
Accumulated amortisation Balance 1 July 2017	(20)	(8,349)	(18,199)	-	(26,568)
Amortisation expense	20	(84,654)	(183,126)	-	(267,760)
Foreign exchange translation difference	-	-	58,867	-	58,867
Balance 30 June 2018	-	(93,003)	(142,458)	-	(235,461)
Net book value					
As at 1 July 2017	1,980	838,651	1,827,983	-	2,668,614
Balance 30 June 2018	569,630	753,997	1,703,724	208,840	3,236,191

NOTE 13. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2019 \$	Consolidated 2018 \$
Trade payables	3,592,651	1,748,011
Accrued expenses	1,038,221	671,714
Lease incentive	10,547	-
	4,641,419	2,419,725

NOTE 14. CURRENT LIABILITIES – SETTLEMENT AND REMITTANCE FUNDS PAYABLE

	Consolidated 2019 \$	Consolidated 2018 \$
Settlement funds payable*	1,934,582	1,498,840
Remittance funds payable*	1,820,051	712,033
	3,754,633	2,210,873

* Client Funds held for Settlement and Remittance, refer to Note 7.

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

NOTE 15. CURRENT LIABILITIES – UNEARNED REVENUE

	Consolidated 2019 \$	Consolidated 2018 \$
Revenue billed in advance	937,160	660,532
Reconciliation of the values at the beginning and end of the current and previous financial year		
Are set out below:		
Opening balance	660,532	565,272
Amounts billed in advance during the year	3,008,561	2,153,274
Transfer to revenue – performance obligations satisfied	(2,731,933)	(2,058,014)
	937,160	660,532



NOTE 16. EQUITY – ISSUED CAPITAL

Movements in ordinary share capital

Ordinary shares	No.	\$
Opening Balance		
Beginning of the period 1 July 2018	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)
Closing Balance – 30 June 2019	166,879,214	24,074,324

• For further information, please refer to the ASX 'Announcements' web page dated 28 February 2019.

On 18 March, the Group secured approximately \$2M to further its application for a restricted banking licence and additional working capital. On 29 March, \$1.95M was received from professional and sophisticated investors at an issue price of \$0.21. The Chairman has also subscribed to the placement for approximately 238,096 shares at \$50,000, subject to shareholder approval at the Group's FY19 Annual General Meeting.

Ordinary shares

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

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

Share buy-back

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

Options

Information is set out in Note 30 relating to options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year.

Capital risk management

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

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

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

NOTE 17. EQUITY – RESERVE

	Consolidated 2019 \$	Consolidated 2018 \$
Option reserve	1,651,193	1,265,108
Foreign currency reserve	529,772	427,723
	2,180,965	1,692,831

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 granted and balance is transferred to retained earnings when options lapse.

On the 27th November 2018 at the Notice of Annual General Meeting (AGM) of shareholders, 9.5M 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 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 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 after which date all of the incentive options not yet exercised automatically lapse.

The fair value of the options is valued at "grant date" using the binomial model.

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 18. FINANCIAL INSTRUMENTS

Financial risk management objectives

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

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

Principal financial instruments

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

- Cash at bank and on deposit
- Trade receivables
- Trade and other payables
- Investments

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

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

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

Trade receivables

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

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

The Group undertakes transactions with a large number of customers and regularly monitors payments in accordance with credit terms, the financial assets that are neither past due nor impaired, are expected to be received in accordance with the credit terms.

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

Investments

Investment risk arises from the Group's investment in unlisted entities. Values are initially recorded at cost and are subsequently measured at fair value through the statement of profit or loss and other comprehensive income. Refer to Note 10 and within this note.



Liquidity risk

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

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

As at 30 June 2019, the financial liabilities of the Group include:

- Trade and other payables. For further details including breakdown of balances, refer to trade and other payables in Note 13 for a breakdown of account balances
- Lease commitments. Refer to Note 21 for a summary of the contractual maturities of commitments
- Related party loan. Refer to Note 22

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

Currency risk

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

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

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

Currency risk sensitivity analysis – Other currencies (CAD)

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated Nominal amounts	2019 CAD	Consolidated Nominal amounts	2018 CAD
Cash at bank and on term deposit	2,632,819	Cash at bank and on term deposit	2,664,941
Trade receivables	475,365	Trade receivables	5,798
Trade payables	(1,327,733)	Trade payables	(878,411)
	1,780,451		1,792,328

The following tables below illustrate the sensitivity of the net result for the year and equity in regard to the Group's financial assets and financial liabilities compared with the currency on deposit and AUD exchange rate. It assumes a +/- 5% change in the exchange rate for the year ended at 30 June 2019. This percentage has been determined based on average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date. This assumes that other variables, in particular interest rates, remain constant.

If the Australian dollar had strengthened against the CAD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	(84,783)	(85,349)
Other equity	-	-

If the Australian dollar had weakened against the CAD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	93,708	94,333
Other equity	-	-

Exposures to foreign exchange rates vary during the year depended on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

Currency risk sensitivity analysis – Other currencies (USD)

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated Nominal amounts	2019 USD	Consolidated Nominal amounts	2018 USD
Cash at bank and on term deposit	74,606	Cash at bank and on term deposit	741,007
Trade receivables	2,248,852	Trade receivables	2,358,866
Trade payables	(135,958)	Trade payables	(204,907)
	2,187,500		2,894,966

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

If the Australian dollar had strengthened against the USD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	(104,167)	(137,856)
Other equity	-	-

If the Australian dollar had weakened against the USD by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	115,132	152,367
Other equity	-	-

Currency risk sensitivity analysis – Other currencies (EUR)

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated Nominal amounts	2019 EUR
Cash at bank and on term deposit	630,209
Trade receivables	437,713
Trade payables	(819,300)
	248,622

Consolidated Nominal amounts	2018 EUR
Cash at bank and on term deposit	590,726
Trade receivables	375,928
Trade payables	(153,775)
	812,879

If the Australian dollar had strengthened against the EUR by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	(11,839)	(38,709)
Other equity	-	-

If the Australian dollar had weakened against the EUR by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	13,085	42,783
Other equity	-	-



Currency risk sensitivity analysis – Other currencies (GBP)

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

Consolidated Nominal amounts	2019 GBP	Consolidated Nominal amounts	2018 GBP
Cash at bank and on term deposit	6,863	Cash at bank and on term deposit	6,770
Trade receivables	7,437	Trade receivables	13,287
Trade payables	(37,965)	Trade payables	(37,795)
	(23,665)		(17,738)

If the Australian dollar had strengthened against the GBP by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	1,127	845
Other equity	-	-

If the Australian dollar had weakened against the GBP by 5% then this would have had the following impact on profit and other equity:

Consolidated	2019	2018
Profit after tax	(1,246)	(934)
Other equity	-	-

Price risk

The Group is exposed to other price risk on its investments in unlisted entities. These investments are classified on the statement of financial position as investment assets initially recorded at cost and are subsequently measured at fair value through the statement of profit or loss and other comprehensive income. The investments are in two different entities. The assets and liabilities within these investments indirectly expose the Group to equity price risks. It is not considered practicable to 'look through' the investments to analyse these risks in detail. These investments were acquired in the FY19 year.

If the fair value of investments increased by 10% this would have increased other income for both the Group by \$80,000. A decrease of 10% would have reduced other income by the same amount.

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

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – a valuation technique is applied using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices)

Level 3 – a valuation technique is applied using inputs that are not based on observable market data (unobservable inputs)

2019	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Shares in unlisted entities	-	-	800,000	800,000
	-	-	800,000	800,000

The value of the \$800,000 is made up of three components:

- \$360,000 relates to an agreed \$1 per share for professional services to be provided over the FY20 year.
- \$200,000 relates to the acquisition of shares at \$1 per share.
- \$240,000 equates to \$0.80 per 1 share, of which the Group was compensated, (and received 300,000 shares) for providing professional services.

NOTE 19. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

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

	Consolidated 2019 \$	Consolidated 2018 \$
Short-term employee benefits	1,036,782	743,792
Post-employment benefits	71,558	66,888
Long-term benefits	14,990	5,046
Share-based payments	500,965	184,089
	1,624,295	999,815

NOTE 20. REMUNERATION OF AUDITORS

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

	Consolidated 2019 \$	Consolidated 2018 \$
<i>Audit services – William Buck</i>		
Audit of the 30 June 19 financial statements	44,540	33,312
Review of the 31 December 18 financial statements	35,000	16,300
	79,540	49,612
<i>Other services – William Buck</i>		
Preparation of the tax return and associated tax services (including R&D)	58,905	26,700
Investigative consulting	11,970	1,925
	150,415	78,237

NOTE 21. COMMITMENTS

	Consolidated 2019 \$	Consolidated 2018 \$
Capital commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
• Within one year	256,899	215,158
• One to five years	1,829,951	1,085,749
• More than five years	-	-
	2,086,850	1,300,907

Lease commitments within the above figures include contracted amounts for offices in Melbourne, the United Kingdom, South Australia and New South Wales. On renewal, the terms of the leases are re-negotiated.

This note includes all capital commitments for the Group.

NOTE 22. RELATED PARTY TRANSACTIONS

Key management personnel

Disclosures relating to key management personnel are set out in the remuneration report and also within Note 19.

Parent and ultimate controlling party

Novatti Group Ltd was incorporated on 19 June 2015. For accounting purposes, Novatti Pty Ltd was identified as the accounting acquirer and Novatti Group Ltd was identified as the accounting subsidiary. The shares in Novatti Pty Ltd were acquired by the Novatti Group on a scrip for scrip basis.

Loans from Directors

Novatti Group Ltd entered into a short-term loan agreement with an entity associated with Peter Pawlowitsch on June 2019. The term of the loan is 3 months from the date of the first drawdown notice.

The facility amount of the loan is \$600,000.

The loan up to an aggregate of the facility amount may be drawn down at any time and from time to time up to a maximum of 6 times during the term in amounts of no less than \$50,000.

Interest is payable at 12% per annum beginning the day of the first drawdown and the loan is unsecured. The loan does not have any equity conversion rights.

During the term, the Group must prepay as much of all or any portion of the principal amount drawn down and any interest outstanding out of the receipt of funds from:

- (a) The ATO for taxation refunds in respect of the R&D grant in associated with income tax returns for the FY18 financial year.
- (b) Receipts from material debtor(s) as these may occur.

All such repayments must be made within 5 days upon the receipt of funds from the FY18 income tax refunds and or receipts from the material debtor.

Loan drawdown as at 30 June 2019 was \$400,000, with interest payable of \$2,506. Total payable is \$402,506 as at 30 June 2019. Repayment of the loan and accrued interest occurred on 30 July 2019.

There are no other loans that were entered into or, outstanding with any other Director of Novatti Group Ltd as at 30 June 2019.

Current and non-current liabilities to a Director

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

Loans to/from related parties

Loan provided to the Group's joint venture partner, Hi Impact. This loan agreement is for a total of USD 18,335 (AUD 29,940) as at 30 June 2019 (FY18, USD 18,335 (AUD 24,762)). The loan is on commercial terms and interest has been calculated daily at 6% per annum.

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

Terms and conditions

All transactions were made on normal commercial terms and conditions and not at market rates.

NOTE 23. PARENT ENTITY INFORMATION

Set out below is the supplementary information of the 'legal' parent entity, Novatti Group Ltd. Novatti Group Ltd entered into a Share Purchase Agreement with the equity holders of Novatti Pty Ltd to acquire all the shares in Novatti Pty Ltd on 28 September 2015.

Statement of profit or loss and other comprehensive income

	Parent 2019 \$	Parent 2018 \$
Loss after income tax	(964,177)	(476,838)
Total comprehensive loss	(964,177)	(476,838)

Statement of financial position

	Parent 2019 \$	Parent 2018 \$
Total current assets	1,172,317	3,297,158
Total assets	27,413,112	25,220,460
Total current liabilities	1,307,994	337,334
Total liabilities	1,307,994	377,334
Equity		
Issued capital	26,991,327	25,151,243
Performance share reserve	600,000	600,000
Reserves	1,651,193	1,265,108
Accumulated losses – Opening	(2,173,225)	(1,696,387)
Losses incurred for the year	(964,177)	(476,838)
	(3,137,402)	(2,173,225)
Total equity	26,105,118	24,843,126

NOTE 24. CONTINGENT LIABILITIES

Contingent liabilities

There exists a bank guarantee for offices leased in Melbourne. As at 30 June 2019, this totalled \$78,031 (FY18 \$33,233). No other guarantees exist.

The parent entity had no contingent liabilities as at 30 June 2019.

Capital commitments – plant and equipment

The legal parent entity had no capital commitments for plant and equipment as at 30 June 2019.

Significant accounting policies

The accounting policies of the legal parent entity Novatti Group Ltd are consistent with those of the Group, as disclosed in Note 1, with exception to the following that are not relevant at the Group level:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity
- Dividends received from subsidiaries are recognised as other income by the parent entity

NOTE 25. INTERESTS IN SUBSIDIARIES

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

Name	Principal place of business / country of incorporation	Ownership interest 2019	Ownership interest 2018
Novatti Group Ltd Subsidiaries			
Novatti Pty Ltd	Australia	100%	100%
Flexe Payments Ltd	United Kingdom	100%	100%
Flexe Payments Pty Ltd	South Africa	100%	100%
Flexe Payments (MLT) Ltd	Malta	100%	100%
Novatti Commerce Solutions Inc.	Canada	100%	100%
Novatti Commerce Solutions (MLT) Ltd	Malta	100%	100%
Novatti Technologies Ltd	United Kingdom	100%	100%
Novatti Inc.	United States of America	100%	100%
Vasco Pay Pty Ltd	Australia	100%	100%
Novatti B Holding Pty Ltd*	Australia	100%	-
Novatti IBA Pty Ltd*	Australia	100%	-
Novatti Billing Solutions Pty Ltd*	Australia	100%	-
Flexe Payments (AUS) Pty Ltd*	Australia	100%	-
UAB Novtec Global*	Lithuania	100%	-
Novatti Pty Ltd Subsidiaries			
Flexewallet Pty Ltd	Australia	100%	100%
Flexewallet (NZ) Ltd	New Zealand	100%	100%
TransferBridge Pty Ltd	Australia	100%	100%

* Entities that were newly incorporated in FY19 and not acquired.



NOTE 26. BUSINESS COMBINATION

Acquisition of Vasco Pay Pty Ltd on the 8th June 2018

Details of the purchase consideration, net assets at provisional fair value and goodwill are as follows:

Purchase consideration (refer below):

	2018 \$
Cash component	150,000
Equity component by way of issuing 1.6M share in the Company at \$0.255	408,000
Total upfront consideration	558,000

	Final Fair Value 2019 \$	Provisional Fair Value 2018 \$
Cash at bank	15,218	15,218
Cash on hand	200	200
Tax liabilities	(48)	(48)
Other liabilities	(25,000)	(25,000)
Goodwill	-	567,630
Vasco Brand Name	567,630	-
Total consideration	558,000	558,000

The net assets of Vasco Pay Pty Ltd had been stated at provisional fair value as at 30 June 2018. A full assessment of the net assets and goodwill had been completed during FY19 and the Board have determined that there is a value attached to its brand name. An independent valuation has been conducted and the estimated fair value attached to the Vasco brand is \$567,630.

Summary of acquisition

Earn-outs

The acquisition of Vasco Pay included an earn-out consideration. The earn-outs are:

- The first earn-out is the 30 June 2020 EBITDA multiplied by 1.225
- The second earn-out is the 30 June 2021 EBITDA multiplied by 1.1025

The earn-outs may be paid in cash or shares. If paid out in shares, they are issued at an issue price of 90% of the 90 day VWAP and paid within 10 days of the later of:

- The certification of the respective period's accounts
- The determination of a dispute to the certification of the period's accounts

Vasco Pay is transitioning itself into acting as a credit card program manager. As the business will be operating in a different market segment than previously, historical performance information will not be a reliable measure in valuing the earn-outs for FY20 and FY21.

Earn out protection

Novatti undertakes to the vendors to use all reasonable endeavours to procure that till the end of the second earn-out period the business of Vasco Pay shall be conducted commercially and in good faith with a view to maximising profit during the earn out and Novatti will provide an intra-Group loan funding to Vasco Pay for working capital purposes up to the sum of \$1,541,000.

Novatti, in its absolute discretion may elect, by providing written notice to Vasco Pay within 60 days after the relevant date, to not fund any undrawn commitments under the intra-Group loan,

in the event that the actual number of active cards as at:

- 31 December 2018 is below 5,487
- 30 June 2019 is below 13,231
- 31 December 2019 is below 20,180
- 30 June 2020 is below 28,414
- 31 December 2020 is below 37,027
- 30 June 2021 is below 46,241
- 31 December 2021 is below 55,738
- 30 June 2022 is below 65,752
- 31 December 2022 is below 75,679

An active card means a card that has been sold and activated by a customer and remains active as at the relevant date.

NOTE 27. EVENTS AFTER THE REPORTING PERIOD

The Group's board is aware that significant funding is needed to continue with the business plan for the subsidiary seeking the ADI licence with APRA. The board undertakes ongoing discussions with strategic and financial partners that would support the bank licence and associated business plan. Without appropriate funding, the Group will need to review this business plan and reduce its involvement in this project. Consequently, the bank licence application and related operations would largely be put on hold pending financing. At the date of this report the board has a number of funding options for the bank licence opportunity.

There are no other matters or circumstances that have arisen since 30 June 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 28. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Consolidated 2019 \$	Consolidated 2018 \$
Loss after income tax expense for the year	(4,954,313)	(2,069,034)
Adjustments for:		
Depreciation and amortisation	389,337	290,682
Share-based payments	5,053	516,656
Non-cash option expense	386,085	258,719
Unrealised Foreign Exchange Gain	248,644	(75,750)
Intangibles – Goodwill on consolidation	-	(417,630)
Loss on disposal of fixed assets	-	(1,054)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(2,398,156)	(2,763,054)
Increase/(decrease) in trade and other payables	3,765,439	905,723
Increase/(decrease) in deferred income	276,628	95,260
Increase/(decrease) in employee benefits	177,763	(116,893)
Net cash from operating activities	(2,103,520)	(3,376,374)

NOTE 29. EARNINGS PER SHARE

	Consolidated 2019 \$	Consolidated 2018 \$
Loss after income tax	(4,954,313)	(2,069,034)
Loss after income tax attributable to the owners of Novatti Group Limited	(4,954,313)	(2,069,034)

	2019 No. of ordinary shares	2018 No. of ordinary shares
Weighted average number of ordinary shares outstanding during the year:		
Number used in calculating earnings per share	159,902,694	135,436,622
Number of potential ordinary shares that are considered to be non-dilutive whilst is the Group is in a loss position	35,005,520	30,406,378

	2019 Cents	2018 Cents
Basic and diluted earnings per share	(3.09)	(1.53)

NOTE 30. SHARE-BASED PAYMENTS

Options

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

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

The options granted in FY19 were calculated based on the Binomial model method of calculation for share-based payments.

The inputs for the options granted in FY19 are listed below:

- Grant date – 27 November 2018
- Expiry date – 30 November 2022
- Volatility – 80%
- Risk free rate – 2.21%

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

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

Grant date	Vesting date	Expiry date	Exercised price	Expected volatility	Risk free rate	Expected dividend yield	Balance at start	Granted during yr	Exercised during year	Expired during year	Balance at end
12 Nov 15	12 Nov 15	30 Jun 19	\$0.20	53.90%	2.32%	0%	13,750,000	-	-	13,750,000	-
12 Nov 15	1 Jul 16	30 Jun 19	\$0.20	53.90%	2.32%	0%	1,150,000	-	-	1,150,000	-
12 Nov 15	1 Jul 17	30 Jun 19	\$0.20	53.90%	2.32%	0%	1,150,000	-	-	1,150,000	-
12 Nov 15	1 Jul 18	30 Jun 19	\$0.20	53.90%	2.32%	0%	1,150,000	-	-	1,150,000	-
8 Jan 16	8 Jan 16	30 Jun 19	\$0.20	53.90%	2.32%	0%	2,859,250	-	-	2,859,250	-
3 Feb 16	3 Feb 17	30 Jun 19	\$0.20	53.90%	2.32%	0%	750,000	-	-	750,000	-
8 Feb 16	8 Feb 16	30 Jun 19	\$0.20	53.90%	2.32%	0%	2,005,750	-	84,500	1,921,250	-
31 May 16	31 May 17	30 Jun 19	\$0.25	57.74%	2.13%	0%	750,000	-	-	750,000	-
31 May 16	31 May 18	30 Jun 19	\$0.25	57.74%	2.13%	0%	750,000	-	-	750,000	-
24 Jun 16	24 Jun 17	30 Jun 19	\$0.20	57.74%	2.13%	0%	259,489	-	-	259,489	-
24 Jun 16	24 Jun 18	30 Jun 19	\$0.20	57.74%	2.13%	0%	741,217	-	-	741,217	-
24 Jun 16	24 Jun 19	30 Jun 19	\$0.20	57.74%	2.13%	0%	1,035,628	-	-	1,035,628	-
21 Jul 16	21 Jul 17	31 Dec 19	\$0.20	57.74%	2.13%	0%	333,333	-	-	-	333,333
21 Jul 16	21 Jul 18	31 Dec 19	\$0.20	57.74%	2.13%	0%	333,333	-	-	-	333,333
21 Jul 16	21 Jul 19	31 Dec 19	\$0.20	57.74%	2.13%	0%	333,334	-	-	-	333,334
27 Nov 18	Variable*	30 Nov 22	\$0.19	80.00%	2.12%	0%	-	9,500,000	-	-	9,500,000
Total							27,351,334	9,500,000	84,500	26,266,834	10,500,000
Weighted Average Exercise Price						\$0.202			\$0.202		

* Refer to Note 2 'Critical accounting estimates' for share-based payment assumptions and Note 17 'Option reserve' for details on the option vesting conditions.

Entitlement

The options will entitle the holder to subscribe for one share upon the exercise of each option that has vested in the holder. If the options are subject to a vesting period, where the relevant person is no longer employed or engaged, as the case may be, by the Group on a vesting date, the options will not vest to that holder. Options that have previously vested in the holder shall be retained by the holder.

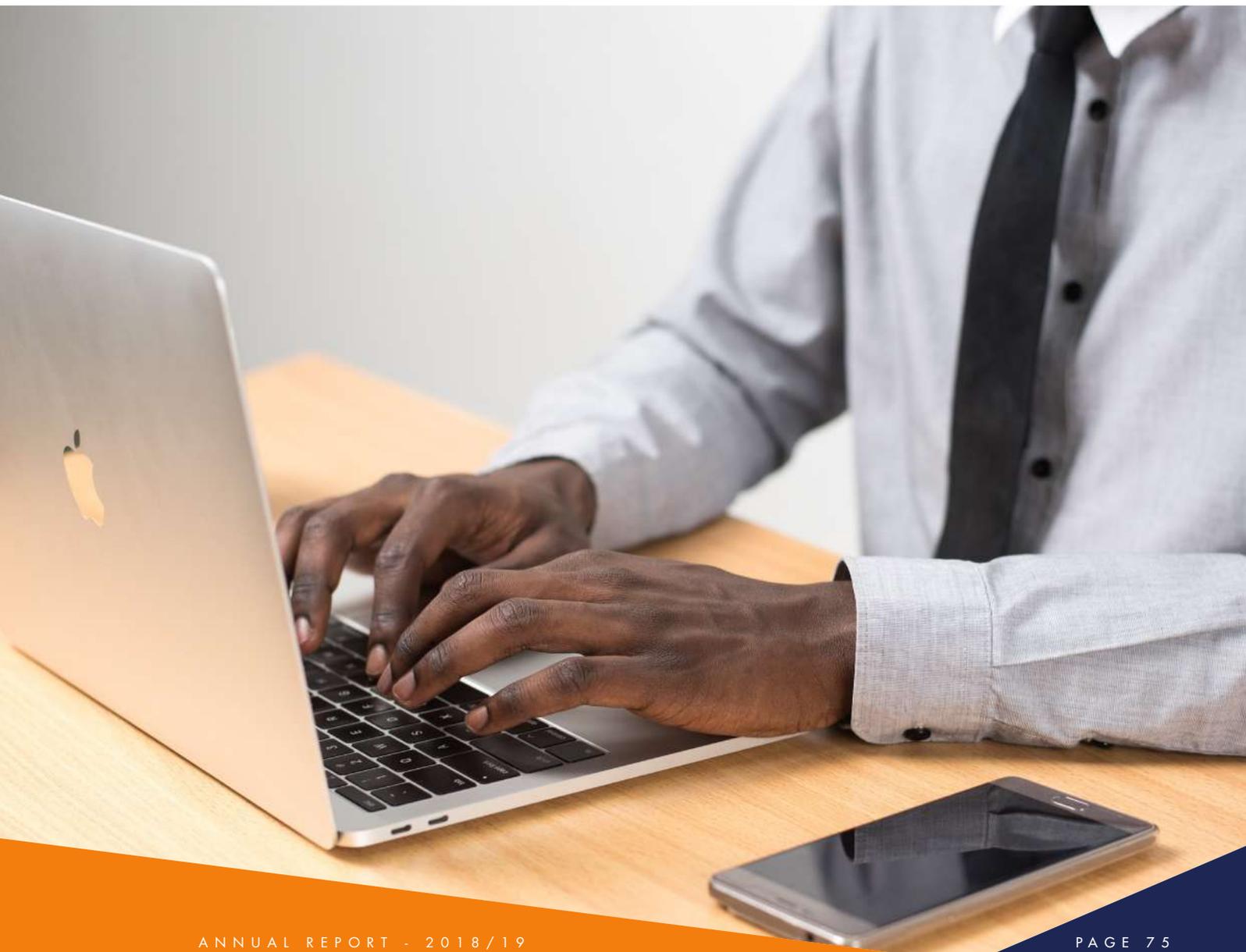
Shares Issued on exercise

Shares issued on exercise of the options will rank equally with the other issued shares.

If there is any reconstruction of the issued share capital of the Company, the rights of the option holder may be varied to comply with the Listing Rules that apply to the reconstruction at the time of the reconstruction.

There are no participation rights or entitlements inherent in the options and the holder will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options.

The fair value of the options is valued at "grant date" using the Black-Scholes and Binomial models. Assumptions used in the calculation of the option expense can be found in the table above.



DIRECTORS' DECLARATION



IN THE DIRECTORS' OPINION:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

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

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'P. Pawlowitsch', written in a cursive style. The signature is positioned above a horizontal line.

Peter Pawlowitsch
Chairman

26 September 2019
Melbourne

Novatti Group Limited

Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Novatti Group Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the then year ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

ACCOUNTANTS & ADVISORS

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williambuck.com

Key Audit Matters

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

REVENUE RECOGNITION	
Area of focus	How our audit addressed it
<p>The Group has entered into multiple new agreements for generating new sources of income and include the following:</p> <ul style="list-style-type: none"> - Platform sales; - Software as a Service fees (Saas); - Support and maintenance fees; - Licence fees; and - Credits from the Australian Taxation Office for Research and Development activities. <p>The Group has expanded its product and service offerings and geographical reach; this has necessitated transacting with customers which (to the Group) had limited or no trading history. This has meant transacting with some customers which have long payment terms which has contributed to an increase in aged debtors.</p> <p>We note that revenues and revenue recognition are strongly tied to the achievement of bonuses tied to incentive structures for key management personnel.</p> <p>Each revenue stream requires a bespoke revenue recognition model to ensure that revenue is only recognised a) when a performance milestone is achieved; b) can be reliably measured; and c) there is a low likelihood for dispute by the customer for revenues that are recognised which are beyond that originally scoped at the inception of the engagement.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> - Determining whether revenue recognised is in-compliance with its accounting policies; - Identifying and verifying the achievement of performance milestones and recognition of revenue relative to the accretion of that achievement; - Agreeing revenue streams to a sample of underlying contracts with third parties; - Examining the existence of the revenue, both by testing to contract and to subsequent receipt of invoicing of the revenue to the customer; - Examining significant aged debtors for evidence of collectability and/or dispute with the services provided; and - Analytically reviewing the reasonableness of accrued revenue and billings-in-advance accounts. <p>We also assessed the appropriateness of disclosures attached to the revenues, particularly those mandatorily required by the new Accounting Standard AASB 15.</p>

CAPITALISATION OF COSTS TO ACQUIRE A BANKING LICENCE

Area of focus	How our audit addressed it
<p>One of the most significant activities of the Group this year was the project to acquire a banking licence; a total of \$1,605,747 was capitalised to intangible assets for the year. The capitalised intangible assets were split between the following categories:</p> <ul style="list-style-type: none"> - Banking licence; - Website; and - Software. <p>The costs contributing to the capitalisation of the licence were primarily payroll and contractor costs.</p> <p>The Group's accounting policies call for such costs to be directly linked to the intangible asset. In-addition, at year-end those licence-acquisition costs should be reviewed for any potential indicator of impairment.</p> <p>When or if the licence project is fulfilled, the directors have assessed that the licence will have an indefinite life, and annually this licence will be subject to annual impairment testing. The website and software should be amortised over their useful lives once use commences.</p>	<p>To assess whether or not costs capitalised to the licence acquisition were appropriate we performed the following audit procedures:</p> <ul style="list-style-type: none"> - We ensured that the criteria for capitalising costs to the licence were in compliance with Australian Accounting Standards; and - On a sample basis, we assessed the appropriateness of costs capitalised by inspecting payroll records (for employees seconded to the licence project) and the records of key contracting parties used in the licence project <p>To examine for any evidence of a trigger impairment of the licence we performed the following:</p> <ul style="list-style-type: none"> - We corroborated our understanding of the progress of the licence project with discussions with management and market announcements; - We inspected key filings made to regulators which are necessary for obtaining the licence; - We understood how the promotion of the licence acquisition was used to support key capital raising activities, which supported its procurement and underlying value; - We obtained confirmations from solicitors supporting the progress of obtaining the licence and for any potential slippages in the timescale set out to acquire the licence; and - We compared the overall market capitalisation of the Group against its net tangible assets. <p>We also assessed the adequacy of the Group's disclosures in respect of the licence acquisition costs.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Director's for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Report on the Remuneration Report

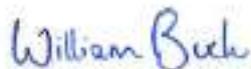
Opinion on the Remuneration Report

We have audited the Remuneration Report included in of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Novatti Group Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

A handwritten signature in blue ink that reads 'William Buck'.

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

A handwritten signature in blue ink, appearing to be 'N. S. Benbow'.

N. S. Benbow
Director

Melbourne, dated this 26th day of September, 2019

ADDITIONAL DISCLOSURES



DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of ordinary shares
1 to 1,000	24	4,593
1,001 to 5,000	244	772,008
5,001 to 10,000	192	1,630,422
10,001 to 100,000	484	18,751,431
100,001 and over	108	145,720,759
	1,052	166,879,213
Holding less than a marketable parcel	135	235,557

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

	Number held 3 Aug 2019	Percent of total shares issued
BRAYTER LIMITED	46,631,507	27.94%
XIADI CHEN	12,500,000	7.49%
QING LI	12,500,000	7.49%
CORANGAMITE PTY LTD <LAKE CORANGAMITE A/C>	11,107,904	6.66%
MADAM QING LI	10,407,452	6.24%
CHI WAI KENNETH LAI	10,335,000	6.19%
QIANG WEI	7,805,589	4.68%
MR KENNETH LAI	2,583,750	1.55%
PACIFIC NOMINEES LIMITED	1,812,500	1.09%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,256,242	0.75%
MOSCH PTY LTD	1,171,875	0.70%
MR TREVOR JAMES PRESSER & MS HELEN PRESSER <T & H PRESSER SUPERFUND A/C>	972,380	0.58%
36 INVESTMENTS PTY LTD	950,720	0.57%
JP MORGAN NOMINEES AUSTRALIA PTY LTD	916,742	0.55%
DR PETER POON	902,164	0.54%
JASPER SUPERANNUATION PTY LTD <THE JASPER SUPER FUND A/C>	825,000	0.49%
NAMIB NOMINEES PTY LTD <NAMIB SUPER FUND A/C>	781,250	0.47%
SEQUOI NOMINEES PTY LTD <SEQUOI A/C>	781,250	0.47%
HAVEN SUPER PTY LTD <HAVEN SUPER FUND A/C>	781,250	0.47%
ACQUISITIVE PTY LTD	706,236	0.42%
CITICORP NOMINEES PTY LIMITED	639,827	0.38%
GOLDFIRE ENTERPRISES PTY LTD	628,721	0.38%
MR DIDIER HENRI MARCHAND	567,917	0.34%
Total	127,565,276	76.44%

UNQUOTED EQUITY SECURITIES

	Number of issue	Number of holders
Options over ordinary shares issued	10,500,000	7

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

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Ordinary shares

	Number held 19 Aug 2019	Percent of total shares issued
BRAYTER LIMITED	46,631,506	27.94
QING LI	22,907,452	13.72
CHI WAI KENNETH LAI	12,918,750	7.74

SECURITIES SUBJECT TO ESCROW

	Number of shares
Ordinary Shares escrowed to 15 June 2020	800,000

VOTING RIGHTS

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

Ordinary shares

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

There are no other classes of equity securities.

Use of funds

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



ANNUAL REPORT 2019

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