



Interim Report

31 December 2021

Beforepay Group Limited

ABN 63 633 925 505



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Directors' Report

31 December 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Beforepay Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2021.

Directors

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

Brian Hartzler	Chairman (appointed 5 July 2021)
Danny Moss	Non-Executive Director
Stefan Urosevic	Non-Executive Director
Patrick Tuttle	Non-Executive Director
Natasha Davidson	Non-Executive Director
Luke Bortoli	Non-Executive Director (appointed 1 February 2022)
Tarek Ayoub	Executive Director (resigned 19 July 2021)
Guo Fang Mao (Dean)	Non-Executive Director (resigned 19 July 2021)

Principal activities

During the financial period the principal continuing activities of the Group consisted of providing finance to its customers by way of pay advances.

Dividends

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

Review of operations

Revenue from ordinary activities in the current period was \$5,954,893 representing an increase of 511% on the corresponding period. This was derived from \$132,004,250 in customer pay advances originated in the current period, versus \$19,917,900 in the prior corresponding period representing a 563% increase.

Net transaction margin turned positive in the current period, amounting to \$360,169 (December 2020: loss of \$1,008,537). Net transaction margin comprises Beforepay income less direct financing costs, direct service costs in facilitating pay advances to customers, and expected credit losses (transaction losses).

Net loss before tax in the current period is \$19,628,494 (31 December 2020; loss of \$3,350,486). The loss in the current period includes the following significant and/or one-off items; IPO related costs of \$2,135,480; convertible note issuance costs of \$171,273; fair value adjustment of convertible notes on hand at period end of \$3,310,782; one-off settlement charge of \$1,584,000 and employee benefit expense (share-based payments) of \$402,389. Net loss before tax removing these non-recurring items is \$12,024,570.

Significant changes in the state of affairs

The Company issued convertible notes in September 2021 to the value of \$10,757,500 at the time of issue. All convertible notes, including those previously issued, converted to ordinary shares in the Company on Allotment Date, 11 January 2022 (inclusive of accumulated interest and principal).

On 5 July 2021, Brian Hartzler was appointed as Chairman and Independent Non-Executive Director of the Company. Brian is an experienced executive, leadership mentor and investor who served as CEO of the Westpac Banking Group from 2015 to 2019. Prior to his time as Westpac's CEO, Brian spent 15 years in senior executive roles at major banks in Australia and the UK. These roles included CEO at Westpac and divisional chief executive roles at the Royal Bank of Scotland Group and ANZ Banking Group. Brian's banking career has had a strong emphasis on the use of data: He set up the database marketing department at ANZ in the mid-1990s, headed ANZ's credit card and consumer finance business, and through his various roles was a strong advocate for the application of data and data science in delivering personalised customer service, strong revenue growth, and effective risk management. Prior to joining ANZ, Brian spent ten years as a financial services strategy consultant at First Manhattan Consulting Group, which pioneered the use of customer profitability analysis and segmentation in banking. Brian currently works as a senior advisor to both Sayers, a Melbourne-based investment and advisory firm, and to Quantum, a Sydney-based data science company. He is also an angel investor in and advisor to several Fintech and technology start-ups. Brian serves as a Trustee of the Australian Museum and as Chairman of the Australian Museum Foundation Trust.

On 8 October 2021, the Company underwent a capital reorganisation whereby all ordinary shares were split on a ratio of 1 to 100.

There were no other significant changes in the state of affairs of the Group during the financial period.

Matters subsequent to the end of the financial period

Initial Public Offering ('IPO')

The Company raised \$35,000,001 pursuant to the offer under its replacement prospectus dated 29 November 2021 through the issue of 10,263,930 shares at an issue price of \$3.41 per share. Net of transaction costs, the Company raised \$30,212,425. The Company was admitted to the Official List of the Australian Securities Exchange ('ASX') on 13 January 2022 and the securities of the Company commenced trading on 17 January 2022.

Conversion of convertible notes

All convertible notes were converted to ordinary shares in the Company on Allotment Date, 11 January 2022 (inclusive of accumulated interest and principal).

Appointment of Luke Bortoli as an Independent Non-Executive Director

On 1 February 2022, Mr Luke Bortoli was appointed as an Independent Non-Executive Director of the Company. Luke is a growth focused executive, director and investor with a specialisation in the Fintech, mobile gaming and NFT sectors. Most recently, Luke was the Chief Financial Officer at Afterpay Limited, one of the world's fastest growing payments platforms and the largest BNPL operator globally, and prior to that, he was the Global Head of Strategy and CFO of Special Projects at Aristocrat. Before joining Aristocrat, Luke was a financial institutions and technology focused investment banker specialising in M&A and capital raising at UBS. Luke is a Non-Executive Director of WithYouWithMe, which is a social impact organisation.

Directors' Report continued

Coronavirus (COVID-19) pandemic

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the Group, if any, has been reflected in its published results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine, have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the Group's operations going forward. The Group now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

No other matter or circumstance has arisen since 31 December 2021 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.

Auditor's independence declaration

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

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

On behalf of the directors



Brian Hartzler
Chairman

28 February 2022
Sydney

Auditor's Independence Declaration



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working world**

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Auditor's independence declaration to the directors of Beforepay Group Limited

As lead auditor for the review of the financial report of Beforepay Group Limited for the half-year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;
- b. No contraventions of any applicable code of professional conduct in relation to the review; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Beforepay Group Limited and the entities it controlled during the financial period.

A stylized, handwritten signature in cursive script that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Simon Hannigan'.

Simon Hannigan
Partner
28 February 2022

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Statement of Profit or Loss and Other Comprehensive Income

For the period ended 31 December 2021

	Note	Consolidated	
		6 months ended 31 Dec 2021	6 months ended 31 Dec 2020
		\$	\$
Revenue			
Beforepay income	4	5,954,893	973,806
Other income	5	544,734	79,500
Interest income		33,768	-
Expenses			
Direct service cost		(985,746)	(431,551)
Employee benefits expense	6	(3,975,268)	(766,537)
Settlement expense		(1,584,000)	-
Depreciation and amortisation expense		(303,623)	(82,294)
Expected credit losses expense		(3,975,268)	(1,550,792)
Occupancy expenses		(1,450)	(50,675)
Advertising and marketing expenses		(6,759,528)	(618,313)
Professional and consultancy expenses		(1,574,415)	(463,502)
Software licences		(4,648)	(3,623)
Technical suppliers		(244,098)	(74,444)
Convertible note issuance expenses		(171,273)	-
Fair value loss on convertible notes	17	(3,310,782)	-
IPO related expenses		(2,135,480)	-
Other expenses		(545,399)	(259,219)
Finance costs	6	(711,815)	(102,842)
Loss before income tax expense		(19,628,494)	(3,350,486)
Income tax expense		-	-
Loss after income tax expense for the period attributable to the owners of Beforepay Group Limited		(19,628,494)	(3,350,486)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period attributable to the owners of Beforepay Group Limited		(19,628,494)	(3,350,486)
		\$	\$
Basic earnings per share	25	(0.82)	(0.16)
Diluted earnings per share	25	(0.82)	(0.16)

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

Statement of Financial Position

As at 31 December 2021

	Note	Consolidated	
		31 Dec 2021	30 Jun 2021
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	7	8,790,767	10,011,785
Trade and other receivables	8	16,201,551	9,730,772
Government grants receivable		544,734	11,101
Prepayments	9	2,297,111	2,091,829
Total current assets		27,834,163	21,845,487
Non-current assets			
Property, plant and equipment	10	235,466	173,849
Right-of-use assets	11	916,278	-
Intangibles	12	171,720	217,400
Other		193,310	241,027
Total non-current assets		1,516,774	632,276
Total assets		29,350,937	22,477,763
Liabilities			
Current liabilities			
Trade and other payables	13	4,107,437	1,253,632
Borrowings	14	-	246,991
Lease liabilities	15	266,667	-
Employee benefits		220,648	141,196
Provisions	16	594,000	-
Total current liabilities		5,188,752	1,641,819
Non-current liabilities			
Borrowings	17	54,831,599	34,073,937
Lease liabilities	18	638,170	-
Provisions	19	876,927	-
Total non-current liabilities		56,346,696	34,073,937
Total liabilities		61,535,448	35,715,756
Net liabilities		(32,184,511)	(13,237,993)
Equity			
Issued capital	20	6,023,575	6,023,575
Reserves		854,729	172,753
Accumulated losses		(39,062,815)	(19,434,321)
Total deficiency in equity		(32,184,511)	(13,237,993)

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

Statement of Changes in Equity

For the period ended 31 December 2021

	Issued capital	Reserves	Accumulated losses	Total equity
Consolidated	\$	\$	\$	\$
Balance at 1 July 2020	1,316,715	346	(667,149)	649,912
Loss after income tax expense for the period	-	-	(3,350,486)	(3,350,486)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(3,350,486)	(3,350,486)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	4,662,802	-	-	4,662,802
Share-based payments	-	45,545	-	45,545
Balance at 31 December 2020	5,979,517	45,891	(4,017,635)	2,007,773

	Issued capital	Reserves	Accumulated losses	Total deficiency in equity
Consolidated	\$	\$	\$	\$
Balance at 1 July 2021	6,023,575	172,753	(19,434,321)	(13,237,993)
Loss after income tax expense for the period	-	-	(19,628,494)	(19,628,494)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(19,628,494)	(19,628,494)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	681,976	-	681,976
Balance at 31 December 2021	6,023,575	854,729	(39,062,815)	(32,184,511)

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

Statement of Cash Flows

For the period ended 31 December 2021

	Note	Consolidated	
		6 months ended 31 Dec 2021	6 months ended 31 Dec 2020
		\$	\$
Cash flows from operating activities			
Receipts from repayment of customers advances		121,020,029	15,369,416
Receipts of Beforepay income		5,708,866	768,471
Payments to suppliers and employees		(12,660,633)	(2,380,021)
Advances to customers		(132,003,550)	(19,917,900)
Interest received		33,768	-
Interest and other finance costs paid		(467,164)	(102,842)
Government grants received		-	68,399
Research and development rebate received		-	312,175
Net cash used in operating activities		(18,368,684)	(5,882,302)
Cash flows from investing activities			
Payments for property, plant and equipment	10	(112,009)	(73,240)
Payments for intangibles	12	(29,788)	(11,897)
Prepaid share issue costs		(427,074)	-
Net cash used in investing activities		(568,871)	(85,137)
Cash flows from financing activities			
Proceeds from issue of shares		-	4,462,625
Proceeds from issue of convertible notes		11,657,500	6,280,437
Proceeds from borrowings		6,649,583	1,000,000
Share issue transaction costs		-	(247,318)
Repayment of lease liabilities		(155,404)	-
Borrowings transaction costs		(188,151)	-
Repayment of borrowings		(246,991)	-
Net cash from financing activities		17,716,537	11,495,744
Net increase/(decrease) in cash and cash equivalents		(1,221,018)	5,528,305
Cash and cash equivalents at the beginning of the financial period		10,011,785	825,793
Cash and cash equivalents at the end of the financial period		8,790,767	6,354,098

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

Notes to the Financial Statements

31 December 2021

Note 1. General information

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

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

Level 6
50 Carrington Street
Sydney NSW 2000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These condensed general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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

Going concern

During the half-year ended 31 December 2021, the Group incurred a loss after tax of \$19,628,494 (31 December 2020: loss after tax of \$3,350,486) and had net operating cash outflows of \$18,368,684 (31 December 2020: outflows of \$5,882,302) and net investing cash outflows of \$568,871 (31 December 2021: outflows of \$85,137). Further, the Group has a net liability position of \$32,184,511 (30 June 2021: net liabilities of \$13,237,993). This net liability is primarily a result of the Group's facility agreement with Longreach Credit Investors of \$13,653,148 (30 June 2021: \$7,003,565) and convertible notes payable of \$41,378,292 (30 June 2021: \$27,310,010). Key terms of the Longreach Credit facility and the convertible notes are disclosed in note 17 to this financial report.

On 13 January 2022, the Company raised \$30,212,425, net of transaction costs, via an initial public offering ('IPO'). Furthermore, subsequent to year end, on IPO, the Group's convertible notes converted to ordinary issued capital in the Company. Cumulatively, these events significantly improved the Group's net asset position.

Notes to the Financial Statements continued

Note 2. Significant accounting policies (continued)

The directors believe that the funds available from existing cash reserves and debt facilities, combined with those that have become available from the IPO, will provide the Group with sufficient working capital to carry out its stated objectives for at least the next 12 months from the date of signing these financial statements. Furthermore, as the Group's convertible notes were converted to ordinary shares following the successful IPO which occurred after the financial half-year ended 31 December 2021, the directors believe the balance sheet has been strengthened.

The financial statements have been prepared on the going concern basis for the above reasons. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Note 3. Operating segments

Identification of reportable operating segments

The Group is organised into one operating segment, being the provision of finance to its customers by way of salary advances. This is 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. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and therefore not duplicated.

Note 4. Beforepay income

	Consolidated	
	6 months ended 31 Dec 2021	6 months ended 31 Dec 2020
	\$	\$
Beforepay income	5,954,893	973,806

Beforepay income consists of the transaction fees charged to customers on advances. Beforepay income is calculated and charged based on a fixed percentage of the amount advanced.

Note 5. Other income

	Consolidated	
	6 months ended 31 Dec 2021	6 months ended 31 Dec 2020
	\$	\$
Government grants	–	79,500
Research and development tax incentive	544,734	–
Other income	544,734	79,500

Research and development ('R&D') tax incentive grant receivable during the half year ended 31 December 2021 relates to the Group's R&D claim for the tax year ended 30 June 2021.

During the financial half-year ended 31 December 2020 government grants represent JobKeeper and Cash Boost support payments received from the Australian Government in response to the COVID-19 pandemic.

Notes to the Financial Statements continued

Note 6. Expenses

Loss before income tax includes the following specific expenses:

	Consolidated	
	6 months ended 31 Dec 2021	6 months ended 31 Dec 2020
	\$	\$
Finance costs		
Interest and finance charges paid/payable on borrowings	442,469	102,842
Interest and finance charges paid/payable on lease liabilities	39,771	–
Amortisation of loan establishment fees	227,948	–
Unwinding of the discount on provisions	1,627	–
Finance costs expensed	711,815	102,842
Employee benefits expense		
Employee benefits expense excluding share-based payments	3,172,388	720,992
Share-based payments expense	681,976	45,545
	3,854,364	766,537

Share-based payment expense for the half year ended 31 December 2021 contains \$402,389 of expense related to accelerated vesting of options linked to the successful IPO of the Group.

Note 7. Current assets – cash and cash equivalents

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Cash at bank	5,990,056	9,035,169
Cash held by service providers	2,800,711	976,616
	8,790,767	10,011,785

Notes to the Financial Statements continued

Note 8. Current assets – trade and other receivables

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Receivables – customer advances	18,382,750	10,321,554
Less: Allowance for expected credit losses	(3,331,390)	(2,535,406)
	15,051,360	7,786,148
Other receivables	1,087,392	1,944,624
GST receivable	62,799	–
	16,201,551	9,730,772

Allowance for expected credit losses

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Opening balance	2,535,406	48,348
Additional provisions recognised	4,534,552	5,074,981
Receivables written off during the period as uncollectable	(3,179,284)	(2,578,369)
Unused amounts reversed	(559,284)	(9,554)
Closing balance	3,331,390	2,535,406

Note 9. Current assets – prepayments

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Prepayments	2,297,111	2,091,829

At 31 December 2021, prepayments includes \$427,075 of costs paid relating to newly issued capital, issued post balance date as part of the IPO.

Notes to the Financial Statements continued

Note 10. Non-current assets – property, plant and equipment

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Leasehold improvements – at cost	139,645	–
Less: Accumulated depreciation	(13,420)	–
	126,225	–
Computer equipment – at cost	205,202	162,768
Less: Accumulated depreciation	(95,961)	(58,989)
	109,241	103,779
Leasehold improvements in progress – at cost	–	70,070
	235,466	173,849

Reconciliations

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

	Leasehold improvements	Computer equipment	Leasehold improvements in progress	Total
Consolidated	\$	\$	\$	\$
Balance at 1 July 2021	–	103,779	70,070	173,849
Additions	69,575	42,434	–	112,009
Write off of assets	–	–	–	–
Transfers in/(out)	70,070	–	(70,070)	–
Depreciation expense	(13,420)	(36,972)	–	(50,392)
Balance at 31 December 2021	126,225	109,241	–	235,466

Notes to the Financial Statements continued

Note 11. Non-current assets – right-of-use assets

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Land and buildings – right-of-use	1,094,041	–
Less: Accumulated depreciation	(177,763)	–
	916,278	–

The Group leases land and buildings for its offices under agreement for a period of 3 years with options to extend at the Group's discretion. On renewal, the terms of the lease are renegotiated.

Reconciliations

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

	Land and buildings
Consolidated	\$
Balance at 1 July 2021	–
Additions	1,094,041
Depreciation expense	(177,763)
Balance at 31 December 2021	916,278

Note 12. Non-current assets – intangibles

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Development – at cost	444,153	414,365
Less: Accumulated amortisation	(272,433)	(196,965)
	171,720	217,400

Reconciliations

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

	Development costs
Consolidated	\$
Balance at 1 July 2021	217,400
Additions	29,788
Amortisation expense	(75,468)
Balance at 31 December 2021	171,720

Notes to the Financial Statements continued

Note 13. Current liabilities – trade and other payables

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Trade payables	1,881,606	638,246
Accrued expenses	1,939,448	356,440
Other payables	286,383	258,946
	4,107,437	1,253,632

Trade payables include IPO related costs of \$290,000 (30 June 2021: \$nil).

Accrued expenses includes accruals of IPO related costs totalling \$972,374 (30 June 2021: \$nil).

Note 14. Current liabilities – borrowings

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Loan – Attvest Finance	–	246,991
	–	246,991

Loan – Attvest Finance

The loan over the company's insurance policies was unsecured and interest was payable, monthly in arrears, at a rate of 6.75% per annum. The loan was repaid in full in August 2021.

Note 15. Current liabilities – lease liabilities

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Lease liability	266,667	–

Refer to note 18 for further information.

Note 16. Current liabilities – provisions

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Settlement	594,000	–

Refer to note 19 for further information.

Notes to the Financial Statements continued

Note 17. Non-current liabilities – borrowings

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Convertible notes payable	41,378,292	27,310,010
Loan – Longreach Credit Investors Pty Ltd	13,653,148	7,003,565
Loan – Longreach Credit Investors Pty Ltd – establishment fees	(199,841)	(239,638)
	54,831,599	34,073,937

Convertible notes payable

The Group issued convertible notes with a face value of \$10,657,500 during the half-year ended 31 December 2021.

As at 31 December 2021, the total face value of convertible notes issued by the Group was \$31,213,000 (30 June 2021: \$20,455,500) with a carrying value of \$41,378,292 (30 June 2021: \$27,310,010). The fair value loss on convertible notes for the half year ended 31 December 2021 was \$3,310,782.

Refer to note 22 for further information on the fair value measurement of convertible notes payable.

Costs associated with the convertible notes issuances of \$171,273 were expensed during the half-year, as incurred (31 December 2020: \$nil).

The convertible notes have the following key terms:

- Maturity date: 2-year expiry from the date of issuance, or such other date as agreed between the parties.
- Interest rate/coupon: 10% per annum. Interest capitalises to the loan balance.

Conversion terms: The notes may convert earlier than their maturity date, in the event of an IPO event or Control event:

(1) *IPO event*, being:

- (a) Receipt by the Group Company or its Related Body Corporate of conditional approval from the ASX or any other financial market approved by the Board for the Company or its Related Body Corporate to be admitted to either the official list of the ASX or other such financial market, as applicable, in a form acceptable to the Company or its Related Body Corporate (at its sole discretion) and subject only to customary conditions; and
- (b) passing of a resolution by the Board to issue and allot the Shares pursuant to an IPO.

(2) *Control Event*, meaning the sale, transfer or disposal of all or substantially all of the business and assets of the Group, or the completion of an acquisition by any person or persons of all or substantially all of the Shares in the consolidated Group, or, in relation to a takeover offer or scheme of arrangement under the Corporations Act, an offer by any person or persons to acquire all of the Shares in the consolidated Group that becomes unconditional.

Notes to the Financial Statements continued

Note 17. Non-current liabilities – borrowings (continued)

	Conversion Price	Conversion Price
Conversion event	Within 12 months from issuance	More than 12 months from issuance
IPO Event	The lesser of: <ol style="list-style-type: none"> 80% of the issue price of Shares; and Share price calculated at a pre-IPO company valuation of \$100m ('Maximum conversion price') 	The lesser of: <ol style="list-style-type: none"> 70% of the issue price of Shares; and Share price calculated at a pre-IPO company valuation of \$100m ('Maximum conversion price')
Control Event	The lesser of: <ol style="list-style-type: none"> 80% of the price per shares at which the Control Event occurred; and Maximum conversion price 	The lesser of: <ol style="list-style-type: none"> 70% of the price per shares at which the Control Event occurred; and Maximum conversion price

Subsequent to financial half-year ended 31 December 2021, on 13 January 2022, all convertible notes were converted into ordinary shares of the Company following the successful completion of the IPO on the ASX. The total value of the convertible notes at the date of conversion was \$41,495,779.

Loan – Longreach Credit Investors Pty Ltd

On 9 June 2021 a debt facility agreement was signed between Longreach Credit Investors Pty Ltd (as arranger) and Beforepay Finance Pty Ltd (as borrower), and Beforepay Ops Pty Ltd and Beforepay IP Pty Ltd (as guarantors), AMAL Trustees P/L ATF the Longreach Direct Lending Fund (as financier) ('Longreach'). The borrower and guarantors have granted "all assets" security to Longreach. Further, Beforepay Group Limited has granted security over the shares it owns in each of the borrower and the guarantors and has provided a limited recourse guarantee in relation to Beforepay Finance's liabilities to Longreach (limited to the shares in the borrower and guarantors and the proceeds thereof). The terms of the debt facility are as follows:

The secured debt facility has a limit of \$45,000,000 and expires in June 2023. The available commitment as at 31 December 2021 was \$15,527,757 and it increases in non-linear increments over its term to a maximum commitment of \$45,000,000 on and from 15 December 2022.

The following fees and charges were payable on the facility:

- Interest is payable monthly in arrears based on a fixed rate of 9.50%;
- an establishment fee payable on a drawing under the Financing Facility, of either 2.25% of the relevant drawing (where the total amounts owing to Longreach under the Financing Facility are \$10 million or less) or 2.00% of the relevant drawing (where the total amounts owing to Longreach under the Financing Facility are more than \$10 million);
- an undrawn fee of 7.00% per annum on any undrawn commitment under the Financing Facility in excess of \$2 million above pre-determined drawing amounts; and
- a 2.00% prepayment fee, where amounts are prepaid under the Financing Facility within 16 months of financial close.

Notes to the Financial Statements continued

Note 17. Non-current liabilities – borrowings (continued)

The facility is subject to key financial covenants of the facility being:

- the total amounts drawn under the Financing Facility must not exceed the Borrowing Base (as defined below) at any time;
- in any period, the aggregate amount of all loans provided to existing customers who receive 51% or more of their total income from Centrelink during that period must be less than 10% of the aggregate amount of all loans advanced by the Group to all of its existing customers for that period;
- the 'loss rate' in respect of the immediately preceding calendar month and the forecast 'loss rate' in respect of each of the two subsequent months, in each case, must be less than 7.5%; and
- the Group's total cash holdings (except for the Locked Bank Account, other than any surplus amount over the Borrowing Base amount), must be in aggregate greater than the sum of the Groups':
 - (1) 3 month forecast of net loss before tax; and
 - (2) 3 month forecast of cash outflows from investing activities.

The following terms are relevant to the calculation of the above covenants:

The Borrowing Base under the Financing Facility (Borrowing Base) means, on any given date, the aggregate of either:

- if Longreach has notified Beforepay Finance that it is satisfied that Beforepay Finance has complied with its credit policies in relation to loans to its customers and that Longreach will accordingly no longer review Beforepay Finance's compliance with those credit policies (which Longreach is otherwise entitled to do on a 3-monthly basis), 85% of the value of customer advances aged less than 30 days overdue at that date; or
- in all other cases, 80% of the value of customer advances aged less than 30 days overdue at that date; and
- 100% of the cash balance standing to the credit of a bank account jointly controlled by the Group and Longreach as at that date.

Covenants have been complied with through to the date of this report. Debt covenants have been assessed regularly to determine whether there were any breaches for which disclosure is required and considered in the forward forecast.

Financing arrangements

Access was available at the reporting date to the following lines of credit:

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Total facilities		
Loan – Longreach Credit Investors Pty Ltd*	45,000,000	45,000,000
Used at the reporting date		
Loan – Longreach Credit Investors Pty Ltd	13,653,148	7,003,565
Unused at the reporting date		
Loan – Longreach Credit Investors Pty Ltd*	31,346,852	37,996,435

* The available commitment as at 31 December 2021 was \$15,527,757 and it increases in non-linear increments over its term to a maximum commitment of \$45,000,000 on and from 15 December 2022.

Notes to the Financial Statements continued

Note 18. Non-current liabilities – lease liabilities

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Lease liability	638,170	–

Reconciliations

Reconciliations of the lease liability (current and non-current) at the beginning and end of the current financial half-year are set out below:

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Additions	1,060,241	–
Accretion of interest	39,771	–
Payments – principal	(155,404)	–
Payments – interest	(39,771)	–
Lease liability as at 31 December	904,837	–

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Representing:		
Lease liability (current)	266,667	–
Lease liability (non-current)	638,170	–
	904,837	–

Note 19. Non-current liabilities – provisions

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Lease make good	35,427	–
Settlement	841,500	–
	876,927	–

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Notes to the Financial Statements continued

Note 19. Non-current liabilities – provisions (continued)

Settlement

On 31 October 2021, Beforepay Ops Pty Limited entered into a deed of settlement with a supplier in respect of a dispute that arose during late September and October 2021. In consideration of the settlement and the grant of a license to Beforepay Ops Pty Limited and its related bodies corporate, Beforepay Ops Pty Limited will, amongst other things, make monthly payments to the supplier from October 2021 to May 2024, totalling \$1,584,000 (GST inclusive). The settlement results in an expense and a corresponding provision of \$1,584,000, to be recognised at the date of the signing of the settlement deed. The provision will reduce over the term of the settlement period, as the Group meets the payment schedule in place under the settlement deed.

Note 20. Equity – issued capital

	Consolidated			
	31 Dec 2021	30 Jun 2021	31 Dec 2021	30 Jun 2021
	Shares	Shares	\$	\$
Ordinary shares – fully paid	24,016,400	240,164	6,023,575	6,023,575

Movements in ordinary share capital

Details	Date	Number of Shares	\$
Balance	1 July 2021	240,164	6,023,575
Capital reorganisation – share split (1 to 100)	8 October 2021	23,776,236	–
Balance	31 December 2021	24,016,400	6,023,575

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the company be wound up in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

Share buy-back

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

Note 21. Equity – dividends

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

Notes to the Financial Statements continued

Note 22. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1	Level 2	Level 3	Total
Consolidated – 31 Dec 2021	\$	\$	\$	\$
Liabilities				
Convertible notes	–	–	41,378,292	41,378,292
Total	–	–	41,378,292	41,378,292

	Level 1	Level 2	Level 3	Total
Consolidated – 30 Jun 2021	\$	\$	\$	\$
Liabilities				
Convertible notes	–	–	27,310,010	27,310,010
Total	–	–	27,310,010	27,310,010

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current financial period are set out below:

	Convertible notes
Consolidated	\$
Balance at 1 July 2021	27,310,010
Additions	10,757,500
Losses recognised in profit or loss	3,310,782
Balance at 31 December 2021	41,378,292
Total gains for the current period included in profit or loss that relate to level 3 assets held at the end of the current period	3,310,782

Notes to the Financial Statements continued

Note 23. Contingent liabilities

As at 31 December 2021, the Group had no contingent liabilities (30 June 2021: None).

Note 24. Related party transactions

Parent entity

Beforepay Group Limited is the parent entity.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	6 months ended 31 Dec 2021	6 months ended 31 Dec 2020
	\$	\$
Expenses to related parties:		
Training expenses – Director affiliated entities (note (a))	–	14,575
Interest expense – Director affiliated entities (note (b))	–	14,866
Interest expense – Director affiliated entities (note (c))	10,082	–

Receivable from and payable to related parties

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

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$	\$
Non-current borrowings:		
Convertible notes held by Director affiliated entities (note c)	214,192	104,410

Note (a):

The amount represents amounts paid to Symon Capital Pty Ltd, an entity controlled by Stephen Moss. Symon Capital Pty Ltd provided executive training services to the executives of Group on an arm length basis. Stephen Moss is the father of Danny Moss, who is a director of the company.

Notes to the Financial Statements continued

Note 24. Related party transactions (continued)

Note (b):

The Group had the following loans payable to director controlled entities during the half-year ended 31 December 2020:

- Deejlink Pty Ltd, an entity controlled by Danny Moss. This loan, of \$50,000, was issued on 1 November 2019. The loan is unsecured and has a one-year fixed term and interest payable at a rate of 15% p.a., quarterly in arrears. Interest expense associated with the loan for the half-year ended 31 December 2020 was \$2,596 of which \$nil was payable by the Group at 31 December 2020. This loan and all outstanding interest was repaid August 2020.
- Trinity Financial Markets Pty Ltd, an entity controlled by Stefan Urosevic. This loan, of \$100,000, was issued on 1 November 2019. The loan was unsecured and has a one-year fixed term and interest payable at a rate of 15% p.a., quarterly in arrears. Interest expense associated with the loan for the half-year ended 31 December 2020 was \$6,135, of which \$nil was payable by the Group at 31 December 2020. This loan and all outstanding interest was repaid August 2020.
- Lavalhars Pty Ltd, an entity controlled by Stephen Moss. This loan of \$100,000 was issued on 1 November 2019. The loan is unsecured and has a one-year fixed term and interest payable at a rate of 15% p.a., quarterly in arrears. Interest expense associated with the loan for the half-year ended 31 December 2020 was \$6,135, of which \$nil was payable by the Group at 31 December 2020. This loan and all outstanding interest was repaid August 2020.

Note (c):

During the year ended 30 June 2021, Lavalhars Pty Ltd, an entity controlled by Stephen Moss, purchased \$100,000 in convertible notes, and a further \$100,000 in the half year ended 31 December 2021 issued by the Company. Interest expense associated with the convertible notes for the half-year ended 31 December 2021 was \$10,082 (31 December 2020: \$nil). As at 31 December 2021, convertible notes and capitalised interest totalling \$214,192 (30 June 2021: \$104,410) was payable by the Group. Convertible notes held by related parties were issued on the terms described in note 17.

Terms and conditions

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

Notes to the Financial Statements continued

Note 25. Earnings per share

	Consolidated	
	6 months ended 31 Dec 2021	6 months ended 31 Dec 2020
	\$	\$
Loss after income tax attributable to the owners of Beforepay Group Limited	(19,628,494)	(3,350,486)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	24,016,400	20,611,262
Weighted average number of ordinary shares used in calculating diluted earnings per share	24,016,400	20,611,262
	\$	\$
Basic earnings per share	(0.82)	(0.16)
Diluted earnings per share	(0.82)	(0.16)

The weighted average number of ordinary shares for the half-year ended 31 December 2021 has been restated for the effect of the capital reorganisation that took place on 8 October 2021. During the capital reorganisation all ordinary shares were split on a ratio of 1 to 100. In accordance with AASB 133 'Earnings per share', the weighted average number of ordinary shares for the comparative period are calculated based on the number of shares that would have been in existence had the capital reorganisation occurred on 1 July 2020.

Share options on issue have been excluded from the weighted average number of ordinary shares used in calculating diluted loss per share as they are considered anti-dilutive.

Note 26. Events after the reporting period

Initial Public Offering ('IPO')

The Company raised \$35,000,001 pursuant to the offer under its replacement prospectus dated 29 November 2021 through the issue of 10,263,930 shares at an issue price of \$3.41 per share. Net of transaction costs, the Company raised \$30,212,425. The Company was admitted to the Official List of the Australian Securities Exchange ('ASX') on 13 January 2022 and the securities of the Company commenced trading on 17 January 2022.

Conversion of convertible notes

All convertible notes were converted to ordinary shares in the Company on Allotment Date, 11 January 2022 (inclusive of accumulated interest and principal).

Notes to the Financial Statements continued

Note 26. Events after the reporting period (continued)

Appointment of Luke Bortoli as an Independent Non-Executive Director

On 1 February 2022, Mr Luke Bortoli was appointed as an Independent Non-Executive Director of the Company. Luke is a growth focused executive, director and investor with a specialisation in the Fintech, mobile gaming and NFT sectors. Most recently, Luke was the Chief Financial Officer at Afterpay Limited, one of the world's fastest growing payments platforms and the largest BNPL operator globally, and prior to that, he was the Global Head of Strategy and CFO of Special Projects at Aristocrat. Before joining Aristocrat, Luke was a financial institutions and technology focused investment banker specialising in M&A and capital raising at UBS. Luke is a Non-Executive Director of WithYouWithMe, which is a social impact organisation.

Coronavirus (COVID-19) pandemic

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the Group, if any, has been reflected in its published results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine, have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the Group's operations going forward. The Group now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

No other matter or circumstance has arisen since 31 December 2021 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.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Brian Hartzer
Chairman

28 February 2022
Sydney

Independent Auditor's Review Report

to the Members of Beforepay Group Limited



Building a better
working world

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Independent auditor's review report to the members of Beforepay Group Limited

Conclusion

We have reviewed the accompanying half-year financial report of Beforepay Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2021, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

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

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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Independent Auditor's Review Report continued



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

A handwritten signature in cursive script that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Simon Hannigan'.

Simon Hannigan
Partner
Sydney
28 February 2022

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