Novatti
INNOVATION FOR PAYMENTS

ANNUAL REPORT 2018

www.novattigroup.com

Välkomna

歡迎

Witamy

स्वागत

آيا كري يلي

Welcome

ברוכים הבאים

Καλώς Ήλθατε

أهلا بكم

Karibu

ਜੀ ਆਇਆਂ ਨੂੰ

Bienvenue

خوش آمدید

Selamat datang

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Pasok po kayo

Bienvenido

Benvenuto

بسم الله سائين

欢迎

Добро пожаловать

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Directors	Peter Pawlowitsch (Chairman) Peter Cook Brandon Munro Paul Burton Kenneth Lai Steven Zhou	
Company secretary	Ian Hobson	
Registered offices	**Australia** Level 1, Legacy House 293 Swanston Street Melbourne VIC 3000 +61 3 9011 8490	**United Kingdom** Suite 9 Airport House Purley Way, Croydon CR0 0XZ
	United States of America 300 Congress Street Unit 406 Quincy, Massachusetts 02169	**South Africa** 60 – 3rd Avenue Highlands North Johannesburg Gauteng 2192
	Canada 4th Floor, 931 Fort Street, Victoria B.C V8V 3K3	**Malta** The Plaza Commercial Centre Level 8, Suite 5 Bisazza Street Sliema SLM1640
Principal place of business	**Australia** 1st Floor Legacy House 293 Swanston Street Melbourne VIC 3000 +61 3 9011 8490	
Share register	Automic Registry Services Level 2 267 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	www.novattigroup.com www.novattigroup.com/corporategovernance	
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,

The Company has progressed extremely well on its aim of expanding its transactional businesses with revenue from its recurring and transactional businesses growing from $0.2M to $1.8M.

For the financial year ended 30 June 2018, the Company reported total revenue of $6.36M, an increase of 80% from the prior year. Earnings before interest and tax was a loss of $2.0M which includes non-cash expenses of approximately $0.5M (including option expense), an improvement of 56% as a result of sustained growth and focus on cost management.

Achievements for the year included:

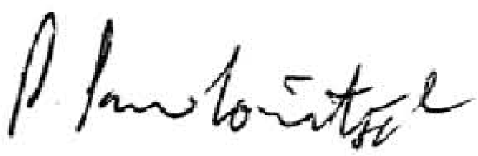
- Launch of chinapayments.com bill payment service
- Increase in B2B processing partnerships
- Integration of basis2 billing solution
- Acquisition of Vasco Pay prepaid card business
- Launch of Australian outbound remittance services
- Launch of inbound Australian remittance settlement services
- Commercial agreement and integration to Stellar blockchain remittance network
- Commencement of the Australian bank licence application process

Driving growth and shareholder value remains paramount for the Board and Management with the Company placed in its best position in this regard since listing on the ASX. The percentage of transactional and recurring revenues now being 57% of revenue, providing a solid base from which to grow.

The Company's targets for the 2019 financial year are:

- Continue to focus on growing the Company's recurring and transactional revenues including:
  - Increase China e-commerce and payment processing relationships
  - Grow remittance businesses
  - Build consumer facing prepaid card business (Vasco Pay)
- Complete the bank license application
- Leverage the Novatti Payments Platform and blockchain technologies
- 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.



Chairman

PETER PAWLOWITSCH

REVIEW OF OPERATIONS

OVERVIEW

The continuing focus on building recurring and financial processing revenue streams has been rewarded with Novatti having increased more predictable and larger revenue streams. This is highlighted by the growth in financial processing revenues from $0.2m in FY17 to $1.8M in FY18. Overall total revenues grew to $6.36M 80% from $3.54M in FY17.

The acquisition of basis2 in May 2017 has been followed by a comprehensive integration into Novatti providing revenues of $1.6M in line with expectations. In June 2018 Novatti acquired Vasco Pay Pty Ltd which will enable Novatti to grow its B2C processing revenues and build a consumer customer base potentially accessible for future banking services growth.

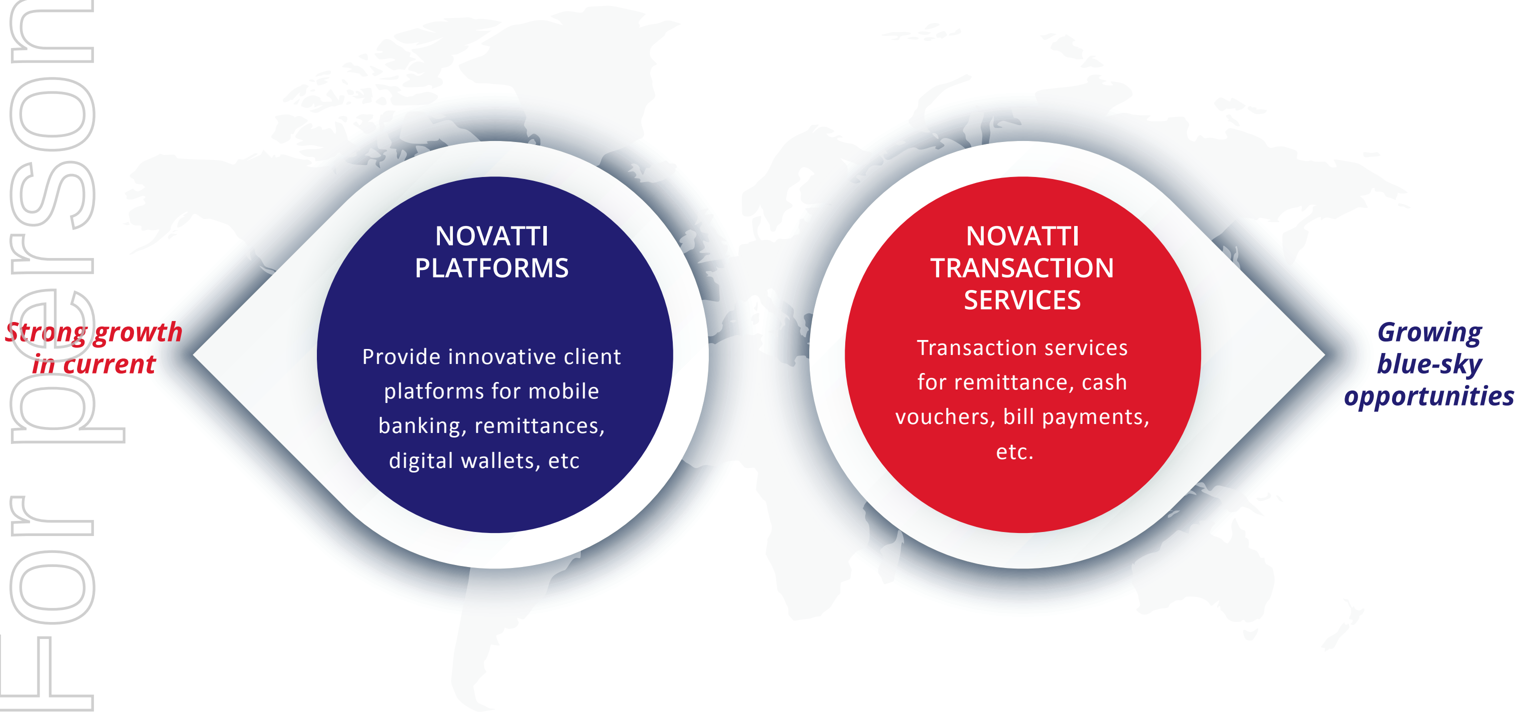
CORPORATE SHARE HIGHLIGHTS

Date	Number of Shares	Summary
01 July 2017	107,972,647	Number of shares on issue at commencement of financial year
03 July 2017	1,539,285	Fully paid ordinary shares issued pursuant to the shortfall facility of the retail entitlement offer.
17 July 2017	700,000	Fully paid ordinary shares issued pursuant to the shortfall facility of the retail entitlement offer.
18 July 2017	301,777	Management Fee paid in shares to Corporate Advisors for the 1 for 4 equity raising facility.
11 October 2017	25,000,000	Share Placement to sophisticated Chinese Investor to raise funds for capital growth
15 December 2017	1,700,000	Conversion of Options to Shares
06 March 2018	18,213,041	Final Share Placement to sophisticated Chinese Investor to raise funds capital growth

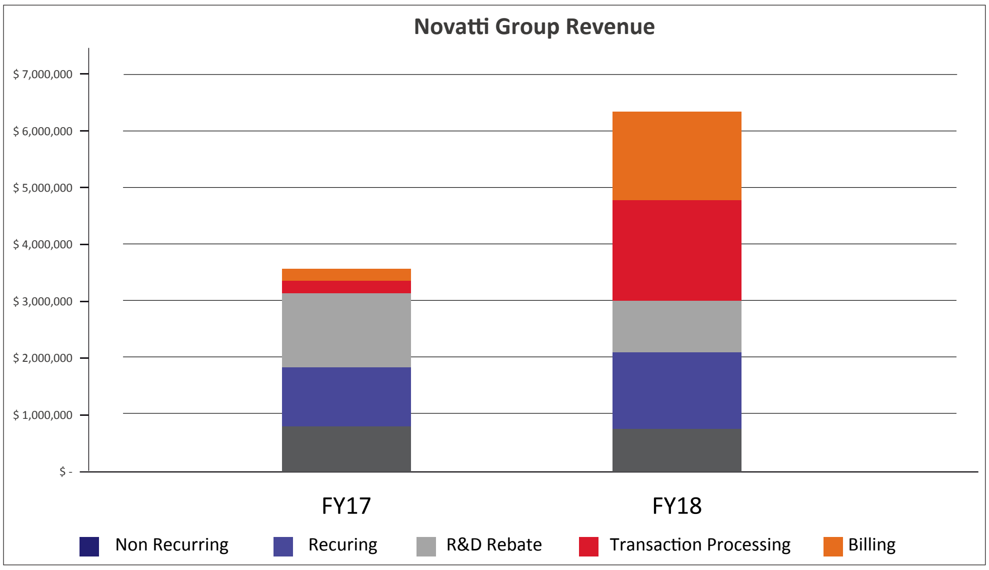
BUSINESS OPERATIONS

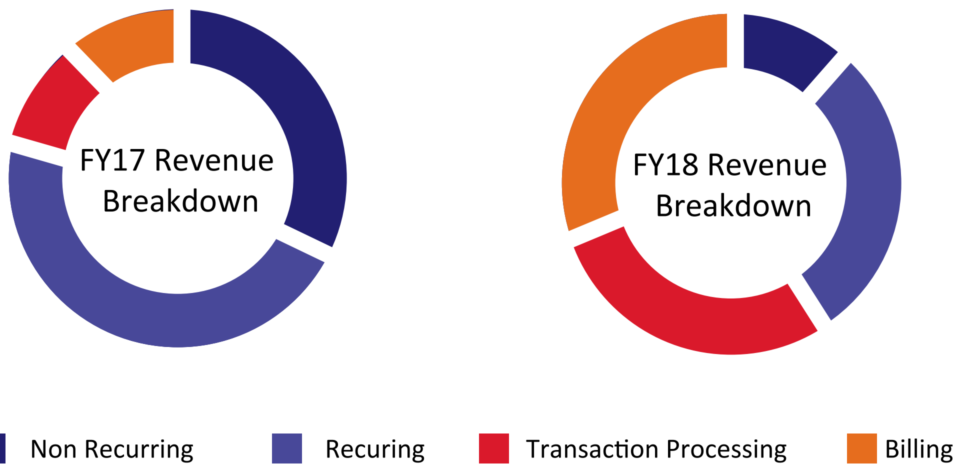
In FY18, Novatti successfully pursued a growth strategy within a constrained cost base that has seen growth in existing revenue streams and the development of new revenue streams. Additionally, FY18 has seen Novatti increase the mix of predictable recurring and transactional revenues as a component within the overall revenues. The majority of revenues are now increasingly recurring financial transaction revenues. Such revenues include maintenance fees, SaaS fees, compliance fees, Flexepin sales and remittance type margins. Achievements during the year include:

- Launch of Chinapayments.com bill payment service
- Increase in B2B processing partnerships
- Integration of basis2 billing solution
- Acquisition of Vasco Pay prepaid card business
- Launch of Australian outbound remittance services
- Launch of inbound Australian remittance settlement services
- Commercial agreement and integration to Stellar blockchain remittance network
- Commencement of the Australian bank licence application process



During the year the Group continued its transition away from non recurring revenue to transactional and recurring revenues. This change in revenue mix is highlighted in the graphs below.





THE NOVATTI PLATFORM

"The Novatti Platform empowers new cost-effective payment options."

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 underbanked societies in developing nations with minimal access to traditional bank accounts. The innovative technologies enable new and cost-effective payment services 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 stand-alone solution or can be 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

Go-to-market strategy

The Novatti Payments Platform offers our clients the opportunity to provide innovative services to their consumers. The Novatti Payments Platform has many varied yet robust and scalable reference sites in Australia, Asia, Africa, the Middle East, Europe and the Americas. Software development is primarily handled in Melbourne, with an increasing amount performed by our Offshore Development Centre in Vietnam. Development costs are increasingly competitive. Novatti provides the solution on a customisable and configurable Commercial off the Shelf basis either into the customer's data centre or by way of a cloud delivered service. Increasingly solutions are provided on a recurring payment Platform as a Service basis.

FINANCIAL PROCESSING SERVICES

Financial licences

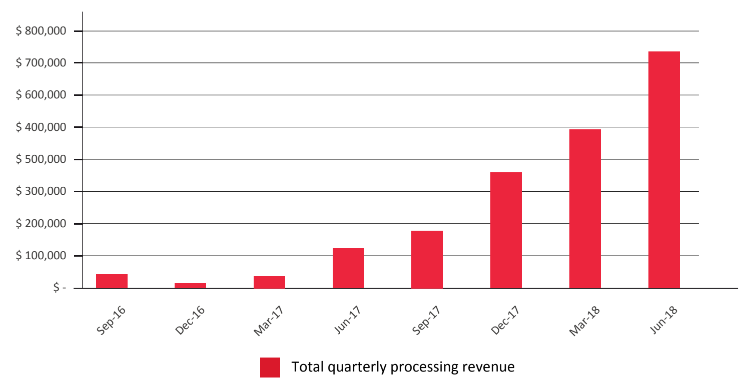
Flexewallet holds an Australian Financial Services Licence (AFSL No. 448066) for non-cash payments, is registered with AUSTRAC and is a member of the Financial Ombudsman Scheme in Australia.

Flexe Payments (UK) 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 FY18 these revenues were derived from B2B partnerships both in Australia and overseas Growth in these partnerships has seen resultant growth in transaction processing revenues. With the acquisition of Vasco Pay and the launch of operations of Chinapayments.com Novatti is also poised to create strong growth in B2C .

Novatti Payment Processing Revenue



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 Europe.

Novatti has continued to develop hard-to-get strategic relationships to grow into the remittance market. Novatti underpins its remittance services with its Australian Remittance Network Provider status and the AFSL along with the oversight of the compliance team.

The Group has entered into a number of partnerships with companies 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 ecommerce 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. During FY18, Novatti also launched www.chinapayments.com. Bill payment service that enables Chinese consumers both in Australia and China to pay Australian BPay bills with their Chinese digital wallet service.

In June 2018 Novatti 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.

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

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** (appointed 12 October 2017)

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 2018.

INFORMATION ON DIRECTORS

Name:	**Peter Pawlowitsch**
Title:	Non-Executive Chairman
Qualifications:	BCom, MBA, CPA.
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:	Chairman of Dubber Corporation Limited (20 September 2011 – present), Non-executive director of Ventnor Resources Ltd (12 February 2010 – present), Rewardle Holdings (30 May 2017 – present), Knosys Limited (16 March 2015 – present).
Former directorships (last 3 years):	Department 13 Ltd (formerly Kunene Resources Ltd)
Special responsibilities:	None.
Interests in shares:	2,343,750 ordinary shares.
Interests in options:	1,000,000
Contractual rights to shares:	None

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:	5,750,000.

Name:	**Kenneth Lai**
Title:	Non-Executive
Qualifications:	Bachelor of Science – 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:	750,000

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:	1,000,000

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:	5,000,000

Name:	**Steven Zhou**
Title:	Non-Executive
Qualifications:	Hospitality Management Diploma, Financial Mortgage Certificate IV.
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:	None

'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 2018, and the number of meetings attended by each director were:

	Attended	Held
Peter Pawlowitsch	7	7
Peter Cook	7	7
Brandon Munro	7	7
Paul Burton	6	7
Kenneth Lai	4	7
Steven Zhou	1	5

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 2018 FINANCIAL RESULTS

The loss for the Group after providing for income tax amounted to ($2,069,034) across all regions to support growth.

The Group's Net Asset Position as at 30 June 2018 was $8,749,151 with $4,509,142 held in Cash or Cash equivalents.

The Group is debt free.

The earnings of the Group for 30 June 2018 is summarised below:

	2018 $	2017 $
Sales revenue and Other income^	6,363,684	3,541,917
EBITDA (underlying)*	(582,919)	(4,082,023)
Profit/(Loss) before Tax	(2,069,034)	(4,717,729)
Tax Expense	-	-
Net Profit/(Loss) after Tax	(2,069,034)	(4,717,729)
Cash	4,509,142	654,146
Operating Cash flow	(3,376,374)	(4,005,254)

^Other income as outlined in Note 4 of the financial statements.
*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:

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

DIVIDENDS

There were no dividends paid, provided or declared as at 30 June 2018.

Significant changes in the state of affairs

Share Placements.

On 11 October 2017, Novatti Group Limited announced the placement of 25,000,000 shares to a sophisticated investor. This raised $3.5M.

On 28 February 2018, Novatti Group Limited announced the placement of 18,204,041 shares to sophisticated investors. This raised a further $3.5M.

Acquisition of Vasco Pay Pty Ltd

Novatti Group Limited acquired 100% of Vasco Pay, a reloadable Visa card provider that targets multiple market segments including millennials, parents, students and disbursements. Completion of the acquisition occurred 8 June 2018.

Upfront consideration for the acquisition was $150,000 plus 1.6 million Novatti Group Ltd shares. In addition, the vendors have the right to participate in earn outs which are based on EBITDA multiples of 1.225 on the 30 June 2020 EBITDA and 1.1025 of 30 June 2021 EBITDA. The earn outs may be taken in cash or shares at an issue price of 90% of an agreed to 90 day VWAP. The 1.6 million shares are escrowed, 50% released in 12 months and the balance released in 24 months from completion.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Group received its FY17 Research and Development rebate of $923,660 on 17 July 2018.

No other matter or circumstance has arisen since 30 June 2018 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.

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, and
- 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 FY18 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.

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, and
- Long-term incentives.

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

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.

Remuneration strategy linkages to business objective:

ALIGN THE INTERESTS OF EXECUTIVES WITH SHAREHOLDERS

- 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.

ATTRACT, MOTIVATE AND RETAIN HIGH PERFORMING INDIVIDUALS

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

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, and
- 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 pages 21-22.

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, issue of performance shares 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 FY18.

2018	Start date	No of Options vested in 2018	No of Options lapsed/ cancelled	Balance not vested in 2018	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**	

No Options have been issued to executives for the year ended 30 June 2018.

2017	Start date	No of Options vested in 2017	No of Options lapsed/ cancelled	Balance not vested in 2017	Lapsing date for Options
Peter Cook^	12 Nov 2015	-	-	-	30 June 2019
Alan Munday*	12 Nov 2015	250,000	-	500,000	30 June 2019
Steven Stamboultgis*	12 Nov 2015	200,000	-	400,000	30 June 2019
Paolo Montessori*	3 Feb 2016	750,000	4,500,000	-	30 June 2019
Total		**1,200,000**	**4,500,000**	**900,000**	

^Total Options issued had vested in the year ended 30 June 2017. These options were subject to 24 months escrow which ended 18 January 2018.

*Options are exercisable at $0.20 and vest over three equal tranches on 1 July 2016, 1 July 2017 and 1 July 2018.

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 (appointed 12 October 2017)

Other key management personnel

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

	Cash salary & fees	Cash bonus	Non-mon-etary	Long service leave	Options exp in yr Equity-settled	Superan-nuation	Total	Cash bonus paid or payable	Cash bonus forfeited	Fixed Rem	At risk STI	At risk LTI	Options as a pro-portion of total rem
2018	$	$	$	$	$	$	$	%	%	%	%	%	%
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	64,513	20,049	325,211	-	-	80	-	20	20
Other Key Management Personnel:													
Alan Munday	200,913	-	-	1,717	9,677	19,543	231,850	-	-	96	-	4	4
Steven Stamboultgis	164,384	-	-	1,287	7,742	15,616	189,029	-	-	96		4	4
Total	**677,907**	**-**	**48,317**	**5,046**	**184,089**	**66,888**	**982,247**						

* FY18 remuneration decreased by $15,094 to account for an overpayment in the FY17 year.

	Cash salary & fees	Cash bonus	Non-mon-etary	Long service leave	Options exp in yr Equity-settled	Superan-nuation	Total	Cash bonus paid or payable	Cash bonus forfeited	Fixed Rem	At risk STI	At risk LTI	Options as a pro-portion of total rem
2017	$	$	$	$	$	$	$	%	%	%	%	%	%
Non-Executive Directors:													
Peter Pawlowitsch (Chairman)	59,361	-	-	-	19,546	5,639	84,546	-	-	77	0	23	23
Kenneth Lai	-	-	-	-	8,683	-	8,683	-	-	-	-	100	100
Paul Burton	-	-	-	-	106,417	-	106,417	-	-	-	-	100	100
Brandon Munro	36,530	-	-	-	19,546	3,470	59,546	-	-	67	0	33	33
Executive Directors:													
Peter Cook	251,701	109,500	16,073	1,717	97,735	21,070	497,796	-	100	80	0	20	20
Other Key Management Personnel:													
Alan Munday	200,912	63,805	-	1,342	14,660	27,281	308,000	-	100	97	0	3	3
Steven Stamboultgis	164,382	-	-	878	11,728	15,616	192,604	-	-	96	0	4	4
Paolo Montessori	145,833	35,000	-	-	16,505	-	197,338	-	100	92	0	8	8
Total	**858,719**	**208,305**	**16,073**	**3,937**	**294,820**	**73,076**	**1,454,930**						

SERVICE AGREEMENTS

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

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 $273,750 (including superannuation). 5 million Options each exercisable at $0.20 on or before 30 June 2019 (as set out in Section 13.3 of the Replacement Prospectus dated 8 December 2015).
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 KPI's, company remuneration policy, its financial position and current market equivalent positions. KPI's to be agreed each year and may be varied by mutual agreement.
Bonus:	The executive bonus structure targets are reviewed annually with both parties acting in good faith and reflecting the current needs of the business. The performance bonus can be up to up to $219,000 (including statutory superannuation).
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 $220,000 (including statutory superannuation), 750,000 Options, each exercisable at $0.20 on or before 30 June 2019, vesting over three equal tranches on 1 July 2016, 2017 and 2018, if the employment has not terminated by the relevant date, on the same terms and conditions (as set out in Section 13.3 of the Replacement Prospectus dated 8 December 2015).
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 KPI's, company remuneration policy, its financial position and current market equivalent positions. KPI's to be agreed each year and may be varied by mutual agreement.
Bonus:	The executive bonus structure targets are reviewed annually with both parties acting in good faith and reflecting the current needs of the business. The performance bonus can be up to up to $80,000 (including statutory superannuation).
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 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 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 $180,000 (including statutory superannuation) and 600,000 Options, each exercisable at $0.20 on or before 30 June 2019, vesting over three equal tranches on 1 July 2016, 2017 and 2018, if the employment has not terminated by the relevant date, on the same terms and conditions (as set out in Section 13.3 of the Replacement Prospectus dated 8 December 2015).
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 KPI's, company remuneration policy, its financial position and current market equivalent positions. KPI's 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 Group on one months' notice, if the executive 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

Issue of shares

No shares or options were issued as part of compensation for the year ended 30 June 2018.

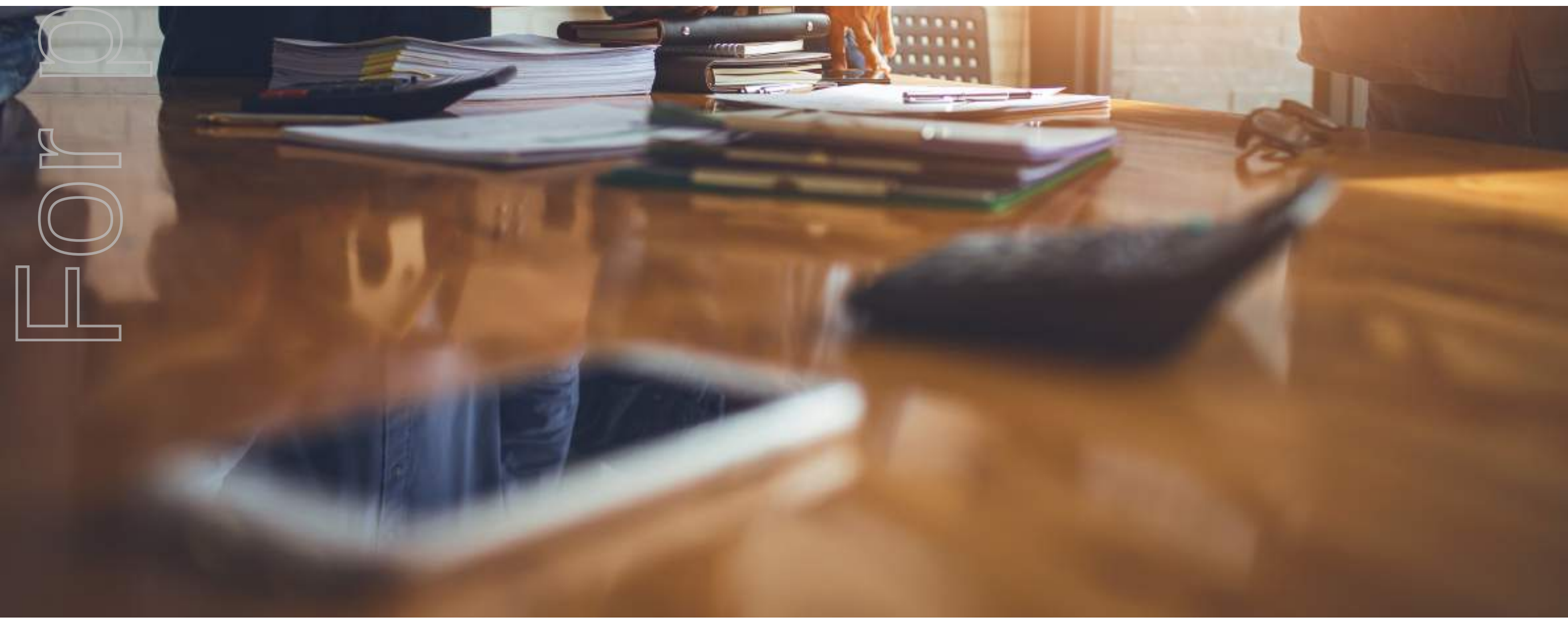
For the FY17 year the following occurred:

- Options were issued to Kenneth Lai and Paul Burton in FY17 as their director remuneration.
- Kenneth and Paul had been each offered 750,000 options, vesting 12 months and 24 months equally after appointment date. Each option has an exercise price of $0.25. The last day for exercising is 30 June 2019
- The options issued to Kenneth and Paul were subject to shareholder approval, which was ratified at the Group's 2016 Annual General Meeting (AGM).

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/ cancelled during yr	Value ex during the yr	Expiry date	First ex date	Last ex date
Director											
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**					

2017	Grant date	Grant number	Fair value per option at grant date	Opening Balance Options	Opening Balance Vested	Balance Vested during the yr	Options lapsed/ cancelled during yr	Value ex during the yr	Expiry date	First ex date	Last ex date
Director											
Executive Directors											
Peter Cook[1]	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	-	-	-	-	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	-	-	-	-	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
Paolo Montessori	3 Feb 16	1,750,000	$0.20	1,750,000	-	750,000	1,000,000	-	30 Jun 19	27 Jan 17	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	1,750,000		-	1,750,000	-	30 Jun 19	27 Jan 18	30 Jun 19
Paolo Montessori	3 Feb 16	1,750,000	$0.20	1,750,000		-	1,750,000	-	30 Jun 19	27 Jan 19	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[2]	31 May 16	375,000	$0.25	375,000	-	375,000		-	30 Jun 19	31 May 17	30 Jun 19
Kenneth Lai[2]	31 May 16	375,000	$0.25	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 16	30 Jun 19
Paul Burton[3]	31 May 16	375,000	$0.25	375,000		375,000		-	30 Jun 19	31 May 17	30 Jun 19
Paul Burton[3]	31 May 16	375,000	$0.25	375,000		-		-	30 Jun 19	31 May 18	30 Jun 19
Total		**20,100,000**		**20,100,000**	**12,000,000**	**2,325,000**	**4,500,000**	-			

[1]Peter Cook's 5,000,000 options were escrowed for 24 months from grant date. They were released from escrow on 18 January 2018
[2]Kenneth Lai's 750,000 Options were subject to shareholder approval and occurred at the FY16 Annual General Meeting.
[3]Paul Burton's 750,000 Options were subject to shareholder approval and occurred at the FY16 Annual General Meeting.



Options granted carry no dividend or voting rights.

No options were granted to directors or key management personnel during the year ended 30 June 2018.

Values of options over ordinary shares exercised and lapsed for directors and other key management personnel during the year ended 30 June 2018 are set out below:

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	**-**	**-**	-	-

2017	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:

	2018 $	2017 $	2016 $
Share price at financial year end	0.225	0.115	0.14
Total dividends declared (cents per share)	-	-	-
Basic earnings per share (cents per share)	(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/for-feited/other	Bal at the end of the yr
Options over ordinary shares	-				
Peter Pawlowitsch	1,000,000	-	-	-	1,000,000
Peter Cook	5,000,000	-	-	-	5,000,000
Brandon Munro	1,000,000	-	-	-	1,000,000
Kenneth Lai	750,000	-	-		750,000
Paul Burton	750,000	-	-	-	750,000
Paul Burton	5,000,000	-	-	-	5,000,000
Steven Zhou	-	-	-	-	-
Alan Munday	750,000	-	-	-	750,000
Steven Stamboultgis	600,000	-	-	-	600,000
Total	**14,850,000**	**-**	**-**	**-**	**14,850,000**

Other transactions with key management personnel and their related parties.

Services

During the financial year, a payment of $11,000 (GST inc) was made to Gyeon Pty Ltd, a company associated with Peter Pawlowitsch for the provision of services related to business acquisitions.

During the financial year, ePay Global Ltd invoiced the Group $523,000 (GST inc) for services including, introducing new investors and promoting the Novatti business. Steven Zhou is a 16% shareholder and director of ePay Global Ltd.

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

Loans from Directors:

There are no loans that were entered into or, outstanding with the Directors of Novatti Group Ltd as at 30 June 2018.

Current and non-current liabilities to a Director:

There are no other current or non-current liabilities outstanding to Directors of the Group as at 30 June 2018.

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 follow:

Grant date	Expiry date	Ex price	Opening Number under option	Expired/ forfeited/ other	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	4,000,000	-	1,994,250	2,005,750
31 May 16	30 Jun 19	$0.25	1,500,000	-	-	1,500,000
24 Jun 16	30 Jun 19	$0.20	3,107,000	883,332	187,334	2,036,334
21 Jul 16	31 Dec 19	$0.20	1,000,000	-	-	1,000,000
Total			**30,416,250**	**883,332**	**2,181,584**	**27,351,334**

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

2,181,584 shares were issued by Novatti Group Limited during the year ended 30 June 2018 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 17 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; and
- 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 independent 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

Peter Pawlowitsch
Chairman

30 August 2018
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 2018 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

J. C. Luckins
Director

Dated this 30th day of August, 2018

CHARTERED 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
1st floor
Legacy House
293 Swanston 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	Consolidated 2018	Consolidated 2017
		$	$
Revenue	4	5,421,432	2,191,206
Other income	4	942,252	1,350,711
Total Revenue		6,363,684	3,541,917
Expenses			
Client hosting fees and other direct services		(741,864)	(621,183)
Employee benefits		(5,244,607)	(5,883,090)
Depreciation and amortisation expense	10 & 11	(290,663)	(54,946)
Occupancy		(191,736)	(143,149)
Finance charges		(22,433)	(15,869)
Foreign currency translation (losses)/gains		75,750	(14,493)
Travel expenses		(370,048)	(289,696)
Marketing expenses		(291,230)	(124,526)
Data management expenses		(102,399)	(75,355)
Share of net profit of joint ventures accounted for using the equity method		(224)	(8,511)
Withholding tax not claimable		(8,576)	(149,439)
VAT not claimable		(53,022)	(35,607)
Accounting fees		(128,738)	(120,754)
Public company running costs		(574,343)	(287,741)
Other expenses		(488,585)	(435,287)
Loss before income tax expense		**(2,069,034)**	**(4,717,729)**
Income tax expense	5	-	-
Loss after income tax expense for the year attributable to owners		(2,069,034)	(4,717,729)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		471,892	(45,018)
Total comprehensive income for the year attributable to owners		**(1,597,142)**	**(4,762,747)**

		2018 Cents	2017 Cents
Basic earnings per share (cents per share)	26	(1.53)	(5.03)

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 2018

	Note	Consolidated 2018	Consolidated 2017
		$	$
Assets			
Current assets			
Cash and cash equivalents	6	4,509,142	654,146
Trade and other receivables	8	4,155,983	1,538,316
Financial Assets – funds in trust	7	2,210,873	63,735
Other	9	162,450	118,047
Total current assets		**11,038,448**	**2,374,244**
Non-current assets			
Investments accounted for using the equity method		4,969	4,363
Property, plant and equipment	10	142,507	26,391
Intangible assets	11	3,236,191	2,668,614
Total non-current assets		3,383,667	2,699,368
Total assets		**14,422,115**	**5,073,612**
Liabilities			
Current liabilities			
Trade and other payables	12	4,630,598	1,737,351
Unearned revenue		660,532	565,272
Employee benefits		358,067	479,605
Total current liabilities		**5,649,197**	**2,782,228**
Non-current liabilities			
Employee benefits		23,767	19,124
Total non-current liabilities		23,767	19,124
Total liabilities		**5,672,964**	**2,801,352**
Net assets		**8,749,151**	**2,272,260**
Equity			
Issued capital	13	22,234,239	14,296,835
Reserves	14	1,692,831	1,084,310
Accumulated Losses		(15,177,919)	(13,108,885)
Total equity		**8,749,151**	**2,272,260**

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 2018

Consolidated	Issued capital $	Option reserves $	Foreign currency translation reserve $	Accumu-lated 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	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**

For the year ended 30 June 2017

Consolidated	Issued capital $	Option reserves $	Foreign currency translation reserve $	Accumu-lated Losses $	Total Equity $
Balance at 1 July 2016	11,940,604	713,465	849	(8,391,156)	4,263,762
Loss after income tax expense for the year	-	-	-	(4,717,729)	(4,717,729)
Transactions with owners in their capacity as owners:	11,940,604	713,465	849	(13,108,885)	(453,967)
Shares issued during the period	2,356,231	-	-	-	2,356,231
Vesting of share based payments	-	415,014	-	-	415,014
Foreign exchange translation differences	-	-	(45,018)	-	(45,018)
Balance at 30 June 2017	**14,296,835**	**1,128,479**	**(44,169)**	**(13,108,885)**	**2,272,260**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

As at 30 June 2018

	Note	Consolidated 2018	Consolidated 2017
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		33,894,283	5,926,927
Payments to suppliers and employees (inclusive of GST)		(37,266,137)	(11,266,308)
Interest received		17,913	29,895
Receipt of Research and Development rebate		-	1,320,099
Interest and other finance costs paid		(22,433)	(15,872)
Income taxes paid		-	-
Net cash used in operating activities	**25**	**(3,376,374)**	**(4,005,254)**
Cash flows from investing activities			
Payment for acquisition of Vasco Pay Pty Ltd		(150,000)	-
Payment for acquisition of basis 2		-	(2,354,879)
Joint Venture High Impact Corp. – Loan		(11,257)	(13,233)
Proceeds from sale of plant and equipment		1,502	2,100
Receipts of adjustments from basis2 purchase in FY'17		242,935	-
Payment for Intangible Assets		(208,840)	-
Payments for plant and equipment		(139,467)	(10,289)
Net cash used in investing activities		**(265,127)**	**(2,376,301)**
Cash flows from financing activities			
Proceeds from issue of shares		7,542,060	2,327,935
Share issue transaction costs		(121,312)	(3,390)
Net cash provided from financing activities		**7,420,748**	**2,324,545**
Net increase/(decrease) in cash and cash equivalents		**3,779,246**	**(4,057,010)**
Cash and cash equivalents at the beginning of the financial year		654,146	4,725,649
Effects of exchange rate changes on cash and cash equivalents		75,750	(14,493)
Cash and cash equivalents at the end of the financial year	**6**	**4,509,142**	**654,146**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

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.

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 reporting period.

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

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 20.

Principles of consolidation

These are the financial statements of Novatti Group Limited (the 'Company' or as the 'legal parent') and its controlled entities (the 'Group') as at 30 June 2018.

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, and
- 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.

Operating segments

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

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.

The Group derived the following revenue for the provisions of its services:

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 and the revenue recognised for ongoing maintenance and support.

Billing Solutions

Provision of technologically advanced billing and customer information system platforms for the utilities industry.

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

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 at the balance date of 30 June 2018.

Accrued revenue

Accrued revenue includes revenue from the sales of services unbilled as at 30 June 2018.

Other revenue

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

Government grants

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

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax 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.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities that intend to settle simultaneously.

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

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

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

Cash and cash equivalents

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

Cash and cash equivalents include cash held in trust for remittance top up voucher services. Receipts from top up voucher distributors are recognised as (cash) 'Receipts from Customers' whilst remittances to merchants for top up vouchers are recognised as (cash) 'Payments to suppliers and employees'.

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 provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition date fair value of assets acquired, liabilities assumed and any non- controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition- date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition- date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Financial Instruments

Recognition and initial 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 are initially measured at fair value plus transaction costs.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost depending on their classification. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in the statement of profit or loss and other comprehensive income through the amortisation process and when the financial asset is derecognised.

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 objective evidence that a financial asset or group of financial assets is impaired. Objective 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.

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:

Leasehold improvements	**2 years**
Plant and equipment	**2 years**
Fixtures and Fittings	**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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The estimated useful lives for Intangibles for the current period is:

Customer lists	**10 years**
Intellectual Property: Technology – Billing Software	**10 years**

Intangible assets acquired in a business combination

Intangible assets, including customer lists and intellectual property 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.

Derecognition of Intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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 other than goodwill

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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

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.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, 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 are satisfied.

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

If 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.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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 2018. 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

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in OCI. For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an Expected Credit Loss ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group has undertaken an assessment of its financial assets and liabilities and have concluded that there is no material impact on the transactions and balances recognised in the financial statements when this standard was adopted for the year ended 30 June 2018.

The Group has adopted this standard from 1 July 2018.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

The Group has undertaken a full assessment of the impact of AASB 15. Based on the Group's assessment, this standard is not expected to have a material impact on the transactions and balances in the financial statements when it is adopted for the year ended 30 June 2019. The Group will adopt the 'Modified Retrospective' method of transition under AASB 15 Revenue from Contracts with Customers. The Group will consider the application of AASB 15 with respect to new contracts entered into.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply AASB 16 Leases at or before the date of initial application of this Standard. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right- of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

The previous accounting model for leases required lessees and lessors to classify their leases as either finances leases or operating leases and account for those two types of leases differently. That model was criticised for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognise assets and liabilities arising from operating leases. Accordingly, the International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to develop a new approach to lease accounting that requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. This approach will result in a more faithful representation of a lessee’s assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee’s financial leverage and capital employed.

The consolidated entity will adopt AASB16 from 1 July 2019. The Group is also currently determining the assets and liabilities that will need to be recognised under the standard. Whilst the Group has yet to prepare a detailed analysis of its impact, it does note that the financial statements will be reflective of a 'right of use' asset for capitalisation in the statement of financial position. A liability corresponding to the capitalised lease will also be recognised. In the earlier periods of the lease, the expenses associated with the lease under AASB16 will be higher when compared to the lease expenses under AASB117. However EBITDA (Earnings before interested, tax and depreciation) results will be improved as the operating expense is replaced by depreciation in the profit and loss under AASB16.

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 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 the Black- Scholes model 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.

The value of the Performance Shares were based on their fair value at the time of grant using a share price of $0.16, with each of the four milestones discounted for the probability of achievement.

This value is recognised within the accounts of the legal parent and upon consolidation, is eliminated.

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 four operating business segments: (A) Novatti Platform, incorporating enterprise sales and Maintenance & Support via the Novatti Platform, (B) Advanced Billing Solutions, incorporating Basis2 operating under Novatti Incorporated (C) Transaction Services incorporating Flexewallet Pty Ltd, Flexepayments (South Africa) Pty Ltd, Flexe Payments Ltd and Vasco Pay Pty Ltd (D) Novatti Group Limited is 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.

Advanced Billing Solutions

Basis2 trading under Novatti Inc. provides a technologically advanced billing and CIS solution to service providers in the utilities industry.

Transaction Services

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

Flexewallet and Flexe Payments: Offer 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.

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 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	**2,062,654**	**1,580,475**	**1,778,303**	**923,660**	**6,345,092**
EBITDA	**(1,637,355)**	**216,581**	**102,279**	**(394,417)**	**(1,712,912)**
Depreciation and amortisation					(290,663)
Interest revenue					18,592
Finance costs					(22,433)
Other costs					(61,618)
Loss before income tax expense					(2,069,034)
Income tax expense					-
Loss after income tax expense					**(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)	-	-	-	-	-

Revenue from Australian customers is $639,065 (FY17: $735,303).

Revenue from customers in other countries is $4,782,367 (FY17: $1,452,743).

Revenue from a single customer in a country other than Australia is $675,914 (FY17: $614,675).

Consolidated – 30 June 2017	Novatti Platform $	Billing Solutions $	Transaction Services $	Novatti Group Limited $	Total $
Revenue					
Sales to external customers	1,779,151	192,197	219,858	-	2,191,206
Intersegment sales	-	-	-	-	-
Total sales revenue	1,779,151	192,197	219,858	-	2,191,206
Other revenue	1,320,099	-	-	-	1,320,099
Total revenue	**3,099,250**	**192,197**	**219,858**	**-**	**3,511,305**
EBITDA	**(2,339,528)**	**(12,345)**	**(1,225,198)**	**(915,409)**	**(4,492,480)**
Depreciation and amortisation					(54,946)
Interest revenue					30,612
Finance costs					(15,869)
Other costs					(185,046)
Loss before income tax expense					(4,717,729)
Income tax expense					-
Loss after income tax expense					**(4,717,729)**
Segment Assets	1,106,774	1,952,078	793,548	1,221,212	5,073,612
Segment Liabilities	1,365,923	424,973	762,056	248,400	2,801,352
Employee Benefits	4,330,968	16,646	1,089,226	446,250	5,883,090
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	-	-	-	-	-

NOTE 4. REVENUE

	Consolidated 2018 $	Consolidated 2017 $
Sales revenue:		
Novatti Platform	2,062,654	1,779,151
Billing Solutions	1,584,475	192,197
Payment Processing Services	1,778,303	219,858
	5,421,432	2,191,206
Other revenue:		
Interest	18,592	30,612
Research and Development	923,660	1,320,099
	942,252	1,350,711
Revenue	6,363,684	3,541,917

NOTE 5. INCOME TAX EXPENSE

	Consolidated 2018 $	Consolidated 2017 $
Reconciliation of Income tax expense to prima facie tax payable		
Loss before Income Tax	(2,069,034)	(4,717,729)
Prima facie income tax on loss at the domestic tax rate of Novatti Group Ltd of 27.5%	(568,984)	(1,297,375)
Adjustment for tax rate differences in foreign jurisdictions	9,899	45,003
Adjustment for tax exempt research and development tax incentive received	(254,007)	(363,027)
Adjustments from prior periods year income tax losses utilised in current period	(54,641)	(12,502)
Adjustment for changes in tax rates	(6,165)	(79,378)
	4,358	-
Adjustment for non-deductible expenses:		
- Share based payments expense	71,148	112,876
- Adjustment for R&D accounting expense included within R&D incentive	583,923	880,066
- Other non-deductible expenses	2,889	1,755
	(211,580)	(712,582)
Current year tax losses not brought to account	1,121,245	1,333,060
Current year temporary differences not brought to account	(382,190)	167,708
Adjustments in respect of current income tax of previous year	(529,283)	(788,186)
Adjustments for changes in tax rates	(4,358)	-
Prior year income tax losses utilised in the current year	6,166	-
Income tax expense	-	-
Deferred tax assets not brought to account:		
Unused tax losses for which no deferred tax asset has been recognised	9,251,114	7,135,200
Deductible temporary differences for which no deferred tax asset has been recognised	119,626	1,521,340
	9,370,740	8,656,540
Potential tax benefit @ 27.5% (2017: 27.5%)	2,576,954	2,380,549

NOTE 6. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2018 $	Consolidated 2017 $
Cash on hand	6,914	17,897
Cash at bank	4,502,228	636,249
	4,509,142	654,146

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:

	Consolidated 2018 $	Consolidated 2017 $
Cash and Cash Equivalents	4,509,142	654,146
Cash at bank	4,509,142	654,146

NOTE 7. NET POSITION OF FUNDS IN TRUST

FUNDS HELD FOR SETTLEMENT AND REMITTANCE

Reconciliation of the amounts displayed in the table below represent the net 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 are distributed under instructions within 24 hours.

	Consolidated 2018 $	Consolidated 2017 $
Settlement Funds Payable*	1,498,840	63,735
Remittance Funds Payable*	712,033	-
Cash and cash equivalents held in trust	2,210,873	63,735

*Refer to Note 12 Trade and Other Payables.

NOTE 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2018 $	Consolidated 2017 $
Trade receivables	2,787,629	947,184

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. There are no other impaired trade receivables in any of the Group's subsidiaries.

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 2018 $	Consolidated 2017 $
Current	891,056	438,384
0 to 3 months overdue	70,022	49,067
3 to 6 months overdue	441,281	459,733
Over 6 months overdue	1,385,270	-
	2,787,629	947,184
Other receivables		
Accrued Revenue	1,368,354	591,132
Total trade and other receivables	4,155,983	1,538,316

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

NOTE 9. OTHER CURRENT ASSETS

	Consolidated 2018 $	Consolidated 2017 $
Prepayments	73,715	63,670
Security Term Deposit	33,233	32,554
Other	55,502	21,823
	162,450	118,047

NOTE 10. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

	Consolidated 2018 $	Consolidated 2017 $
Plant and equipment – at cost	568,824	436,513
Less: accumulated depreciation	(432,253)	(420,297)
	136,571	16,216
Leasehold fixtures and fittings – at cost	14,922	14,922
Less: accumulated depreciation	(14,922)	(11,478)
	-	3,444
Fixtures and fittings – at cost	26,083	26,083
Less: accumulated depreciation	(20,147)	(19,352)
	5,936	6,731
Total plant and equipment	**142,507**	**26,391**

Reconciliations

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

2018	Plant & Equipment at cost $	Fixtures & Fittings at cost $	Leasehold Fixtures & Fittings at cost $	Total $
Gross carrying amount				
Balance 1 July 2017	**436,513**	**26,083**	**14,922**	**477,518**
Additions	139,467	-	-	139,467
Disposals	(7,157)	-	-	(7,157)
Balance 30 June 2018	568,824	26,083	14,922	609,828
Accumulated depreciation and impairment				
Balance 1 July 2017	**(420,297)**	**(19,352)**	**(11,478)**	**(451,127)**
Disposals	6,708	-	-	6,708
Depreciation expense	(18,664)	(795)	(3,444)	(22,903)
Balance 30 June 2018	**(432,253)**	**(20,147)**	**(14,922)**	**(467,322)**
Net book value				
As at 1 July 2017	16,216	6,731	3,444	26,391
Balance 30 June 2018	136,571	5,936	-	**142,507**

2017	Plant & Equipment at cost $	Fixtures & Fittings at cost $	Leasehold Fixtures & Fittings at cost $	Total $
Gross carrying amount				
Balance 1 July 2016	**431,440**	**26,083**	**14,922**	**472,445**
Additions	10,289	-	-	10,289
Disposals	(5,216)	-	-	(5,216)
Balance 30 June 2017	**436,513**	**26,083**	**14,922**	**477,518**
Accumulated depreciation and impairment				
Balance 1 July 2016	**(402,349)**	**(18,557)**	**(5,182)**	**(426,088)**
Disposals	2,892	-	-	2,892
Depreciation expense	(20,840)	(795)	(6,296)	(27,931)
Balance 30 June 2017	**(420,297)**	**(19,352)**	**(11,478)**	**(451,127)**
Net book value				
As at 1 July 2016	29,091	7,526	9,740	46,357
Balance 30 June 2017	**16,216**	**6,731**	**3,444**	**26,391**

NOTE 11. INTANGIBLES

	Consolidated 2018 $	Consolidated 2017 $
Intangible assets – at cost	3,471,652	4,482,292
Less: Accumulated amortisation	(235,461)	(1,813,678)
	3,236,191	**2,668,614**

2018	Goodwill $	Intellectual Property $	Customer Lists $	Licenses $	Total $
Gross carrying amount					
Balance 1 July 2017	**2,000**	**847,000**	**1,846,182**	**-**	**2,695,182**
Additions	567,630	-	-	*208,840*	776,470
Disposals	-	-	-	-	-
Balance 30 June 2018	**569,630**	**847,000**	**1846,182**	**208,840**	**3,471,652**
Accumulated depreciation and impairment					
Balance 1 July 2017	**(20)**	**(8,349)**			**(20,568)**
Disposals	-	-	-		-
Depreciation expense	20	(84,654)	(183,126)	-	(267,760)
Balance 30 June 2018	**-**	**(93,003)**	**(201,325)**	**-**	**(294,328)**
Foreign Exchange*			58,867		58,867
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**

2017	Goodwill $	Intellectual Property $	Customer Lists $	Total $
Gross carrying amount				
Balance 1 July 2016	**-**	**-**	**-**	**-**
Additions	2,000	847,000	1,846,182	2,695,182
Disposals	-	-	-	-
Balance 30 June 2017	**2,000**	**847,000**	**1846,182**	**2,695,182**
Accumulated depreciation and impairment				
Balance 1 July 2016		-	-	-
Disposals	-	-	-	-
Depreciation expense	(20)	(8,349)	(18,199)	(20,568)
Balance 30 June 2017	**(20)**	**(8,349)**	**(18,199)**	**(20,568)**
Foreign Exchange*			58,867	58,867
Net book value				
As at 1 July 2016	-	-	-	-
Balance 30 June 2017	**1,980**	**838,651**	**1,827,983**	**2,668,614**

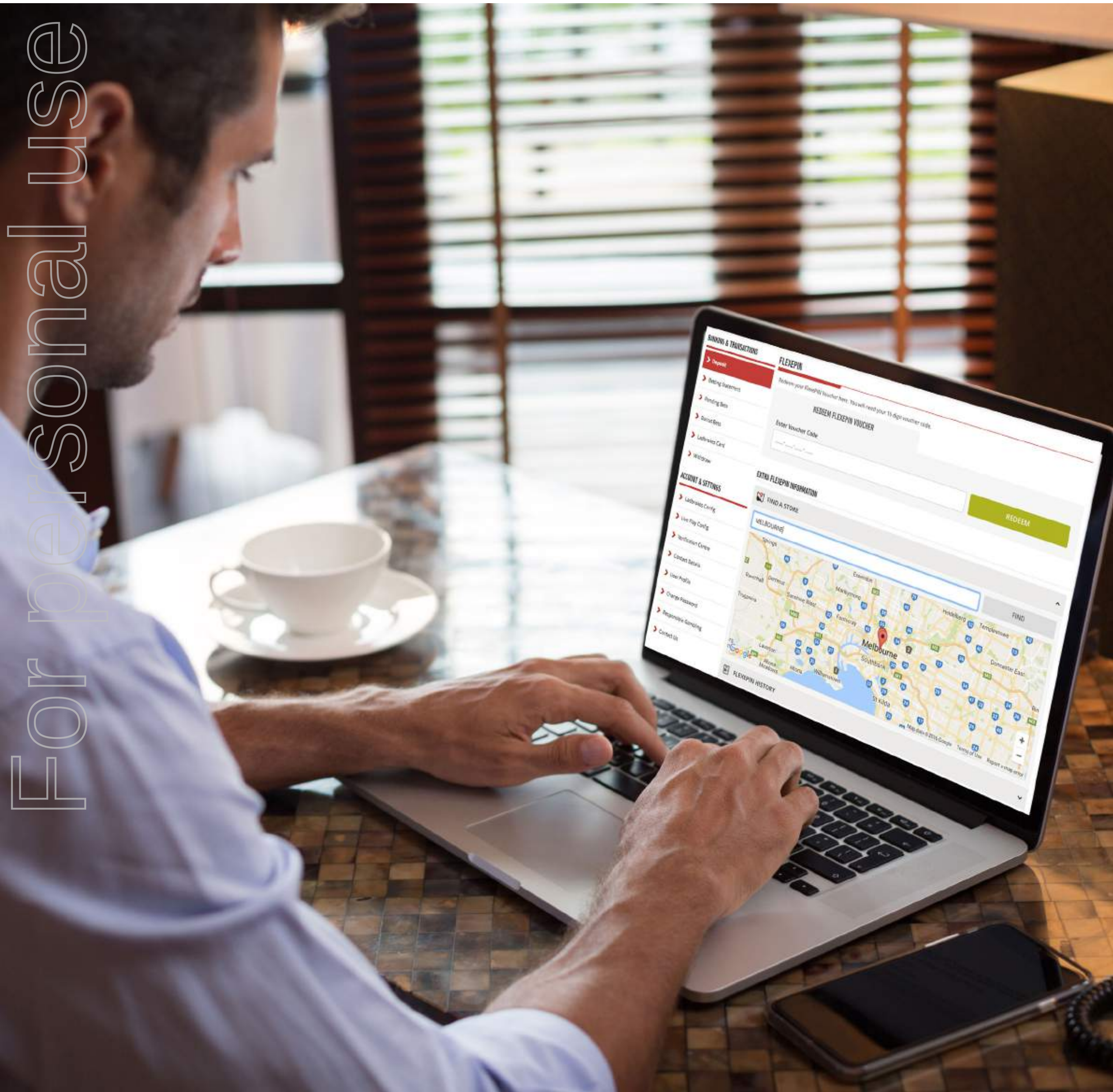
*In accordance with AASB 121 the foreign exchange variance between the cost of the Intangible Asset and accumulated amortisation for the period is of AUD 58,867. This is a result of the conversion of the carrying amount of Customer Lists from USD 1,261,533 to AUD 1,703,724, using an exchange rate average over the period of AUD 0.7405 to USD 1.

NOTE 12. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2018 $	Consolidated 2017 $
Trade payables	1,748,011	700,348
Accrued expenses	671,714	973,268
Settlement Funds Payable*	1,498,840	63,735
Remittance Funds Payable*	712,033	-
	4,630,598	1,737,351

*Refer to Note 7 Net Position of Funds in Trust.

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



NOTE 13. EQUITY – ISSUED CAPITAL

Movements in ordinary share capital

Ordinary shares	No.	30 June 2018 $	No.	30 June 2017 $
Opening Balance.			87,883,826	11,940,604
Beginning of the period 1 July 2017	107,972,647	14,296,835		
5 million Performance Shares were converted to Ordinary Shares on a one for one basis at a total nominal value of $1 upon the achievement of Milestone 1, as announced to the ASX on 16 September 2016. There is no change in the value of 'Issued Capital'	-	-	5,000,000	-
11.9 million Shares issued pursuant to one for four Entitlement Offer – Institutional Component, on the 16 May 2017. See Note 13(i)	-	-	11,910,051	1,667,407
3.1 million Shares pursuant to one for four Entitlement Offer – Retail Component, on the 29 May 2017. See Note 13(i)	-	-	3,178,770	445,028
1.5 million fully paid ordinary shares issued on 3 July 2017. See Note 13(i)	1,539,285	-		215,500
Capital Raising Costs related to shortfall facility	-	-		(36,722)
Corporate Advisor Management Fee. See Note 13(i)	-	-	-	65,018
Adjustment to the final consideration of the Management Fee. See Note 13(i)		(22,769)	-	-
Corporate Advisor Management Fee – 18 July 2017. See Note 13(i)	301,777	-	-	-
Fully paid ordinary shares pursuant to the shortfall facility of the Retail Entitlement Offer – 18 July 2017.	700,000	98,000	-	-
25M fully paid ordinary shares issued to major shareholder– 11 October 2017. See Note 13(ii)	25,000,000	3,500,000	-	-
Adjustment to consideration of Shortfall Placement Fee provided to Corporate Advisor– 30 November 2017	-	17,077	-	-
Corporate Advisor Shortfall Placement Fee final consideration – 30 November 2017	-	(7,500)	-	-
Fully paid ordinary shares on exercise of options – 16 November 2017	90,666	18,133	-	-
Value of option expense recognised in reserve for 90,666 Options converted to ordinary shares		1,223	-	-
Fully paid ordinary shares on exercise of options – 14 December 2017	500,000	100,000	-	-
Fully paid ordinary shares on exercise of options – 18 December 2017	1,200,000	240,000	-	-
Value of option expense recognised in reserve for 1.7M Options converted to ordinary shares		101,674	-	-
Professional Consulting Fees for Funds raised and listing new shares on the ASX – 31 December 2017		(68,447)	-	-
Fully paid ordinary shares on exercise of options – 09 February 2018[4]	120,000	24,000	-	-
Fully paid ordinary shares on exercise of options – 14 February 2018[5]	64,600	12,920	-	-
Value of option expense recognised in reserve for 184,600 Options converted to ordinary shares		11,090	-	-
18.2M fully paid ordinary shares issued to major shareholder– 06 March 2018. See Note 13(ii)	18,213,041	3,500,000	-	-
Professional Consulting Fees for Funds raised and listing new shares on the ASX – 31 March 2018		(32,406)	-	-
Fully paid ordinary shares on exercise of ESOP 06 March 2018	96,667	19,333	-	-
Value of option expense recognised in reserve for 96,667 Options converted to ordinary shares		1,520	-	-
Fully paid ordinary shares on exercise of options – 1 May 2018	109,650	21,930	-	-
Value of option expense recognised in reserve for 109,650 Options converted to ordinary shares		6,585	-	-
Consideration for acquisition of the shares in Vasco Pay Pty Ltd	1,600,000	408,000	-	-
Please refer to Note 23, Business Combinations				
Professional Consulting Fees for Funds raised and listing new shares on the ASX – 30 June 2018		(12,960)	-	-
Closing Balance	157,508,333	22,234,239	107,972,647	14,296,835

[4] For further information please refer to the ASX, 'Announcements' webpage dated 14 December 2017.

[5] Please refer to ASX 'Announcements' dated 18 December 2017.

(i) Accelerated Non-Renounceable Entitlement Offer

On 8 May 2017, Novatti Group Limited announced an accelerated 1 for 4 non-renounceable pro-rata entitlement offer of new ordinary shares in the Company at an issue price of $0.14, the purpose of the offer was to fund the acquisition of basis2, a new business for the group.

At 31 December 2017, 17,629,882 ordinary shares have been issued under this entitlement raising $2.4M. For further details on the Capital Raising refer to the 'Acquisition of basis2 and Accelerated Entitlement Offer' document, dated 8 May 2017.

1.5 million fully paid ordinary shares were issued on 3 July 2017. The Shares were issued pursuant to the shortfall facility of the Retail Entitlement Offer as at 30 June 2017.

As final settlement of the Management Fee to the Corporate Advisor for the one for four accelerated Entitlement Offer, it was agreed that 301,777 ordinary shares be provided at a value of $42,249, down from 464,419 shares at $65,018 at 30 June 2017. In addition, there was an adjustment to the placement fee paid to the Advisor on the completion of the raising. The net amount of the adjustment was for $9,577.

(ii) Placement to raise $7 million

On 11 October 2017, the Company announced an investment of $3.5 million by a Chinese technology investor, Mr Xiadi Chen, by the issue of 25 million shares at 14 cents per share, that contemplated a further investment by Mr Chen of up to $6.5 million at 19.217 cents per share. By mutual agreement, the Company has released Mr Chen from this commitment in lieu of a separate raising capped at $3.5 million from other Chinese technology investors at the same issue price.

The non-associated investors are Madam Qing Li and Mr Qiang (Peter) Wei. Madam Li had subscribed for 10,407,452 shares (for $2 million), taking her total shareholding in the Company to 22,907,452 shares, representing approximately 14.71% of the Company's issued share capital. Mr Wei subscribed for 7,805,589 shares (for $1.5 million), representing approximately 5.01% of the Company's issued share capital.

As announced on the ASX 28 February 2018, a total of 18,213,041 fully paid ordinary shares were issued under the Company's current capacity per ASX listing rule 7.1. No options were issued under this capital raising.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends 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 and Performance Shares

Information is set out in Note 26 relating to options and performance shares 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 14. EQUITY – RESERVE

	Consolidated 2018 $	Consolidated 2017 $
Option reserve	1,265,108	1,128,479
Foreign currency reserve	427,723	(44,169)
	1,692,831	1,084,310

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.

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 15 . 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, and
- Trade receivables, and
- Trade and other payables.

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.

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 2018, the financial liabilities of the Group include:

- Trade and other payables. For further details including breakdown of balances, please refer to Note 1 Trade and other payables and Note 12, for a breakdown of account balances.
- Lease commitments. Refer to Note 18 for a summary of the contractual maturities of commitments

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 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	2018
Nominal amounts	CAD
Cash at bank and on term deposit	2,593,011

Consolidated	2017
Nominal amounts	CAD
Cash at bank and on term deposit	318,013

The following tables below illustrate the sensitivity of the net result for the year and equity in regards 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 2018. 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	2018	2017
Profit after tax	(130,250)	(15,194)
Other Equity	-	-

Consolidated	2018	2017
Profit after tax	144,362	16,799
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

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

Consolidated	2018
Nominal amounts	USD
Cash at bank and on term deposit	548,683

Consolidated	2017
Nominal amounts	USD
Cash at bank and on term deposit	102,544

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	2018	2017
Profit after tax	(46,872)	(6,271)
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	2018	2017
Profit after tax	53,661	7,145
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	2018
Nominal amounts	EUR
Cash at bank and on term deposit	374,152

Consolidated	2017
Nominal amounts	EUR
Cash at bank and on term deposit	15,892

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	2018	2017
Profit after tax	(43,221)	(1,635)
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	2018	2017
Profit after tax	50,630	1,897
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	2018
Nominal amounts	GBP
Cash at bank and on term deposit	3,796

Consolidated	2017
Nominal amounts	GBP
Cash at bank and on term deposit	960

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	2018	2017
Profit after tax	(322)	(77)
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	2018	2017
Profit after tax	356	86
Other Equity	-	-

NOTE 16. 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 2018 $	Consolidated 2017 $
Short-term employee benefits	726,224	1,083,097
Post-employment benefits	66,888	64,882
Long-term benefits	5,046	3,937
Share-based payments	184,089	294,820
	982,247	1,454,930

NOTE 17. 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 2018 $	Consolidated 2017 $
Audit services – William Buck		
Audit or review of the 30 June financial statements	33,312	26,750
Review of the 31 December financial statements	16,300	13,000
	49,612	39,750
Other services - William Buck		
Preparation of the tax return and associated tax services	26,700	9,850
Investigative Accountant's Report	1,925	-
	78,237	49,600

NOTE 18. COMMITMENTS

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 2018 $	Consolidated 2017 $
Committed at the reporting date but not recognised as liabilities, payable:		
• Within one year	215,158	146,791
• One to five years	1,085,749	1,155,783
• More than five years	-	-
	1,300,907	1,302,574

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 19. RELATED PARTY TRANSACTIONS

Key management personnel

Disclosures relating to key management personnel are set out in the remuneration report and also within Note 16.

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

There are no loans that were entered into or, outstanding with the Directors of Novatti Group Ltd as at 30 June 2018.

Current and non-current liabilities to a Director

There are no current or non-current liabilities outstanding to Directors of the Group as at 30 June 2018.

Services

During the financial year a payment of $11,000 (GST inc) was made to Gyeon Pty Ltd, a company associated with Peter Pawlowitsch for the provision of services related to business acquisitions.

During the financial year, ePay Global Ltd invoiced the Group $523,000 (GST inc) for services including, introducing new investors and promoting the Novatti business. Steven Zhou is a 16% shareholder and director of ePay Global Ltd.

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, High Impact. This loan agreement is for a total of USD18,335 (AUD24,762) as at 30 June 2018 (FY17, USD10,000, AUD13,233). 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 20. 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 2018 $	Parent 2017 $
Loss after income tax	(476,838)	(901,206)
Total comprehensive loss	(476,838)	(901,206)

Statement of financial position

	Parent 2018 $	Parent 2017 $
Total current assets	3,297,158	380,581
Total assets	25,220,460	17,494,331
Total current liabilities	337,334	248,400
Total liabilities	377,334	248,400
Equity		
Issued capital	25,151,243	17,213,839
Performance Share Reserve	600,000	600,000
Reserves	1,265,108	1,128,479
Accumulated losses – Opening 1 July 2017	(1,696,387)	(910,161)
Option adjustment	-	114,980
Losses incurred for the year ended 30 June 2018	(476,838)	(901,206)
	(2,173,225)	(1,696,387)
Total equity	24,843,126	17,245,931

NOTE 21 CONTINGENT LIABILITIES

Contingent liabilities

There exists a bank guarantee for offices leased in Melbourne. As at 30 June 2018 these totalled $33,233, (FY17 $32,554). No other guarantees exist.

The parent entity had no contingent liabilities as at 30 June 2018.

Capital commitments – plant and equipment

The legal parent entity had no capital commitments for plant and equipment as at 30 June 2018.

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 22. 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:

	Principal place of business / country of incorporation	Ownership interest 2018	Ownership interest 2017
Name		%	%
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%	-
Flexe Payments Shd Bdn	Malaysia	100%	-
Novatti Commerce Solutions Inc.	Canada	100%	-
Novatti Commerce Solutions (MLT) Ltd	Malta	100%	-
Novatti Technologies Ltd	United Kingdom	100%	100%
Novatti Inc.	United States of America	100%	100%
Vasco Pay Pty Ltd	Australia	100%	-
Novatti Pty Ltd Subsidiaries			
Flexewallet Pty Ltd	Australia	100%	100%
Flexewallet (NZ) Ltd	New Zealand	100%	-
TransferBridge Pty Ltd	Australia	100%	100%

NOTE 23. BUSINESS COMBINATION

On 8 June 2018, Novatti Group Limited acquired 100% of the shares in Vasco Pay Pty Ltd.

Vasco Pay is an Australian proprietary company that owns and conducts a proprietary personalised prepaid reloadable payment card program to use wherever Visa is available.

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

The assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional Fair Value $
Cash at bank	15,218
Cash on hand	200
Tax liabilities	(48)
Other Liabilities	(25,000)
Goodwill	567,630
Total consideration	**558,000**

The net assets of Vasco Pay Pty Ltd have been stated at provisional fair value as at 30 June 2018. A full assessment of the net assets and goodwill recognised on acquisition will be made over the next financial year ended 30 June 2019.

Summary of acquisition

Earn outs

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

- The first earn out is the Vasco Pay 30 June 2020 EBITDA multiplied by 1.225.
- The second earn out is the Vasco Pay 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; or
- The determination of a dispute to the certification of the period's accounts.

As at the date of acquisition, the Director's had determined that it was too early to determine a reasonable fair value of the 'earn out' for the years' ended 30 June 2020 and 2021.

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:

i. 31 December 2018 is below 5,487;
ii. 30 June 2019 is below 13,231;
iii. 31 December 2019 is below 20,180;
iv. 30 June 2020 is below 28,414;
v. 31 December 2020 is below 37,027;
vi. 30 June 2021 is below 46,241;
vii. 31 December 2021 is below 55,738;
viii. 30 June 2022 is below 65,752; or
ix. 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.

Revenue and profit contribution

If the acquisition had occurred on 1 July 2017, the acquired business would have contributed revenues of approximately $3,548 and net loss of $62,862 to the group.

Purchase consideration

Outflow of cash to acquire Vasco Pay, net of cash acquired

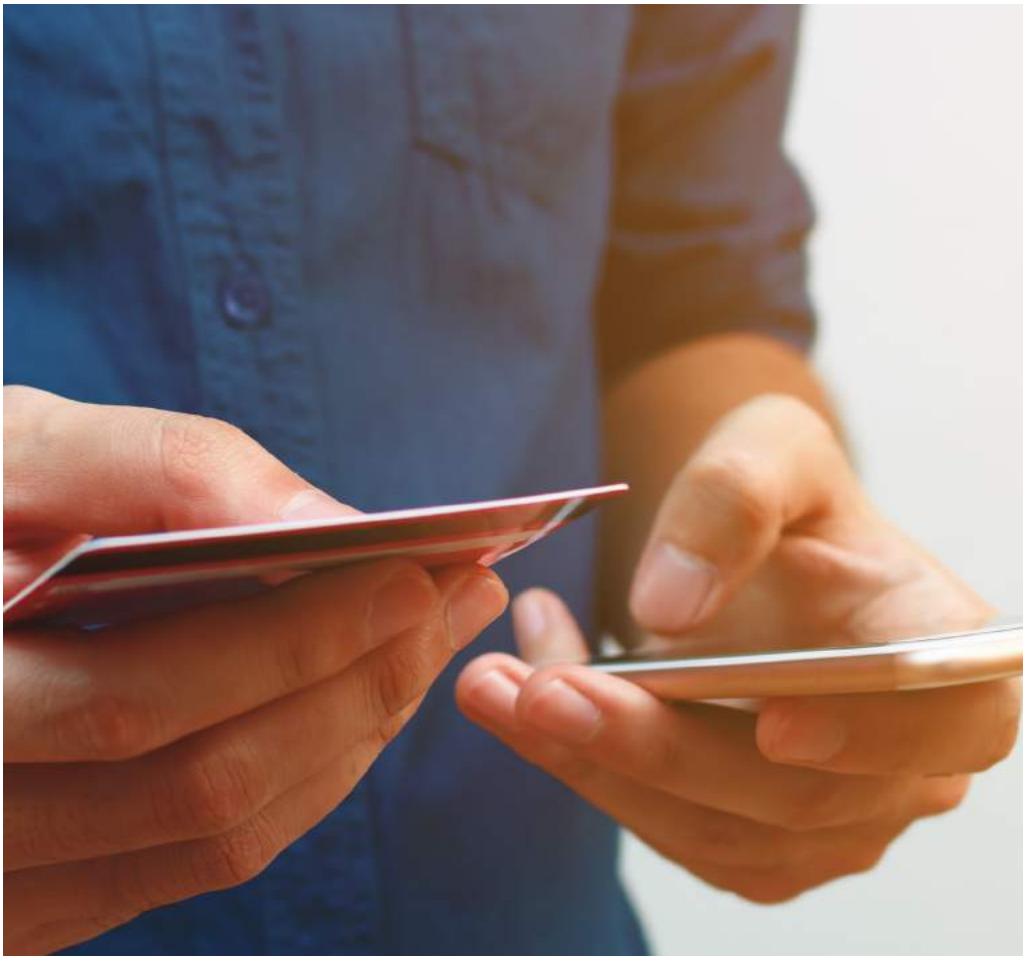
	2018 $	2017 $
Cash consideration	150,000	-
Net outflow of cash	150,000	-

Acquisition related costs

Acquisition related costs of $18,500 for legal fees were incurred by the Group in connection to the purchase of Vasco Pay and are included in other expenses in the profit and loss and in operating cash flows in the statement of cash flows.

Acquisition of basis2 on the 26 May 2017

As part of the conditions subsequent to the contract of settlement between Novatti Group Limited and Prophecy International Pty Ltd, 60 days following the date of acquisition of basis2 the net adjustment amount owed to Novatti Group Limited was paid by Prophecy International Pty Ltd on the 26 July 2017. The final adjustment amount received in FY18 was $242,935. There were no changes to the provisional values previously disclosed.



NOTE 24. EVENTS AFTER THE REPORTING PERIOD

There are no other matters or circumstances that have arisen since 30 June 2018 that have 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 25. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Consolidated 2018 $	Consolidated 2017 $
Loss after income tax expense for the year	(2,069,034)	(4,717,729)
Adjustments for:		
Depreciation and amortisation	290,682	54,946
Share based payments	516,656	-
Non-cash option expense	258,719	410,457
Unrealised Foreign Exchange Gain	(75,750)	14,493
Intangibles – Goodwill on Consolidation	(417,630)	-
Loss on disposal of fixed assets	(1,054)	224
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(2,763,054)	(277,849)
Increase/(decrease) in trade and other payables	905,723	(100,349)
Increase/(decrease) in deferred income	95,260	382,626
Increase/(decrease) in employee benefits	(116,893)	227,927
Net cash from operating activities	(3,376,374)	(4,005,254)

NOTE 26. EARNINGS PER SHARE

	Consolidated 2018 $	Consolidated 2017 $
Loss after income tax	(2,069,034)	(4,717,729)
Loss after income tax attributable to the owners of Novatti Group Limited	(2,069,034)	(4,717,729)

	2018 No of ordinary shares	2017 No of ordinary shares
Weighted average number of ordinary shares outstanding during the year:		
Number used in calculating Earnings Per Share	135,436,622	93,765,798
Number of potential ordinary shares that are considered to be antidilutive	30,406,378	34,609,355

	2018 Cents	2017 Cents
Basic and diluted earnings per share	(1.53)	(5.03)

NOTE 27. 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 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	Ex price	Exp'd volatility	Risk free rate	Exp'd dividend yield	Bal at start	Granted during yr	Ex during yr	Forfeited during yr	Bal at
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%	4,000,000	-	1,994,250	-	2,005,750
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%	1,035,661	-	187,334	294,444	553,883
24 Jun 16	24 Jun 18	30 Jun 19	$0.20	57.74%	2.13%	0%	1,035,661	-	-	294,444	741,217
24 Jun 16	24 Jun 19	30 Jun 19	$0.20	57.74%	2.13%	0%	1,035,678	-	-	294,444	1,035,660
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		2.13%	0%	-	333,334	-	-	333,334
Total							**29,416,250**	**1,000,000**	**2,181,584**	**883,332-**	**27,351,334**
Weighted Average Exercise Price						$0.202	-	-	$0.202		

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 model. 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 2018 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

Peter Pawlowitsch

Chairman

30 August 2018

Melbourne

William Buck

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 2018, 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 2018 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

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

REVENUE RECOGNITION	
Area of focus **Refer also to notes 1,4**	**How our audit addressed it**
The Group has entered into multiple new agreements for generating new sources of income and include the following: — 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. The Group also has new contractual agreements which will add further complexity to its revenue recognition activities. These include: — Those revenues derived by the newly acquired Vasco Pay; — Its agreement with Banque Berno Saudi Fransi; and — Its agreement to generate revenues with Lightyear. Finally, we note that revenues and revenue recognition are strongly tied to the achievement of bonuses tied to incentive structures for key management personnel. Each revenue stream requires a bespoke revenue recognition model to ensure that revenue is only recognised a) when probable; b) can be reliably measured; and c) as the service is rendered to the customer. The Group is also actively managing its transition to the new revenue standard (AASB 15), which will require further analysis of these models under that standard, particularly in identifying separable performance milestones, identifying variable revenue and applying the new constraint requirements in estimating the amount of variable consideration recognised as revenue under the new *highly probable* threshold.	Our audit procedures included: - 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 - Analytically reviewing the reasonableness of accrued revenue and billings-in-advance accounts.

ACQUISITION OF VASCO PAY	
Area of focus **Refer also to notes 1,11,23**	**How our audit addressed it**
The Group acquired the Vasco Pay business in June 2018. The acquisition involved the following amounts of consideration: — A cash payment of $150,000; — The issue of 1,600,000 shares, to be held in escrow in two tranches vesting in 1 and 2 years; — Earn-out agreements, entitling the vendors to EBITDA targets for the 2020 and 2021 June financial year ends. This transaction is considered a significant purchase for the Group. Accounting for this transaction is complex and requires significant judgements and estimates by management: — to determine the date of acquisition; — to determine the fair value of assets and liabilities acquired, including the fair value of any vendor warranties and guarantees (including restraint of trade requirements), with the residual excess purchase consideration amount allocated to goodwill; and — to determine the fair value of deferred consideration and of the share-based consideration held in escrow.	Our audit procedures included: — Review of the Share Purchase Agreement to understand the key terms and conditions of the acquisition; — Assessment of the intangible assets identified by management for their separability and basis to allow recognition and assessed whether the measurement basis and assumptions underlying the estimate of fair values were appropriate; — Testing the Group's determination of fair values with reference to work performed by external valuation expert and our Corporate Advisory division; — Testing the appropriateness of the deferred consideration and share-based consideration held in escrow; and — Reviewing whether the conditions precedent have been satisfied We also assessed the adequacy of the Group's disclosures in respect of the acquisition.

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 2018, 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 2018.

In our opinion, the Remuneration Report of Novatti Group Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

William Buck

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

J. C. Luckins
Director

Melbourne, 30 August 2018

ADDITIONAL DISCLOSURES

DISTRIBUTION OF EQUITABLE SECURITIES

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

	No of holders of ordinary shares	No of ordinary shares
1 to 1,000	19	4,701
1,001 to 5,000	275	838,895
5,001 to 10,000	202	1,720,754
10,001 to 100,000	455	16,321,881
100,001 and over	71	138,622,101
	1,022	157,508,332
Holding less than a marketable parcel	19	4,701

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 24 Aug 2018	Percent of total shares issued
BRAYTER LIMITED	46,631,507	29.91%
XIADI CHEN	12,500,000	8.02%
QING LI	12,500,000	8.02%
CORANGAMITE PTY LTD <LAKE CORANGAMITE A/C>	11,107,904	7.12%
MADAM QING LI	10,407,452	6.68%
CHI WAI KENNETH LAI	10,335,000	6.63%
QIANG WEI	7,805,589	5.01%
MR KENNETH LAI	2,583,750	1.66%
PACIFIC NOMINEES LIMITED	1,812,500	1.16%
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,506,380	0.97%
SQUITCHY LANE HOLDINGS PTY LTD <FITZPATRICK FAMILY A/C>	1,440,090	0.92%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,284,472	0.82%
MOSCH PTY LTD	1,171,875	0.75%
NAMIB NOMINEES PTY LTD <NAMIB SUPER FUND A/C>	781,250	0.50%
SEQUOI NOMINEES PTY LTD <SEQUOI A/C>	781,250	0.50%
HAVEN SUPER PTY LTD <HAVEN SUPER FUND A/C>	781,250	0.50%
MR TREVOR JAMES PRESSER & MS HELEN PRESSER <T & H PRESSER SUPERFUND A/C>	714,285	0.46%
ACQUISITIVE PTY LTD	686,236	0.44%
SEAFIELD SUPERANNUATION PTY LTD <GRAYS SUPERANNUATION FND A/C>	580,000	0.37%
JASPER SUPERANNUATION PTY LTD <THE JASPER SUPER FUND A/C>	575,000	0.37%
CITICORP NOMINEES PTY LIMITED	522,792	0.34%
MR GEORGE ANTHONY VENUTI & MRS CAROLYN ANNE VENUTI	495,000	0.32%
DR PETER POON	456,164	0.29%
Total	**127,459,746**	**81.76%**

UNQUOTED EQUITY SECURITIES

	No of issue	No of holders
Options over ordinary shares issued	27,351,334	27

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 3 Aug 2018	Percent of total shares issued
BRAYTER LIMITED	46,631,506	29.61
QING LI	22,907,452	14.54
CHI WAI KENNETH LAI	12,918,750	8.20

SECURITIES SUBJECT TO ESCROW

	Number of shares
Ordinary Shares escrowed to 15 June 2019 from quotation	800,000
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.

NOVATTI GROUP ANNUAL REPORT 2018

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