Navalo Financial Services Group Limited
(ACN 605 753 535)

Offer Information Statement

A pro rata non-renounceable entitlement offer of 5.87 New Shares for every 1 existing Share held on the Record Date to raise up to approximately $10 million. The Offer opens on 17 June 2024 and closes at 5:00pm (Sydney time) on 1 July 2024 (unless extended)

This document is important and requires your immediate attention.

You should read this document and any accompanying Entitlement and Acceptance Form in their entirety. If you do not understand its content or are in doubt as to the course you should follow, you should consult your legal, financial, taxation or other professional adviser immediately.

This Offer Information Statement is not a prospectus under the *Corporations Act 2001* (Cth) and it has a lower level of disclosure requirements than a prospectus.

Important information

This Offer Information Statement is dated 7 June 2024 and was lodged with ASIC on that date. Neither ASIC nor its officers take any responsibility for the content of this Offer Information Statement or for the merits of the investment to which this Offer relates.

This Offer Information Statement has been prepared and issued by Navalo Financial Services Group Limited (**Company** or **Navalo**). It contains an offer by the Company to apply for New Shares in order for the Company to raise up to a maximum of $10,000,000.

No Shares will be issued on the basis of this Offer Information Statement after the expiry date of this Offer Information Statement, being the date 13 months after the date of this Offer Information Statement.

This Offer Information Statement is not a prospectus

This Offer Information Statement is issued pursuant to section 709(4) of the Corporations Act. It is not a prospectus and it has a lower level of disclosure requirements than a prospectus. It does not contain all of the information that an investor would find in a prospectus or which may be required to make an informed investment decision regarding, or about the rights attaching to, the New Shares offered under this Offer Information Statement.

Professional advice

You should obtain professional investment advice before accepting the offer made under this Offer Information Statement.

The information in this Offer Information Statement and any accompanying Entitlement and Acceptance Form is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. It is important that you read this Offer Information Statement in its entirety before deciding whether or not to apply for New Shares. In particular, you should consider the risk factors that could affect the performance of the Company, some of which are outlined in Section 6. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek professional guidance before deciding whether to apply for New Shares. If you have any questions you should seek professional advice from your legal, financial, taxation or other professional adviser.

No representations outside of this Offer Information Statement

No person is authorised to give any information or make any representation in connection with the Entitlement Offer described in this Offer Information Statement, which is not contained in this Offer Information Statement. Any information or representation not contained in this Offer Information Statement may not be relied on as being authorised by the Company in connection with the Entitlement Offer.

Exposure Period

Pursuant to the Corporations Act, this Offer Information Statement is subject to an exposure period of 7 days after the date of this Offer Information Statement (**Exposure Period**). The Exposure Period may be extended by ASIC by a further period of up to 7 days. The purpose of the Exposure Period is to enable the Offer Information Statement to be examined by market participants prior to the raising of funds.

Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

Foreign jurisdictions

This Offer Information Statement has been prepared to comply with Australian disclosure requirements. The distribution of this Offer in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Offer outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Indonesia

A registration statement with respect to the New Shares has not been, and will not be, filed with Otoritas Jasa Keuangan in the Republic of Indonesia. Therefore, the New Shares may not be offered or sold to the public in Indonesia. Neither this document nor any other document relating to the offer or sale, or invitation for subscription or purchase, of the New Shares may be circulated or distributed, whether directly or indirectly, in the Republic of Indonesia or to Indonesian citizens, corporations or residents, except in a manner that will not be considered as a "public offer" under the law of the Republic of Indonesia.

New Zealand

Warning

If you are a shareholder in the Company, then you are being offered New Shares under the terms of the Entitlement Offer.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual rules do not apply to this offer because it is a small offer in New Zealand. As a result, you may not be given all the information usually required. You will also have fewer other legal protections for this investment.

Ask questions, read all documents carefully and seek independent financial advice before committing yourself.

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document relating to the New Shares may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part 13 of the Securities and Futures Act 2001 of Singapore (the **SFA**) or another exemption under the SFA.

This document has been given to you on the basis that you are an existing holder of the Company's shares. If you are not such a shareholder, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party in Singapore. On-sale restrictions in Singapore may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

No Guarantee

Neither the Company nor any other party makes any representation or gives any guarantee or assurance:

(a) as to the performance or success of the Company;

(b) as to the rate of income or capital growth from the Company; or

(c) that there will be no capital loss or particular taxation consequence of investing in the Company.

An investment in the Company does not represent a deposit or any other type of liability of the above parties. An investment in the Company is subject to investment risk. These risks are discussed in Section 6.

Investors should note that the past investment performance of the Company provides no guidance as to its future share price and investment performance.

Forward Looking Statements

This Offer Information Statement contains forward looking statements. Forward looking statements are not based on historical facts, but are based on current expectations of future results or events. These forward looking statements are subject to risks, uncertainties and assumptions which could cause actual results or events to differ materially from the expectations described in such forward looking statements. While the Company believes that the expectations reflected in the forward looking statements in this Offer Information Statement are reasonable, no assurance can be given that such expectations will prove to be correct. The risk factors set out in Section 6 as well as other matters as yet unknown to the Company or not currently considered material by the Company, may cause actual results or events to be materially different from those expressed, implied or projected in any forward looking statements. Any forward looking statement contained in this Offer Information Statement is qualified by this cautionary statement.

Applying under the Entitlement Offer

By returning an Entitlement and Acceptance Form or otherwise paying for your New Shares through BPAY® or EFT in accordance with the instructions on the Entitlement and Acceptance Form, you acknowledge that you have read this Offer Information Statement and you have acted in accordance with and agreed to the terms of the Entitlement Offer detailed in this Offer Information Statement. Before deciding whether to apply for New Shares, you should consider whether they are a suitable investment for you in light of your own investment objectives and financial circumstances and having regard to the merits or risks involved.

Electronic Offer Information Statement

An electronic version of this Offer Information Statement (**Electronic Offer Information Statement**) can be downloaded from https://www.navalo.com.au/investors/announcements/.

The Company will also send a copy of the paper Offer Information Statement free of charge if the person asks during the application period.

If you download the Electronic Offer Information Statement, please ensure that you have received the entire Offer Information Statement. Receipt of payment of Application Monies either by BPAY® or EFT is deemed to be acceptance of the offer. Shares will be issued to you where Application Monies have been received in full.

Defined terms and conditions

Certain terms and abbreviations used in this Offer Information Statement are defined in the Glossary in Section 8.

References to **Australian dollars** or **$** are references to the lawful currency of Australia. Any discrepancies between the totals and the sum of all the individual components in the tables contained in this Offer Information Statement are due to rounding.

All times and dates are a reference to Sydney time.

Important information

Event	Date
Lodgement of this Offer Information Statement with ASIC	Friday 7 June 2024
Record Date – The date for determining Entitlements of Eligible Shareholders to participate in the Entitlement Offer (7:00pm Sydney time)	Thursday 13 June 2024
Despatch of Offer Information Statement and Entitlement and Acceptance Form	Monday 17 June 2024
Offer opens	Monday 17 June 2024
Offer closes (5:00pm Sydney time)	Monday 1 July 2024
Announcement of results of Offer published on Navalo's website	Wednesday 3 July 2024
Issue Date – issue of New Shares	Thursday 4 July 2024
Despatch of holding statements	Friday 5 July 2024

The above dates and times are indicative only and subject to change.

The Company reserves the right to vary any of the above dates and times, including closing the Offer early or extending it subject to the Corporations Act and other applicable laws. In particular, the Company reserves the right to extend the closing date of the Offer, to accept late applications either generally or in particular cases or to withdraw the Offer without prior notice prior to allotment of the New Shares. In that event, the relevant Application Monies will be returned without interest in accordance with the Corporations Act.

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1. Letter from the Chair of the Independent Board Committee

7 June 2024

Dear Eligible Shareholders,

On behalf of the Directors of Navalo Financial Services Group Limited (**Company** or **Navalo**), I am pleased to offer you the opportunity to participate in a pro rata non-renounceable entitlement offer of new fully paid ordinary shares in the Company (**New Shares**) at an offer price of $0.194 per New Share (**Entitlement Offer**) to raise up to approximately $10 million.

As shareholders are aware, two of the Company's directors (Mr Andrew Lockhart and Mr Allan Griffiths) are also directors of Metrics. As with previous capital raisings undertaken since Metrics has become the Company's majority shareholder, to manage potential conflicts of interest relating to the Entitlement Offer, the Company has formed an independent board committee (**IBC**) comprised of independent directors Mr Matthew Pringle, Mr Mark Licciardo and Ms Lisa Davis to oversee the proposed capital raising the subject of the Entitlement Offer.

Purpose of the Entitlement Offer and use of proceeds

The Entitlement Offer is being undertaken to assist the Company to meet its present and ongoing funding needs. As shown in the Company's financial statements for the year ended 31 December 2023 (as attached to this document as Appendix B), the Company continues to be loss-making and is accordingly dependent on external sources of funding to meet its funding needs. The Board has determined that additional funding is required urgently to meet upcoming short-term obligations and to provide additional working capital to cover operating expenses until approximately December 2024.

The proceeds from the Entitlement Offer will be used to:

(a) repay the short-term shareholder loan received from Metrics as part of the funding package announced on 29 February 2024. As at the date of this Offer Information Statement, the balance of the loan outstanding is $4,493,000. Following agreement between Navalo and Metrics to extend the loan term, the outstanding balance is payable on 8 July 2024. This loan will be repaid at settlement of the Entitlement Offer;

(b) provide additional working capital to cover operating expenses incurred in the Company's ongoing business operations until approximately the end of December 2024, which are expected to be up to approximately $5 million; and

(c) pay for costs associated with the Entitlement Offer, being approximately $250,000.

The Entitlement Offer

The IBC has determined that the Company should raise the required funding by way of the Entitlement Offer, to enable each Shareholder to participate in the capital raising on a pro rata basis. Prior to the announcement of the Entitlement Offer, Metrics and MBFH, at the request of the Company, committed for the benefit of the Company to take up all of their entitlements under the Entitlement Offer pursuant to a Commitment Letter. This ensures that the Company will raise at least approximately $8.88 million from the Entitlement Offer, which is the amount the Company expects to be required to fund repayment of the Metrics loan and to meet the costs of the Entitlement Offer and the operating expenses of the Company until approximately December 2024. Further details in relation to the Commitment Letter are set out in Section 4.8. Should other Shareholders participate in the Entitlement Offer, the Company will put the monies raised towards funding operational expenses beyond December 2024.

Under the Entitlement Offer, Eligible Shareholders are entitled to subscribe for 5.87 New Shares for every 1 existing Share in the Company held at 7.00pm (Sydney time) on Thursday 13 June 2024 (**Record Date**), at the Offer Price of $0.194 per New Share.

As the Entitlement Offer is non-renounceable, entitlements cannot be sold or transferred to another person.

New Shares will be issued on a fully paid basis and will rank equally with existing Shares on issue.

Independent expert's report and Offer Price

The IBC commissioned RSM Corporate Australia Pty Ltd as an independent expert (**Independent Expert**) to prepare a valuation of the Company's shares for the purposes of the Entitlement Offer. There is no requirement (legal, regulatory or otherwise) for the Company to obtain an opinion from an independent expert in relation to the Entitlement Offer, however the IBC commissioned the report to assist the IBC in determining the Offer Price and to provide shareholders with sufficient information in relation to the value of the Company's shares to make an informed decision whether to participate in the Entitlement Offer.

The Independent Expert has concluded that the fair value of a Share in the Company (on a minority interest basis) is in the range of $0 to $0.481. The Independent Expert has adopted a preferred fair value per Share of $0.194. In determining its preferred fair value, the Independent Expert applied a discount to the fair value of the Company's equity on a control basis, and a further discount to take into account the lack of marketability of the Shares (given the Company is unlisted).

Having reviewed the Independent Expert's report, the IBC determined to adopt the expert's preferred value (on a minority interest basis) of $0.194 as the Offer Price. The IBC considers it is appropriate to adopt this price as the Offer Price, noting the following:

- the preferred fair value determined by the Independent Expert has already been discounted by the expert for the matters described above, and applying a further discount may be unnecessarily dilutive;
- the Offer Price should sufficiently incentivise Shareholders to participate in the Entitlement Offer; and
- applying a premium to the Independent Expert's preferred fair value of the Shares would likely disincentivise Shareholders from participating in the Entitlement Offer.

A copy of the Independent Expert's report is attached to this Offer Information Statement as Appendix A. Shareholders should read the Independent Expert's report prior to applying for New Shares under the Entitlement Offer.

Metrics' participation and potential compulsory acquisition process

As noted above, each of Metrics and MBFH have committed to take up all of its entitlements under the Entitlement Offer for the benefit of the Company pursuant to a Commitment Letter.

If there is limited participation by other Eligible Shareholders in the Entitlement Offer, then:

- Metrics' voting power in the Company could increase to up to 98.20%; and
- Metrics and its related bodies corporate would hold full beneficial interests in at least 90% of the Shares.

If Metrics' voting power increases to above 90%, any acquisition of further Shares by Metrics or its associates will no longer be regulated by Chapter 6 of the Corporations Act.

If Metrics and its related bodies corporate hold full beneficial interests in at least 90% of the Shares, Metrics or any of its related bodies corporate may be entitled to compulsorily acquire all of the remaining Shares under the general compulsory acquisition power in Chapter 6A of the Corporations Act.

Metrics has advised the Company that it has not currently made any determination in relation to any further dealings in Company shares including a potential exercise of the general compulsory acquisition power in Chapter 6A of the Corporations Act.

Further details in relation to the potential impact on the control of the Company are set out in Section 4.7.

Further information and application instructions

The number of New Shares that you are entitled to subscribe for under the Entitlement Offer (**Entitlement**) is set out in your personalised Entitlement and Acceptance Form accompanying this Offer Information Statement.

The Offer closes at 5:00pm (Sydney time) on 1 July 2024 (unless extended). To participate, you need to ensure that you have lodged your Application with your Application Monies so that they are received before this time.

On behalf of the Board, I encourage you to consider this investment opportunity and thank you for your ongoing support of the Company.

Yours sincerely

Matthew Pringle
Chairman of the Independent Board Committee
Navalo Financial Services Group Limited

2. Frequently asked questions

Question	Answer	Where to find more information
Who is the issuer of this Offer Information Statement?	Navalo Financial Services Group Limited ACN 605 753 535.	
What is the Entitlement Offer?	The Entitlement Offer is a pro rata non-renounceable entitlement offer under which Eligible Shareholders are entitled to subscribe for 5.87 New Shares for 1 existing Share held at the Record Date at an offer price of $0.194 per New Share.	Section 3.1
How much will be raised through the Entitlement Offer?	Up to approximately $10,000,000 (before costs) will be raised under the Entitlement Offer through the issue of New Shares.	
What is the purpose of the Entitlement Offer and how will the funds raised be used?	The Entitlement Offer is being undertaken to assist the Company to meet its present and ongoing funding needs. The proceeds from the Entitlement Offer will be used to: (a) repay the short-term shareholder loan received from Metrics as part of the funding package announced on 29 February 2024 **($4,493,000)**; (b) provide additional working capital to cover operating expenses incurred in the Company's ongoing business operations until approximately December 2024 **(up to approximately $5,000,000)**; and (c) pay costs associated with the Entitlement Offer **($250,000)**.	
How was the Offer Price determined?	The IBC engaged the Independent Expert to assist it in determining the Offer Price. The Independent Expert has concluded that its preferred fair value of a share in the Company (on a minority interest basis) is $0.194. In determining its preferred fair value, the Independent Expert applied a discount to the fair value of the Company's equity on a control basis, and a further discount to take into account the lack of marketability of the Shares (given the Company is unlisted). Having reviewed the Independent Expert's report, the IBC determined to adopt the expert's preferred value (on a minority interest basis) of $0.194 as the Offer Price. The IBC considers it is appropriate to adopt this price as the Offer Price, noting the following: • the preferred fair value determined by the Independent Expert has already been discounted by the expert for the matters described above, and applying a further discount may be unnecessarily dilutive; • the Offer Price should sufficiently incentivise Shareholders to participate in the Entitlement Offer; and • applying a premium to the Independent Expert's preferred fair value of the Shares would likely disincentivise Shareholders from participating in the Entitlement Offer.	Section 4.3
Is the Entitlement Offer underwritten?	No, the Entitlement Offer is not underwritten. The Company has obtained a commitment from each of Metrics and MBFH to take up its entitlements under the Entitlement Offer, which ensures that the Company will raise a minimum of approximately $8.88 million under the Entitlement Offer (being the amount of funding the Company expects to be required to meet its funding needs until approximately December 2024).	Section 4.8
What is the effect of the Entitlement Offer on the	As the Entitlement Offer is a pro-rata issue to all Eligible Shareholders, it will not have any material effect or consequence on the control of the	Section 4.7

Question	Answer	Where to find more information
control of the Company?	Company, if all Eligible Shareholders take up their Entitlements. If some Eligible Shareholders do not take up their Entitlements or choose to take up only part of their Entitlements, their shareholding in the Company will be diluted to a greater degree than if they had taken up all of their Entitlements. In the event of zero participation from other Shareholders, Metrics' and MBFH's commitment to take up their Entitlements under the Entitlement Offer may result in Metrics and MBFH obtaining a shareholding interest of up to 98.2% after completion of the Entitlement Offer.	
What are the rights of New Shares?	New Shares rank equally in all respects with Shares from their date of issue.	Section 5.1
What are the potential significant risks?	Shareholders are exposed to a number of risks in acquiring and holding Shares. See Section 6 for an overview of some of these risks.	Section 6
What are the costs of the Offer?	The total expenses of the Offer are expected to be approximately $250,000 (exclusive of GST).	
What are my alternatives?	If you are an Eligible Shareholder, you may either: • apply for New Shares with an aggregate issue price up to or equal to your Entitlement under the Entitlement Offer; or • do nothing and allow the rights to acquire New Shares under the Entitlement Offer to lapse. You should note that if you do not apply for New Shares with an aggregate issue price equal to your Entitlement, your percentage shareholding in the Company may be diluted.	Section 3
How can I apply to participate in the Entitlement Offer?	You may apply under the Entitlement Offer to take up your Entitlement by making a payment via BPAY® or EFT in accordance with the instructions on your Entitlement and Acceptance Form. If you make payment via BPAY® or EFT, you do not need to return your Entitlement and Acceptance Form to the Registry. If, however, you decide to return your Entitlement and Acceptance Form to the Registry, you must still make payment via BPAY® or EFT in accordance with the instructions on your Entitlement and Acceptance Form.	Section 3.10
Can I apply for New Shares in addition to my Entitlement?	No, the maximum number of New Shares that Eligible Shareholders may apply for under the Entitlement Offer is equal to their Entitlement. Eligible Shareholders are not able to take up New Shares in excess of their Entitlement.	Section 3.4
What happens if I am not an Eligible Shareholder?	If you are not an Eligible Shareholder, you will not be entitled to subscribe for New Shares under the Entitlement Offer.	Section 3.3
Can I withdraw acceptance of my Entitlement?	No, there are no cooling off rights with respect to your Entitlement Offer. As such, to the extent permitted by law, once you have paid your Application Monies, your acceptance of your Entitlement Offer will be irrevocable.	Section 3.13
Can I sell my Entitlements under the Entitlement Offer?	No, you may not sell or transfer your Entitlements to another person.	
Can the Entitlement Offer be withdrawn?	Yes, the Company reserves the right to withdraw the Entitlement Offer at any time before the issue of New Shares to Eligible Shareholders	Section 7.4
Is the Entitlement Offer subject to Shareholder approval?	No, the Entitlement Offer is not subject to Shareholder approval.	
What are the tax implications of investing in the New Shares?	Tax consequences are dependent on Eligible Shareholders' particular circumstances. Eligible Shareholders should seek tax advice prior to deciding whether to invest.	

Question	Answer	Where to find more information
How can further information be obtained?	If you require advice as to whether to accept your Entitlement, you should seek professional advice from your stockbroker, accountant or other professional adviser. You may also call the Share Registry between 8.30am and 7.00pm (Sydney time) Monday to Friday during the period from and including the date on which the Entitlement Offer opens until and including the date on which it closes: Within Australia: 1300 288 664 Outside Australia: +61 2 9698 5414	Section 3.14

3. Details of the Offer and How to Apply

Except as expressly stated otherwise, this Section describes the Entitlement Offer and how Eligible Shareholders can take up their Entitlements under the Entitlement Offer. References to “you” are references to Eligible Shareholders and references to “your Entitlements” (or “your Entitlement and Acceptance Form”) are references to the Entitlements (or Entitlement and Acceptance Form) of Eligible Shareholders.

3.1 Overview of the Entitlement Offer

The Company intends to raise up to approximately A$10,000,000 (before costs) under the Entitlement Offer.

Under the Entitlement Offer, Eligible Shareholders are being offered 5.87 New Shares for every 1 existing Share held at the Record Date at an Offer Price of $0.194 per New Share.

There is no minimum subscription to participate in the Entitlement Offer. The maximum number of New Shares each Eligible Shareholder may subscribe for under the Entitlement Offer is equal to that Shareholder’s Entitlement.

An Entitlement and Acceptance Form setting out your Entitlement accompanies this Offer Information Statement. Eligible Shareholders may subscribe for all or part of their Entitlement.

The Entitlement Offer is non-renounceable, which means that Eligible Shareholders may not sell or transfer any of their Entitlements.

All of the New Shares issued under the Entitlement Offer will rank equally with the Shares currently on issue. Additional information regarding the rights and liabilities attaching to the New Shares can be found in Section 5.1.

The choices available to Eligible Shareholders in respect of the Entitlement Offer are described in Section 3.8. The Entitlement Offer is scheduled to close at 5:00PM (Sydney time) on 1 July 2024.

Eligible Shareholders should be aware that an investment in the Company involves risks. The key risks identified by the Company are set out in Section 6.

Eligible Shareholders should consider the Entitlement Offer in light of their particular investment objectives and circumstances. Eligible Shareholders wishing to participate in the Entitlement Offer should refer to the instructions set out in Section 3 of this Offer Information Statement to understand how they may accept the Entitlement Offer and receive their Entitlement.

3.2 Purpose of Entitlement Offer and impact on capital structure

Details on the purpose of the Entitlement Offer and impact of the Entitlement Offer on the capital structure (and potential effects on control of the Company) are set out in Section 4 of this Offer Information Statement.

3.3 Eligibility to participate in Entitlement Offer

The Entitlement Offer is only available to Eligible Shareholders, who are those holders of Shares who are registered as a holder of Shares as at the Record Date.

The Company, in its absolute discretion, reserves the right to determine whether a Shareholder is an Eligible Shareholder and is therefore able to participate in the Entitlement Offer. The Company disclaims all liability to the maximum extent permitted by law in respect of any determination as to whether a Shareholder is an Eligible Shareholder.

By making a payment by BPAY® or EFT, you will be taken to have represented and warranted that you are an Eligible Shareholder.

3.4 Entitlements and acceptance

Your Entitlement is set out in the accompanying personalised Entitlement and Acceptance Form and has been calculated as 5.87 New Shares for every 1 existing Share you hold as at the Record Date.

If you have more than one registered holding of Shares, you will be sent more than one personalised Entitlement and Acceptance Form and you will have separate Entitlements for each separate holding.

Details on your options and how to apply under the Entitlement Offer are set out respectively in Sections 3.8 and 3.9 of this Offer Information Statement.

Any fractional entitlements will be rounded up to the nearest whole number of New Shares.

If you decide to take up all or part of your Entitlement please refer to the personalised Entitlement and Acceptance Form and apply for New Shares, pursuant to the instructions set out on the personalised Entitlement and Acceptance Form.

The Company reserves the right (in its absolute discretion) to reduce the number of New Shares allocated to Eligible Shareholders or persons claiming to be Eligible Shareholders if their claims prove to be incorrect or overstated or if they fail to provide information to substantiate their claims.

3.5 Reconciliation

The Entitlement Offer is a complex structure and in some cases investors may believe that they owned more Shares on the Record Date than they do. This may result in a need for reconciliation to ensure all Eligible Shareholders have the opportunity to receive their full Entitlement.

The Company may need to issue a small quantity of additional New Shares to ensure all Eligible Shareholders have the opportunity to receive their appropriate allocation of New Shares. The price at which these New Shares would be issued, if required, is the same as the Offer Price.

The Company reserves the right to reduce the number of an Entitlement or New Shares allocated to Eligible Shareholders or persons claiming to be Eligible Shareholders, if their Entitlement claims prove to be overstated, if they or their nominees fail to provide information requested to substantiate their entitlement claims.

3.6 Nominees

The Entitlement Offer is only being made to Eligible Shareholders. The Company is not required to determine whether or not any registered holder is acting as a nominee or the identity or residence of any beneficial owners of Shares.

Where any holder is acting as a nominee for a foreign person, that holder, in dealing with its beneficiary, will need to assess whether indirect participation by the beneficiary in the Entitlement Offer is compliant with applicable foreign laws.

The Company assumes no obligation to advise you on any foreign laws.

3.7 Risks

As with any securities investment, there are risks associated with investing in the Company. Having regard to the risks applicable to the Company and its business, Eligible Shareholders should be aware that an investment in the New Shares offered under this Offer Information Statement should be considered speculative and there exists a risk that you may, in the future, lose some or all of the value of your investment.

Before deciding to invest in the Company, you should read this Offer Information Statement in its entirety, in particular the specific risks associated with an investment in the Company (detailed in Section 6 of this Offer Information Statement) and should consider all factors in light of your personal circumstances and seek appropriate professional advice.

3.8 Options available to you

If you are an Eligible Shareholder, you may take any one of the following options:

Option	Action
Take up all of your Entitlement	If you take up and pay for all of your Entitlement in accordance with the instructions below, before the close of the Entitlement Offer, you will be issued your New Shares with respect to your Application on 4 July 2024.
Take up part of your Entitlement	If you elect to take up and pay for part of your Entitlement in accordance with the instructions below, before the close of the Entitlement Offer, you will be issued New Shares with respect to that part of your Entitlement on 4 July 2024 .
Do nothing	If you take no action or your Application is not supported by cleared funds, you will not be issued any New Shares. By doing nothing, you will forgo any exposure to increases or decreases in the value of the New Shares had you taken up your Entitlement. Your percentage shareholding in the Company will also be diluted to a greater degree than if you had participated in the Entitlement Offer to the full extent of your Entitlement.

3.9 How to accept your Entitlement

If you decide to take up all or part of your Entitlement you may do so by paying your Application Monies via BPAY® or EFT.

If payment of the Application Monies is made via BPAY® or EFT, you do not need to also return the Entitlement and Acceptance Form as your acceptance and details are recorded electronically.

If, however, you decide to return your Entitlement and Acceptance Form to the Registry, you must still make payment via BPAY® or EFT in accordance with the instruction on your Entitlement and Acceptance Form.

The Application Monies payable will be equal to the Offer Price multiplied by the total number of New Shares comprising your Entitlement that you may wish to take up (which you will need to calculate).

To participate in the Entitlement Offer, your payment must be received no later than the close of the Entitlement Offer, being 5:00PM (Sydney time) on 1 July 2024 .

3.10 Payment for your Entitlement

You must pay your Application Monies using BPAY® or EFT. Payments by other methods, including by cheque, bank draft or money order, will not be accepted.

Cash and cheque payments will not be accepted. Receipts for payment will not be issued.

The Company will treat you as applying for as many New Shares as your payment will pay for in full up to your Entitlement. Any Application Monies received for more than your final allocation of New Shares will be refunded as soon as practicable after the close of the Entitlement Offer. No interest will be paid to Applicants on any Application Monies received or refunded.

Payment by BPAY® or EFT

For payment by BPAY® or EFT, please follow the instructions on the personalised Entitlement and Acceptance Form sent to you. You can only make payment via BPAY® if you are the holder of an account with an Australian financial institution that supports BPAY® transactions.

If you are paying by BPAY®, please make sure you use the specific Biller Code and your unique Customer Reference Number (CRN) on your personalized Entitlement and Acceptance Form.

If you are paying by EFT, please make sure you use the unique payment reference on your personalized Entitlement and Acceptance Form.

If you have multiple holdings and consequently receive more than one personalized Entitlement and Acceptance Form, when taking up your Entitlement in respect of one of those holdings only use the CRN or unique EFT reference specific to that holding. If you do not use the correct CRN or unique EFT reference specific to that holding your Application will not be accepted as valid.

Please note that by paying by BPAY® or EFT:

- you do not need to submit your personalized Entitlement and Acceptance Form but are taken to make the declarations, representations and warranties on that Entitlement and Acceptance Form and in Section 3.12 below; and
- if you do not pay for your full Entitlement you are deemed to have taken up your Entitlement in respect of such whole number of New Shares which is covered in full by your Application Monies.

It is your responsibility to ensure that your BPAY® or EFT payment is received by the Share Registry by no later than 5.00pm (Sydney time) on Monday, 1 July 2024. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration in the timing of when you make payment.

3.11 No withdrawal or cooling-off rights

You cannot withdraw your Application once it has been accepted. Cooling-off rights do not apply to an investment in New Shares.

The Company reserves the right to withdraw the Entitlement Offer at any time before the issue of New Shares to Eligible Shareholders, in which case the Company will refund any Application Monies already received in accordance with the Corporations Act and will do so without interest being payable to applicants.

3.12 Warranties made on acceptance of the Entitlement Offer

By completing and returning your personalised Entitlement and Acceptance Form or making a payment by BPAY® or EFT, you will be deemed to have acknowledged, represented and warranted that you, and each person on whose account you are acting:

(a) acknowledge that you have fully read and understood both this Offer Information Statement and your Entitlement and Acceptance Form in their entirety and you acknowledge the matters and make the warranties and representations and agreements contained in this Offer Information Statement and the Entitlement and Acceptance Form;

(b) agree to be bound by the terms of the Entitlement Offer, the provisions of this Offer Information Statement and the Company's Constitution;

(c) authorise the Company to register you as the holder(s) of New Shares issued to you;

(d) declare that all details and statements in the Entitlement and Acceptance Form are complete and accurate;

(e) declare you are over 18 years of age and have full legal capacity and power to perform all your rights and obligations under the Entitlement and Acceptance Form;

(f) acknowledge that once the Company receives your payment of Application Monies via BPAY® or EFT, you may not withdraw your Application or funds provided except as allowed by law;

(g) agree to apply for and be issued up to the number of New Shares specified in the Entitlement and Acceptance Form, or for which you have submitted payment of any Application Monies via BPAY® or EFT at the Offer Price per New Share;

(h) authorise the Company and the Share Registry and any of their respective officers or agents to do anything on your behalf necessary for New Shares to be issued to you, including to act on instructions of the Share Registry upon using the contact details set out in your Entitlement and Acceptance Form;

(i) declare that you were the registered holder(s) at the Record Date of the Shares indicated on the Entitlement and Acceptance Form as being held by you on the Record Date;

(j) acknowledge that the information contained in this Offer Information Statement and your Entitlement and Acceptance Form is not investment advice or financial product advice nor have they been prepared taking into account your investment objectives, financial circumstances or particular needs or circumstances;

(k) acknowledge that this Offer Information Statement and your Entitlement and Acceptance Form is not a recommendation that New Shares are suitable for you given your investment objectives, financial situation or particular needs;

(l) acknowledge that you have read and understood the risks set out in this Offer Information Statement and that investments in the Company are subject to a high degree of risk;

(m) acknowledge that none of the Company or its related bodies corporate, affiliates or directors, officers, partners, employees, representatives, agents, consultants or advisers, guarantee the performance of the Company, nor do they guarantee the repayment of capital;

(n) agree to provide (and direct your nominee or custodian to provide) any requested substantiation of your eligibility to participate in the Entitlement Offer and of your holding of Shares on the Record Date;

(o) authorise the Company to correct any errors in your Entitlement and Acceptance Form or other form provided by you;

(p) represent and warrant that the law of any place does not prohibit you from being given this Offer Information Statement and the Entitlement and Acceptance Form, nor does it prohibit you from making an Application for New Shares; and

(q) if you are acting as a nominee or custodian, participation by each beneficial holder on whose behalf you are submitting the Entitlement and Acceptance Form is fully compliant with applicable foreign laws.

3.13 Inconsistency

The terms and conditions of the Entitlement Offer set out in this Offer Information Statement prevail to the extent of any inconsistency with the Entitlement and Acceptance Form.

3.14 Further information

Please consult with your stockbroker, accountant, financial adviser, taxation adviser or other independent professional adviser if you have any queries or are uncertain about any aspects of the Entitlement Offer.

If you have any questions on how to complete your personalised Entitlement and Acceptance Form, or take up the New Shares offered to you under the Entitlement Offer, either in full or in part, please call the Share Registry between 8.30am and 7.00pm (Sydney time) Monday to Friday during the period from and including the date on which the Entitlement Offer opens until and including the date on which it closes (being 5.00pm Sydney time on 1 July 2024):

Within Australia: 1300 288 664

Outside Australia: +61 2 9698 5414

4. Purpose and effect of the Entitlement Offer

4.1 Overview

The Entitlement Offer will provide the Company with net proceeds of up to approximately $9,750,000 after issue expenses of approximately $250,000 (exclusive of GST).

4.2 Use of funds

The Entitlement Offer is being undertaken to assist the Company to meet its present and ongoing funding needs. As shown in the Company's financial statements for the year ended 31 December 2023 (as attached to this document as Appendix B), the Company continues to be loss-making and is accordingly dependent on external sources of funding to meet its funding needs. The Board has determined that additional funding is required urgently to meet upcoming short-term obligations and to provide additional working capital to cover operating expenses until approximately December 2024.

The proceeds from the Entitlement Offer will be used to:

(a) repay the short-term shareholder loan received from Metrics as part of the funding package announced on 29 February 2024. As at the date of this Offer Information Statement, the balance of the loan outstanding is $4,493,000. Following agreement between Navalo and Metrics to extend the loan term, the outstanding balance is payable on 8 July 2024. This loan will be repaid at settlement of the Entitlement Offer;

(b) provide additional working capital to cover operating expenses incurred in the Company's ongoing business operations until approximately December 2024, which are expected to be up to approximately $5 million; and

(c) pay for costs associated with the Entitlement Offer, being approximately $250,000.

The IBC has determined that the Company should raise the required funding by way of the Entitlement Offer, to enable each Shareholder to participate in the capital raising on a pro rata basis. Prior to the announcement of the Entitlement Offer, Metrics and MBFH, at the request of the Company, committed for the benefit of the Company to take up all of their entitlements under the Entitlement Offer pursuant to a Commitment Letter. This ensures that the Company will raise at least approximately $8.88 million from the Entitlement Offer, which is the amount the Company expects to be required to fund repayment of the Metrics loan and to meet the costs of the Entitlement Offer and the operating expenses of the Company until approximately December 2024. Should other Shareholders participate in the Entitlement Offer, the Company will put the monies raised towards funding operational expenses beyond December 2024.

It is noted that the Company is not able to raise more than $10 million through the use of an offer information statement such as this document, due to the requirements of the Corporations Act.

4.3 Independent Expert Report and Offer Price

The IBC commissioned RSM Corporate Australia Pty Ltd as an independent expert (**Independent Expert**) to prepare a valuation of the Company's shares for the purposes of the Entitlement Offer. There is no requirement (legal, regulatory or otherwise) for the Company to obtain an opinion from an independent expert in relation to the Entitlement Offer, however the IBC commissioned the report to assist the IBC in determining the Offer Price and to provide shareholders with sufficient information in relation to the value of the Company's shares to make an informed decision whether to participate in the Entitlement Offer.

The Independent Expert has concluded that the fair value of a Share in the Company (on a minority interest basis) is in the range of $0 to $0.481. The Independent Expert has adopted a preferred fair value per Share of $0.194. In determining its preferred fair value, the Independent Expert applied a discount to the fair value of the Company's equity on a control basis, and a further discount to take into account the lack of marketability of the Shares (given the Company is unlisted).

Having reviewed the Independent Expert's report, the IBC determined to adopt the expert's preferred value (on a minority interest basis) of $0.194 as the Offer Price. The IBC considers it is appropriate to adopt this price as the Offer Price, noting the following:

- the preferred fair value determined by the Independent Expert has already been discounted by the expert for the matters described above, and applying a further discount may be unnecessarily dilutive;

- the Offer Price should sufficiently incentivise Shareholders to participate in the Entitlement Offer; and

- applying a premium to the Independent Expert's preferred fair value of the Shares would likely disincentivise Shareholders from participating in the Entitlement Offer.

A copy of the Independent Expert's report is attached to this Offer Information Statement as Appendix A. Shareholders should read the Independent Expert's report prior to applying for New Shares under the Entitlement Offer.

4.4 Advantages and disadvantages of the Entitlement Offer

The Company considers that advantages of undertaking the Entitlement Offer include:

- Navalo will remain solvent and able to meets its commitments noting it is expected that additional capital raises will be required in the future before the Company achieves breakeven;

- it will provide additional working capital with the ability for Navalo to meets its operating expenses as they are incurred (until approximately December 2024); and

- it will also provide the Company with the capacity to repay the $4,493,000 short-term loan that was provided by Metrics as part of the funding package announced on 29 February 2024, payable by Navalo on 8 July 2024.

The Company considers that the disadvantages of undertaking the Entitlement Offer include:

- Shareholders who do not participate in the Entitlement Offer will have their shareholding diluted;

- raising an amount which is insufficient to fully meet the needs of the Company going forward. As disclosed in prior announcements, the Company will need to raise additional funds at a later date (expected before the end of calendar year 2024) to meet its ongoing operating expenses; and

- there is no funding commitment provided by Metrics (or MBFH) beyond its commitment to subscribe for 100% of its Entitlement under this Entitlement Offer and hence there is some level of uncertainty as to the ongoing source of funding required by the Company to meet its commitments.

4.5 Alternatives considered by the Company

The Company has been exploring potential fundraising opportunities, including with the assistance of third party advisors. As is customary in these circumstances, particularly given the urgent need to bolster available cash reserves, the Company has considered a number of potential opportunities to secure the necessary funding, including from its substantial Shareholder (Metrics) and other Shareholders.

These alternatives have included considering an increase to the short-term loan provided by Metrics and engaging with third party investors to provide funding. The Company (via the IBC) did not consider that obtaining an increase to the Metrics loan was in the best interests of the Company – the Metrics loan arrangements were only entered into as a result of the requirement to improve the Company's cash flow position in February 2024, and the Company's preference is to now repay this loan as soon as possible.

Having taken advice from third party advisors, the Company (again via the IBC) determined that, in the time available, there would be limited utility in engaging with third party investors in relation to providing funding to the Company. Any such investor would need to be willing to take a minority position in an unlisted public company, and (based on advice received) the Company considered that there was unlikely to be any investor willing to provide such funding to the Company on acceptable terms in the time available and having regard to the Company's present financial circumstances. The Company was also conscious of adopting a capital raising structure which enabled all of the Company's shareholders to participate (should they wish to do so).

Having regard to the above and its need to raise immediate working capital for the business, the Company (via the IBC) determined to proceed with the Entitlement Offer with Metrics and MBFH committing to subscribe for 100% of their Entitlements pursuant to the Commitment Letter. This ensures the Company will receive at least the proportion of the Entitlement Offer equal to Metrics' and MBFH's Entitlements (approximately$8.88 million). In the absence of the commitment provided by Metrics and MBFH, the Company was concerned that it would not receive adequate capital to meet its present funding needs.

4.6 Impact on capital structure

The effect of the Entitlement Offer on the capital structure of the Company is set out in the following table:

Types of security	Number
Shares on issue as at the date of this Offer Information Statement	8,777,256
New Shares to be issued	51,522,986
Total Shares following completion of Entitlement Offer	60,300,242

Notes: For the purpose of this table, it is assumed that:

- all New Shares offered under the Entitlement Offer will be issued; and
- no existing warrants, convertible notes or options issued by the Company are exercised prior to the issue of New Shares under the Entitlement Offer.

4.7 Impact on control

Background information relevant to assessing the potential impact of the Entitlement Offer on control

As at the date of this Offer Information Statement:

- Metrics holds a percentage shareholding of approximately 68.4% in the Company; and
- a related body corporate of Metrics, MBFH, holds a percentage shareholding of approximately 20.39%.

As a result, Metrics and MBFH have voting power of approximately 88.79% in the Company.

Pursuant to the Commitment Letter, Metrics and MBFH have committed to subscribe for 100% of their Entitlements under the Entitlement Offer. Please refer to Section 4.5 above in relation to alternative fundraising opportunities explored by the Company and the Company's decision to enter into a Commitment Letter with Metrics and MBFH in relation to the Entitlement Offer.

The potential effect that the Entitlement Offer will have on the control of Navalo, and the consequences of that effect, will depend on a number of factors, including the extent to which Eligible Shareholders take up their Entitlements.

If some but not all Eligible Shareholders take up their Entitlements under the Entitlement Offer:

- the percentage interest in the total issued Shares of each Eligible Shareholder who does not take up their Entitlement will be diluted; and
- the percentage interest of the total issued Shares of each Eligible Shareholder who takes up all of their Entitlement will increase.

Possible control implications – Metrics and MBFH

As each of Metrics' and MBFH's shareholding exceeds 20% of the total Shares on issue, to increase its shareholding in the Company each of Metrics and MBFH will rely on an exception to the prohibition in section 606 of the Corporations Act on persons holding in excess of 20% acquiring any further Shares, namely item 10 of section 611 of the Corporations Act (**Rights Issue Exception**). The Rights Issue Exception provides relief from the prohibition on a shareholder participating in a rights issue or a person acting as an underwriter of a rights issue if the following conditions are satisfied:

- the company offers to issue securities to every person who holds securities in a particular class on a pro rata basis;
- all of those persons have a reasonable opportunity to accept the offers made to them;
- agreements to issue are not entered into until the closing date of the offer; and
- the terms of the offers are all the same.

Navalo will make the Entitlement Offer to all registered Shareholders as at the Record Date such that all Shareholders are Eligible Shareholders for the purposes of the Entitlement Offer. Accordingly, Metrics and MBFH may rely on the Rights Issue Exception in respect of the take-up of New Shares pursuant to the Entitlement Offer.

Because Metrics and MBFH have committed to subscribe for 100% of their Entitlements, if some but not all other Eligible Shareholders take up their Entitlements under the Entitlement Offer, the percentage interest in the total issued Shares of each Eligible Shareholder who does not take up their Entitlement will be diluted and Metrics' and MBFH's shareholding in Navalo will increase.

The below table sets out the possible effect of the Entitlement Offer on Metrics' voting power in Navalo (which includes MBFH's shareholding) on completion of the Entitlement Offer under three possible scenarios (depending on the level of acceptances received from Eligible Shareholders other than Metrics). The table assumes a starting position of 88.79% for Metrics' voting power.

Voting power	100% acceptances from other shareholders		50% acceptances from other shareholders		0% acceptances from other shareholders	
	# Shares (m)	%	# Shares (m)	%	# Shares (m)	%
Metrics	53.54	88.79%	53.54	93.26%	53.54	98.20%
Other Shareholders	6.76	11.21%	3.87	6.74%	0.98	1.80%
Total (post)	60.3	100%	57.41	100%	54.53	100%

As set out in the table above, if there is no participation from other Shareholders in the Entitlement Offer, then Metrics' voting power in Navalo could increase to 98.20%.

It is also noted that Pinnacle Investment Management Group Limited (and certain of its subsidiaries) (**Pinnacle**) is a substantial shareholder in the Company as a result of holding indirectly over 20% of the voting power in Metrics. For completeness, based on its understanding of Pinnacle's interest in Shares, the Company expects that Pinnacle's interest in Shares will be equivalent to Metrics' interest in Shares from time to time. However, the Company notes that Metrics is the registered holder of the Shares in which Pinnacle has an interest, and that Pinnacle's interest in those Shares only arises as a result of it holding indirectly greater than 20% shareholding in Metrics (pursuant to subsection 608(3) of the Corporations Act). The Company's understanding is that control over the Shares in which Pinnacle has an interest (including the voting of those Shares) is exercised by Metrics.

Potential compulsory acquisition process following Entitlement Offer

If Metrics' voting power increases to above 90% following completion of the Entitlement Offer, any acquisition of further Shares by Metrics or its associates (including MBFH) will no longer be regulated by Chapter 6 of the Corporations Act.

If Metrics and its related bodies corporate hold full beneficial interests in at least 90% of the Shares following completion of the Entitlement Offer, Metrics or any of its related bodies corporate (together a '**90% Holder'**) may be entitled to compulsorily acquire all of the remaining Shares under the general compulsory acquisition power in Chapter 6A of the Corporations Act.

Generally speaking, this would involve:

- a 90% Holder obtaining a report from an independent expert nominated by ASIC stating whether, in the expert's opinion, the terms proposed for the compulsory acquisition represent fair value for the Shares;

- a 90% Holder preparing a compulsory acquisition notice which sets out the cash sum for which the 90% Holder proposes to acquire the Shares, informs Shareholders about the procedure to object if they wish to do so and specifying a period of at least 1 month for Shareholders to object, gives details of Shares the 90% Holder has purchased in the last 12 months and discloses other information known to the 90% Holder that is material to deciding whether to object to the acquisition (**compulsory acquisition notice**);

- a 90% Holder lodging the compulsory acquisition notice with ASIC within six months of achieving the 90% holding and giving the compulsory acquisition notice, the independent expert's report and an objection form to Shareholders; and

- a 90% Holder may proceed with the compulsory acquisition if Shareholders who have objected to the acquisition between them hold less than 10% by value of the Shares the subject of the compulsory acquisition notice or the compulsory acquisition is approved by the Court.

Metrics has advised the Company that it has not currently made any determination in relation to any further dealings in Company shares including a potential exercise of the general compulsory acquisition power in Chapter 6A of the Corporations Act.

4.8 Commitment Letter

Navalo's substantial shareholders, Metrics and MBFH, have entered into the Commitment Letter with Navalo. Under the Commitment Letter:

- Metrics and MBFH confirm they hold 88.79% of the total Navalo shares on issue;

- Metrics and MBFH confirm they are entitled to subscribe for approximately 45,748,838 New Shares under the Entitlement Offer;

- both Metrics and MBFH irrevocably commit to subscribe for all of the New Shares they are each entitled to under the Entitlement Offer, equal to a total subscription amount of approximately $8.88m;

- Metrics and Navalo agree to set-off the part of the subscription amount equal to the outstanding balance of the Metrics loan against the subscription amount payable by Metrics for the New Shares, and that the Metrics loan is extinguished upon Navalo issuing to Metrics in New Shares the part of Metrics' Entitlement equal to the outstanding balance of the loan; and

- Metrics and MBFH acknowledge and agree that they have been provided with a draft of this Offer Information Statement, and their commitment under the Commitment Letter remains binding notwithstanding any changes to the Offer Information Statement prior to lodgement with ASIC provided the structure of the Entitlement Offer and Entitlement Offer timetable remain unchanged.

5. Details of the Company and its business

5.1 Rights attaching to Shares

New Shares issued under the Offer will be fully paid and rank equally in all respects with the Shares from their date of issue.

The following information about the rights attaching to the Shares is a summary of rights set out in the Constitution. You can acquire a copy of the Company Constitution, free of charge, from the Company until the expiry of this Offer Information Statement.

Each Share confers on its holder:

- the right to vote at a general meeting of Shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per Shareholder) and on a poll (one vote per Share on which there is no money due and payable), subject to the rights and restrictions on voting which may attach to or be imposed on Shares (at present there are none);

- the right to receive dividends, according to the amount paid up on the Share; and

- the right to receive, in kind, the whole or any part of the Company's property in a winding up subject to the rights of a liquidator to distribute surplus assets of the Company with the consent of members by special resolution.

Shares are fully transferrable.

The rights attaching to Shares may be varied with the approval of Shareholders in general meeting by special resolution.

5.2 Description of the Company's business

(a) Who is Navalo and what are its key objectives?

- Founded in 2016, Navalo provides Point-of-Sale (PoS) consumer finance options enabling consumers to make a purchase through an approved merchant, and to pay for the product or service over time based on agreed loan repayment terms.
- Navalo (trading as Payright) focuses on relatively higher-value, more considered purchases with transaction sizes that typically range from $1,000 to $20,000 and an average transaction value of ~$4,000 over ~24 months.
- Navalo point-of-sale loans are distributed via a merchant network, in sectors including; home improvement, education, health & beauty, retail, photography and after-market automotive.
- Historically providing only lending solutions that are unregulated by the Credit Act, in late 2023, Navalo launched a personal loan product that is regulated by the Credit Act. This product is currently also distributed via the existing merchant network. As at the date of this Offer Information Statement, approximately $82,000 of regulated personal loans have been originated and the Company continues to seek opportunities to accelerate the uptake of this new offering.

The primary objectives of Navalo are to:

- Accelerate the uptake of the new regulated personal loan product;
- Expand the product offering;
- Identify new distribution channels for its products;
- Profitably grow the loan book such that the Company can become profitable;
- Identify other organic and inorganic growth opportunities which may include the acquisition of target companies that may assist in achieving the above objectives and/or accelerating the path to profitability.

(b) What is Navalo's strategy?

Navalo's strategy is to seek expansion across products, distribution channels and market segments to ensure a more sustainable long term business proposition that is able to meet its operating expenses, access scalable capital solutions and achieve profitability.

The historical financial performance of the Company and near-term outlook indicate that the Company lacks sufficient scale to operate profitably in the BNPL and consumer lending markets. Further, there are significant challenges in terms of accessing sufficient funding to reach the required scale with the current product mix.

Having currently only one distribution channel (via merchants) for its products, and modest take up of the new Credit Act regulated personal loan product via the merchant network, the Company is vulnerable to industry challenges such as congestion, competitive pressures, and over reliance on a single distribution channel. These challenges create additional headwinds for the Company in its current form, such as being unable to aggressively scale, secure material and cost-effective capital and realise operational efficiencies available to a more diverse lender.

(c) What products does Navalo offer?

1. BNPL payment plans

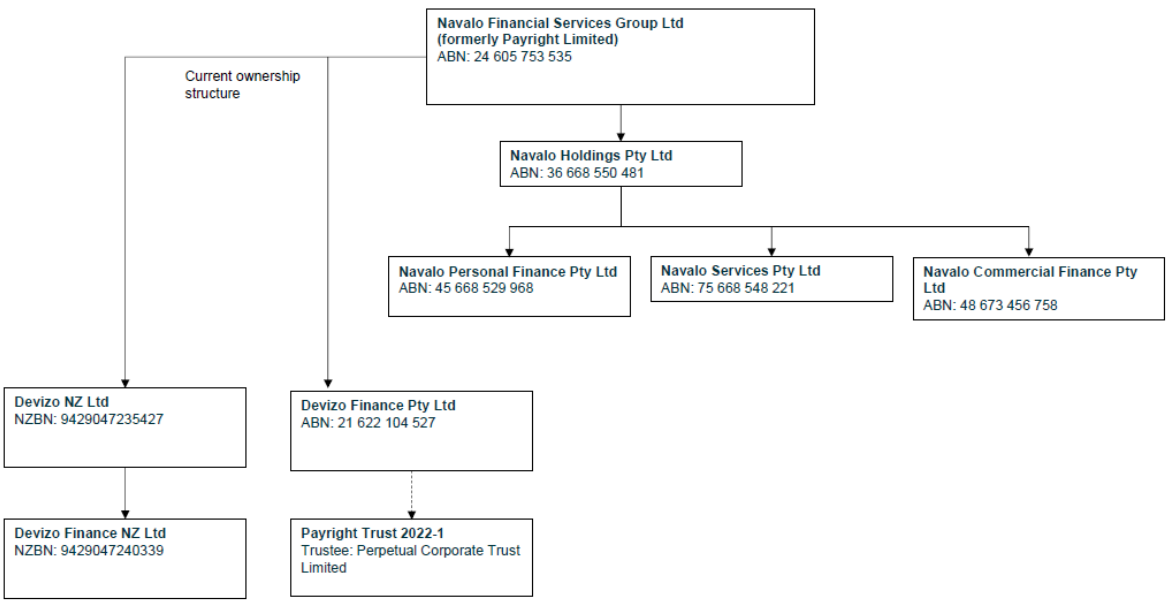
This is the foundation product offered by the Company and is exempt from the Credit Act which means it is often referred to as being "unregulated" despite being regulated by ASIC in other ways (such as the Design and Distribution Obligations within the Corporations Act) and AUSTRAC in relation to AML/CTF requirements and being an accredited member of the AFIA Buy-Now Pay-Later Code of Conduct. In order to operate within this exemption from the Credit Act, the total fees that can be charged to the customer for providing the credit are capped at $200 in the first year and $125 in subsequent years.

2. Regulated personal loans

The Company was granted an Australian Credit Licence (ACL) in the second half of 2022, effective from August, giving the Company the ability to issue licensed credit products. The Company's first licensed credit product was launched to market in November 2023. The initial product is a fixed term unsecured personal loan distributed through the existing and prospective merchant network i.e. originated at the point-of-sale. It is intended that the product will complement the existing BNPL product and primarily be applied to transactions over ~$5K where fee caps have made it challenging for Navalo to profitably acquire new business without a licensed product. The Company is currently exploring ways to increase the uptake of this new product, including offering a direct-to-consumer distribution channel.

(d) What is Navalo's corporate structure?

The following diagram shows the entities in the corporate structure of the Navalo group of companies as at the date of this Offer Information Statement.



(e) Details of Navalo directors

Details of Navalo's current directors are set out in the table below.

Director	Background
Andrew Lockhart	Andrew has more than 30 years' banking, funds management and financial markets experience and is the Managing Partner and Director of Metrics Credit Holdings Pty Ltd, a leading Australian non-bank corporate lender and alternative asset manager specialising in fixed income, private credit, equity and capital markets, with in-excess of $18bn of assets under management. Andrew has considerable experience in loan origination, structuring and portfolio risk management, previously specialising in leverage and acquisition finance and corporate institutional lending at National Australia Bank. Andrew is also a Non-executive Director of several non-bank finance companies. Andrew holds a Bachelor of Business and Master of Business Administration from Queensland University of Technology. Andrew is a director of MCH Investment Management Services Pty Ltd (a member of the Metrics group). Andrew is a member of NFS' Audit and Risk Committee and Capital Management Committee. Andrew is also a director of Metrics, the Company's substantial Shareholder.
Allan Griffiths	Allan has more than 40 years' experience in, and extensive understanding of, the financial services industry. Allan held a number of executive positions within the industry, most notably as Chief Executive Officer of Aviva Australia (formerly Norwich Union) and later, Managing Director South Asia, Aviva Asia Pte Ltd based in Singapore. Prior to joining Aviva, he held executive positions with Colonial Ltd. Allan is Chairman of ASX listed Insignia Financial (formerly IOOF), having been appointed Chairman in 2019 and Director since 2014, St Andrew's Insurance Group and Metrics Credit Holdings Pty Ltd as trustee for MCH Investments Trust. Allan has a Bachelor of Business and is a member of NFS' Audit and Risk Committee. Allan is also a director of Metrics, the Company's substantial Shareholder.
Matthew Pringle	Matthew has extensive experience in corporate finance, audit and assurance, governance and strategy, including over 25 years' experience as a Partner at Pitcher Partners. His roles with Pitcher Partners included leading the corporate finance practice group, senior audit partner and leading the corporate governance and board advisory practice area. Matthew holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant. Matthew is a member and Chair of the Audit and Risk Committee and Capital Management Committee. Matthew also holds a Graduate Diploma in Governance and is a Fellow of the Chartered Governance Institute, the Governance Institute of Australia and the Australian Institute of Company Directors.
Mark Licciardo	Mark has extensive experience working with boards of high-profile ASX-listed companies, with expertise in the listed investment, infrastructure, biotechnology and digital sectors. Mark is the founder of Mertons Corporate Services, now part of Acclime Australia and is responsible for Acclime Australia's Listed Services Division. He currently serves as a director on ASX listed Frontier Digital Ventures (ASX:FDV) as well as a number of other unlisted public company boards and foreign-controlled entities and private companies. Mark holds a Bachelor of Business degree in accounting, a Graduate

Director	Background
	Diploma in Governance and is a Fellow of the Chartered Governance Institute, the Governance Institute of Australia and the Australian Institute of Company Directors.
Lisa Davis	Lisa has an extensive background in Business Performance Optimisation, the transformation and leadership of large-scale teams to drive customer outcomes. Lisa built her early career with GE Australia in key transformation leadership roles, before moving to a COO role. She has held P&L responsibility in both financial services and consumer products. Lisa has spent 6 years at Equifax, a global Data, Analytics and Tech business, as COO, and has extensive knowledge in leading local teams within a global context and in-depth knowledge of digital, customer experience design and operational risk management.

5.3 Financial information

Presented in Figure 1 below is a summary of the financial position of the Company, comprising:

- the audited consolidated historical statement of financial position as at 31 December 2023 (**December 2023 Balance Sheet**);
- the unaudited consolidated historical statement of financial position as at 31 March 2024, inclusive of certain pro-forma adjustments for certain transactions which took place after 31 March 2024 (**March 2024 Balance Sheet**); and
- a pro forma consolidated historical statement of financial position as at 31 March 2024 (**Pro Forma March Balance Sheet**),

(together, the **Financial Information**).

The basis of preparation and presentation of the Financial Information can be summarised as follows.

December 2023 Balance Sheet

The December 2023 Balance Sheet has been derived from the financial statements of the Company for the 12 months ended 31 December 2023, which was audited by KPMG.

March 2024 Balance Sheet

The March 2024 Balance Sheet is unaudited and has been derived from month-end financial accounts prepared by Company management. The March 2024 Balance Sheet reflects the receipt of the short-term loan from Metrics of approximately $4.493 million on 29 February 2024, and the placement of shares to MBFH for an aggregate subscription price of approximately $508,000 on the same date.

The following adjustments have also been made to the March 2024 Balance Sheet to reflect certain post-balance date events:

- the cash payment of approximately $19,000 in relation to the buy-back of 60,238 Shares completed on 20 April 2024; and

- the provision of a corporate debt facility from Perpetual Corporate Trust Limited as custodian for the Metrics Credit Partners Diversified Australian Senior Loan Fund on 27 May 2024 to acquire Class B Warehouse Notes under the Company's warehouse funding facility with a value of $18.7 million.

Pro Forma March Balance Sheet

The Pro-Forma March Balance Sheet has been prepared on the basis of the March 2024 Balance Sheet, assuming:

- the issue of all New Shares offered under the Entitlement Offer at the Offer Price (i.e. a raising of $10m);

- the estimated costs of the Entitlement Offer being approximately $250,000;

- the short-term loan to Metrics being repaid at completion of the Entitlement Offer; and

- no other material adjustments being considered for the pro-forma balance sheet.

Completion of the Entitlement Offer will result in an increase in cash reserves of up to c. $5.26m (after repayment of the Metrics loan and the payment of costs associated with the Entitlement Offer). Eligible Shareholders should consider the statements in Section 4.2 to understand how the proceeds raised under the Entitlement Offer will be used.

The Pro Forma Balance Sheet has been prepared to provide investors with information on the pro-forma assets and liabilities of the Company following completion of the Entitlement Offer. The December 2023 Balance Sheet, March 2024 Balance Sheet and Pro Forma March Balance Sheet are presented in abbreviated form, as they do not include all of the disclosures required by Australian Accounting Standards applicable to audited or audit reviewed financial statements.

Figure 1: Financial Information

'000s	31-Dec-23 Audited	31-Mar-24 Management Accounts (including adjustments)(a)	Adjustments following Entitlement Offer(b)	31-Mar-24 Pro-forma after Entitlement Offer
Current Assets				
Cash	8,695	11,633	5,257	16,890
Receivables	65,942	67,901		67,901
Prepayments and other assets	1,487	2,070		2,070
Total Current Assets	**76,124**	**81,604**	**5,257**	**86,861**
Non-current Assets				
Receivables	50,630	52,184		52,184
Property, plant and equipment	36	28		28
Right of use assets	-	-		-
Class B Warehouse Note	-	18,651		18,651
Other assets	-	-		-
				-
Total Non-current Assets	**50,666**	**70,863**		**70,863**
Total Assets	**126,790**	**152,467**	**5,257**	**157,724**
Current Liabilities				
Trade and other payables	3,654	3,222		3,222
Borrowings[1]	-	23,144	(4,493)	18,651
Lease Liability	-	-		-
Employee benefit liabilities	626	602		602
Total Current Liabilities	**4,280**	**26,968**	**(4,493)**	**22,475**
Non-current Liabilities				
Borrowings	117,762	122,690		122,690
Derivative liabilities	818	818		818
Lease Liability	-	-		-
Employee benefit liabilities	260	273		273
Total Non-current Liabilities	**118,840**	**123,781**		**123,781**
Total Liabilities	**123,120**	**150,749**	**(4,493)**	**146,256**
Net Assets	**3,670**	**1,718**	**9,750**	**11,468**
Equity				
Issued capital [2]	59,722	60,211	10,000	70,211
Other reserves	741	724		724
Accumulated losses	(56,793)	(59,217)	(250)	(59,467)
Total Equity	**3,670**	**1,718**	**9,750**	**11,468**

(a) The adjustments to the 31 March 2024 management accounts comprise (i) the cash payment of approximately $19,000 in relation to the buy-back of 60,238 Shares completed on 20 April 2024 and (ii) the provision of a corporate debt facility from Metrics on 27 May 2024 to acquire Class B Warehouse Notes under the Company's warehouse funding facility with a value of $18.7 million.

(b) The adjustments used to derive the pro forma balance sheet as at 31 March 2024 after completion of the Entitlement Offer assume (i) a total of $10m is raised under the Entitlement Offer (ii) the costs of the Entitlement Offer are $250,000 and (iii) the short term loan to Metrics is repaid at Completion of the Entitlement Offer.

Further notes to Figure 1

Note 1 below shows the change in the Company's borrowings in the period from 31 December 2023 to 31 March 2024. It assumes that the Entitlement Offer was completed on 31 March 2024, and that the short-term loan owing to Metrics was repaid on that date.

Note 1

Borrowing Movement Summary	Amount $'000	Balance $'000
Opening balance 31 December 2023		-
Add short-term loan from Metrics	4,493	4,493
Add secured corporate loan from Perpetual Corporate Trust Limited as custodian for the Metrics Credit Partners Diversified Australian Senior Loan Fund	18,651	23,144
Closing balance 31 March 2024		**23,144**
Less short-term loan repaid on completion of Entitlement Offer	(4,493)	18,651
Closing balance 31 March 2024 (following completion of Entitlement Offer)		**18,651**

Note 2 below shows the change in the Company's issued capital in the period from 31 December 2023 to 31 March 2024. It assumes that the Entitlement Offer was completed on 31 March 2024.

Note 2

Issued Capital Movement Summary:	Amount $'000	Balance $'000
Opening balance 31 December 2023		59,722
Add issued capital to MBFH pursuant to placement on 29 February 2024	508	60,230
Less buy-back of shares pursuant to share-buyback completed in April 2024	(19)	60,211
Closing balance 31 March 2024		**60,211**
Add issue of shares pursuant to Entitlement Offer (assuming $10m is raised)	10,000	70,211
Closing balance 31 March 2024 (following completion of Entitlement Offer)		**70,211**

Audited financial report for 12 months ended 31 December 2023

Set out in Appendix B is a copy of an audited financial report for the 12 month period ended 31 December 2023 (**Financial Report**). The Company is required under section 715(2) of the Corporations Act to include this report in this Offer Information Statement. As also required under section 715(2), the Financial Report is for a 12 month period, has a balance date that is less than 6 months before the date on which the New Shares will first be offered under this Offer Information Statement, has been prepared in accordance with accounting standards, and has been audited by the Company's auditor, KPMG.

The auditor's report draws attention to Note 1 to the financial statements, which indicates that the Navalo Group incurred a net operating cash flow of $18.4 million and a net loss of $12.6 million for the period ended 31 December 2023.

In Note 1, the Company has also stated that its ability to continue as a going concern is dependent upon maintaining cash reserves and securing additional funding facilities and/or equity. The auditor's report goes on to state that the events or conditions disclosed in the note indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial statements. The auditor's conclusion in relation to the financial statements is not modified in respect of this matter.

As set out in Note 1 to the financial statements, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis. The Directors have come to this conclusion as they have reasonable grounds to believe that the Company will continue to be successful in sourcing debt and/or equity funding in the future. In the event sourcing new or additional funding arrangements are not successful, the Company has other options available including but not limited to slowing down growth, further reductions in operating costs and pursuing alternate strategic opportunities to preserve cash reserves.

In this regard, it is noted that the successful completion of the Entitlement Offer is expected to result in a material strengthening of the Company's balance sheet, as indicated in the pro forma balance sheet set out below, which includes repayment of the short-term loan to Metrics, and a material increase to the Company's cash position of approximately $5.2 million. While the Company expects to require further funding in or about December 2024, the Directors have no reason to believe that the Company will not be able to successfully secure such funding when required, and/or to take other steps as described above to preserve cash reserves to ensure that the Company can continue to operate as a going concern.

However, if the Entitlement Offer does not reach successful completion, and if the Company is otherwise unsuccessful in sourcing other funding and/or taking steps to preserve its cash reserves, the Company may not able to continue as a going concern, and accordingly may not be able to realise its assets and liabilities in the ordinary course of business.

6. Risk factors

6.1 Overview

This Section 6 describes the potential material risks of an investment in the Company associated with the Company's business and the industry in which the Company operates, as well as the general risks associated with an investment in Shares.

This Section 6 does not purport to list every risk that may be associated with the Company's business or the industry in which the Company operates, or an investment in Shares and Options, now or in the future. The occurrence or consequences of some of the risks described in this Section 6 are partially or completely outside of the Company's control, or the control of the Company's Directors and management.

The selection of risks is based on the operation of the Company's Risk Management Framework which identifies key risk indicators impacting the Company and assesses the impact of each risk against the perceived probability of that risk occurring, the impact of that risk should it occur and the existence and effectiveness of controls to mitigate that impact. This assessment is based on the knowledge of the Directors and management as at the date of this Offer Information Statement, but there is no guarantee or assurance that the risks will not change or that other risks or matters that may adversely affect the Company will not emerge.

Before applying for New Shares, you should be satisfied that you have a sufficient understanding of the risks involved in making an investment in the Company and whether it is a suitable investment for you, having regard to your investment objectives, financial circumstances and taxation position. You should read this Offer Information Statement in its entirety and seek advice from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to apply for New Shares.

6.2 Risks specific to an investment in the Company

(a) Going concern risk

The financial statements for the 12-month period ending 31 December 2023 attached as Appendix B to this Offer information Statement have been prepared on a going concern basis. Given the matters set out in the financial statements (including a net operating cash flow of $18.4 million and a net loss of $12.6 million for the period ended 31 December 2023), the Company's auditor has concluded in its audit report that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial statements.

As set out in Note 1 to the financial statements, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis. The Directors have come to this conclusion as they have reasonable grounds to believe that the Company will continue to be successful in sourcing debt and/or equity funding in the future. In the event sourcing new or additional funding arrangements are not successful, the Company has other options available including but not limited to slowing down growth, further reductions in operating costs and pursuing alternate strategic opportunities to preserve cash reserves.

In this regard, it is noted that the successful completion of the Entitlement Offer is expected to result in a material strengthening of the Company's balance sheet, as indicated in the pro forma balance sheet set out below, which includes repayment of the short-term loan to Metrics, and a material increase to the Company's cash position of approximately $5.2 million. While the Company expects to require further funding in or about December 2024, the Directors have no reason to believe that the Company will not be able to successfully secure such funding when required, and/or to take other steps as described above to preserve cash reserves to ensure that the Company can continue to operate as a going concern.

However, if the Entitlement Offer does not reach successful completion, and if the Company is otherwise unsuccessful in sourcing other funding and/or taking steps to preserve its cash reserves, the Company may not able to continue as a going concern, and accordingly may not be able to realise its assets and liabilities in the ordinary course of business.

(b) Ongoing access to working capital to achieve scale

Navalo has not yet been able to generate a profit from its operations and continues to be reliant on other sources (including shareholders) to contribute funding to cover these losses. Navalo needs to achieve significant profitable growth in its loan book before reaching a breakeven position. Losses are forecast to continue for at least 12 months requiring additional equity contributions from shareholders. The required loan book growth will also require additional equity to meet warehouse funding requirements. There is no commitment from Metrics or MBFH to continue to contribute this required equity beyond participating in the current Entitlement Offer. Without access to this required equity, there is no certainty that Navalo will be able to meet its commitments when due and, in an insolvency scenario, shareholders are at risk of losing some or all of their investment should there be insufficient assets remaining after secured and unsecured creditors are satisfied.

(c) Requirements for capital and funding

Navalo's business model is reliant on its ability to fund merchants whose customers use Navalo services to acquire products. Navalo's ability to fund merchants (and, through them, its customers) depends, in turn, on its ability to access debt funding, the terms on which such funding is obtained and Navalo's ability to comply with such terms.

Failure to secure or maintain debt funding may have adverse consequences for Navalo including an inability to continue, or to grow, its business. There is also a risk that, if sufficient liquid funds are not available to fund customers of certain merchants within the specific service level agreed in relation to purchases made by the customer, the merchants will become dissatisfied and terminate their merchant agreements, which could have an adverse effect on Navalo's operations and financial performance.

Navalo has entered into a warehouse facility and is required to operate and manage the portfolio of receivables within the warehouse within certain metrics and thresholds and comply with financial covenants and other obligations under the terms of the warehouse facility, including a requirement to maintain certain cash reserves. If Navalo were to breach any of these financial covenants, if certain metrics related to the receivables owned by the warehouse were breached, or certain other events were to occur, Navalo's ability to access funding through the warehouse may be restricted and the facility may also move into amortisation (which would prevent Navalo accessing income from the warehouse). In some circumstances the warehouse lenders could also cancel the warehouse facility and declare all outstanding amounts immediately due and payable, or trigger other consequences such as the removal of Navalo as the servicer of the receivables and/or providing notice of adverse events to customers. These events could also be triggered by circumstances outside Navalo's control, including a deterioration in the economic or business environment which impacts Navalo and/or its customers.

If the above consequences were to occur or any other action were to be taken, it may have a material adverse effect on Navalo's then current and future financial position. In certain circumstances, this may mean Navalo may not be able to continue its operations as a going concern and investors may lose some or all of their investment.

In those circumstances, Navalo would need to seek waivers, amendments or other forms of accommodation, or to refinance the facility, and there is no assurance that these would be given at all or that the warehouse debt could be refinanced on commercially acceptable terms.

The current warehouse funding structure is also subject to limited availability periods. There is a risk that the Company may not be able to source required funding on suitable terms once these availability periods end. In addition, the current warehouse funding limits are not sufficient to enable Navalo to reach a level of sustainable profitability. As such, additional funding will be required in the future. While Navalo may explore future funding arrangements, no assurance can be given that such financing arrangements (or any comparable arrangements) will be secured, or that these arrangements will be able to be secured on acceptable terms. Accordingly, to the extent such funding is not obtained, this could impede Navalo's ability to meet its growth objectives and it could have a material adverse effect on Navalo's business operations, financial condition and/or growth potential.

(d) Bad and doubtful debts and fraud

A current operating expense incurred by Navalo relates to the service of bad and doubtful debts, which represents the portion of customers who delay or fail to meet their repayment obligations. One of Navalo's points of differentiation across the Australian BNPL industry is the servicing of customers making higher value and/or service related purchases (as opposed to physical goods) with longer maturity. This point of differentiation may also expose Navalo to higher risks of bad and doubtful debt relative to its competitors who limit their customer service offering to smaller value purchases with greater emphasis on goods related purchases. In addition, the current environment of increasing macroeconomic pressures places additional strain on both consumers and the merchant businesses through which the Company distributes its products increasing the risk of both merchant and customer fraud. Several controls have been implemented by Navalo including external customer credit checks, comprehensive affordability checks and merchant onboarding checks, however, as Navalo's operations scale, and potentially in an environment of increasing macro economic pressures, continuous enhancements and oversight to these processes may be required. A failure to implement any upgrade or enhancement, or failure to manage the upgrade or enhancement process efficiently and appropriately, a failure to adequately monitor arrears and appropriately manage credit risk, merchant compliance and changes in economic conditions, may result in an increase in bad and doubtful debts, which will negatively impact Navalo's profitability.

In addition, there is a risk that inaccuracies in the automated assessments of a customer's credit position either through assessment of information supplied directly by the customer or extracted via automated bank statement information, as part of the customer credit application assessments may overstate a customer's ability to make repayments and may expose Navalo to bad debts where a customer fails to meet their repayment obligations.

(e) Macroeconomic conditions

General economic conditions, changes in government policy, amendments to legislation, movements in interest rates, inflation and currency exchange rates may have an adverse impact on Navalo's operations as well as its ability to finance its business model. For example, the retail sector is affected by such macroeconomic conditions as unemployment, interest rates, consumer confidence, economic recessions, downturns or extended periods of uncertainty or volatility, all of which may influence customer spending and merchants' focus and investment in BNPL solutions. This may subsequently impact Navalo's ability to generate revenue. There is considerable and continued uncertainty as to the ongoing inflationary pressures on the Australian economy including national cash rates, global economy and share markets. It is also possible that new risks may emerge as a result of domestic or foreign markets experiencing extreme stress, or existing risks (including the impact of COVID 19, war and natural disasters) may evolve in ways that are not currently foreseeable.

No assurance can be given that Navalo's share price will remain at or above the offer price.
In addition to the impact macro-economics can have on consumer activity, merchants that the Company partners with to distribute its financial products to consumers may be adversely impacted and either cease trading or pose an increased compliance risk as these businesses seek ways to generate revenue through financed sales. This can have downstream impacts for the Company where this results in customer complaints or an increase in bad and doubtful debts.

(f) Regulatory compliance and change

Navalo is subject to a range of laws, regulations and industry compliance requirements. Failure to comply with laws, regulations and industry compliance requirements or appropriately respond to any changes, could adversely impact Navalo's reputation and financial performance. Changes to government policy, law or regulations, or the introduction of new regulatory regimes (for example, in relation to financial services generally and BNPL regulation more specifically), may lead to an increase in operational costs and could materially adversely impact Navalo's financial performance and profitability.

The credit laws relating to BNPL products are also currently under review by Treasury with significant changes proposed that will require BNPL lenders to align their lending practices more closely to other forms of consumer credit currently regulated under the Credit Act. If these changes are introduced this may require BNPL lenders and consumers to complete more detailed credit assessments prior to entering into any credit contract. It is unclear what impact these changes will have on consumer and merchant appetite for BNPL products and what competitive pressures these changes will impose and how the Company will fare in response to these challenges. There is a risk that these proposed changes may impact Navalo's existing business model as well as the broader competitive landscape of BNPL. Navalo has been proactive in engaging with regulators and industry bodies in relation to potential changes and regulatory developments and assessing the impact of the proposed changes on its current business model to assist the Company in responding appropriately once these changes are confirmed.

In addition to changes to the Credit Act, the following further areas of regulatory reform are underway, which may impact Navalo's business:

a) the Government's proposed changes to the *Payment Systems (Regulation) Act 1998* (Cth) and the Reserve Bank of Australia's (**RBA**) review and regulation of Australia's Payments System under that Act;

b) RBA's ongoing monitoring and assessment of merchant surcharging practices within BNPL transactions, including consideration of whether to limit or prohibit current industry practice of disallowing merchants to pass on BNPL Merchant fees to consumers;

c) review of Australia's credit reporting framework (including the *Privacy Act 1988 and* Credit Act) by the Attorney-General's Department, with public consultation having closed on 31 May 2024;

d) review of Australia's anti-money laundering and counter-terrorism financing regime by the Attorney-General's Department, with a second stage of consultation on the Department's consultation paper and reform proposals closing on 13 June 2024.

(g) Cybersecurity and data protection

Navalo collects and holds a significant amount of personal information about its customers. Navalo's systems, or those of its third-party service providers, may fail, or be subject to disruption as a result of external threats or system errors. Cyber attacks could also compromise or breach the safeguards implemented by Navalo to maintain confidentiality in such information.

While Navalo is engaged in ongoing review and implementation of strengthened cybersecurity and data protection measures, there is no guarantee that these measures will offer adequate protection against the risk of cyber attacks.

(h) Loss of merchant contracts and relationships

Navalo's business depends on its contracts and relationships with key existing merchant clients and attracting new merchant clients. There can be no guarantee that these contracts and relationships will continue or, if they do continue, that they will remain successful. Merchant agreements can be terminated and do not contain any obligations for the merchant to secure minimum volumes. Merchant businesses may also be impacted by broader macro-economic pressures causing them to cease trading or create increased risk of non-compliance resulting in termination of the relationship.

Any adverse changes to, or loss of, arrangements or relationships with Navalo's merchant clients may reduce the volume or consistency of customers seeking to use Navalo. Factors that could potentially adversely impact Navalo's relationships with merchants include commercial disputes and competitive fee structure on the terms of its existing arrangements, actions of competitors (for example, improving their offering to merchants), or under performance of Navalo's product against the merchant's required key performance indicators over a period of time.

The macroeconomic conditions described in section 6.2(e), including increases in interest rates, have a flow-on impact to Navalo's funding costs and the business' profitability. Navalo has responded to these factors with cost and revenue optimisation initiatives, which include increasing merchant fees to reflect interest rate rises in an attempt to maintain margins. Increased merchant fees may strain Navalo's relationships with certain merchants and impact Navalo's competitiveness with those merchants. As a consequence of the existing regulations impacting BNPL products, Navalo is constrained in the amount of fees it can charge the end consumer as the fees are capped under applicable regulations. This further limits the levers Navalo can meaningfully utilise to increase revenue in response to increasing funding costs and rising interest rates. It is not known whether the current fee caps will be increased or altered as-part of the regulatory reform impacting the BNPL sector (see paragraph (e) above for more information).

Although Navalo does not currently depend on any one merchant, the loss of a small number of Navalo's key merchant clients, or failure to secure new merchants on favourable terms, may have a material and adverse impact on the transaction values processed by Navalo and result in reduced merchant fees and customer fees and charges being payable to Navalo, which would adversely impact Navalo's revenue and profitability. Depending on the reason for the loss of a particular merchant, this may also have a negative impact on Navalo's reputation.

(i) Competitors and new technology offerings

Navalo operates in a competitive environment in which systems and practices are subject to continual development and improvement and new or rival offerings emerge periodically. There is a risk that new Buy Now Pay Later ("BNPL") entrants (including retailers with white labelled products) or existing competitors may deliver a superior solution and customer experience offering to that currently offered by Navalo. Subject to competition law constraints, multiple new or existing providers may deliver enhanced product offerings with which Navalo is unable to compete with effectively. In turn, Navalo may be required to charge lower fees to remain competitive, or invest in additional marketing or product development initiatives, which would decrease profitability, even where its market share remains unchanged. These outcomes may have a material adverse effect on Navalo's business, financial condition, operating and financial performance, and/or growth.

(j) Ability to maintain sufficient resources and rely on key personnel

The ability of Navalo to increase revenue and achieve profitability is dependent on its ability to scale its business in its key markets, particularly in the core sectors, in a manner that enables it to operate profitably over time. There is no guarantee that Navalo will be able to achieve the same level of rapid growth that it has achieved to date.

The ability to rapidly scale Navalo's business in these sectors is dependent on its ability to onboard new merchants across Navalo's core sector focus, attract new customers to Navalo and encourage repeat business and develop new technologies to enhance customer experience. Failure to expand in this way may materially and adversely impact Navalo's ability to increase revenue, achieve economies of scale, optimize its systems and expand its operations, all of which may have a negative impact on Navalo's profitability.

Navalo relies heavily on its existing key management personnel and the departure of key management personnel could negatively affect Navalo's ability to effectively execute its growth strategy. The loss of key management personnel or any delay in their replacement (including to attract a replacement), may adversely affect Navalo's future operating and financial performance. In addition, Navalo is reliant upon resources and personnel to maintain and develop its product and services. There is a risk that Navalo may not have sufficient resources to achieve this.

(k) Technology risks

(a) Third party service provision

Navalo's key technology infrastructure is a customer relationship management platform, which is licensed to Navalo by SugarCRM Inc. (the "Sugar Platform"). This platform delivers Navalo's application functionality through configurations, customisations and third-party integrations. Navalo has engaged CRM Strategy Pty Ltd ("CRM Strategy") as an authorised reseller of the Sugar Platform to undertake initial systems development work and subsequent development and customisation work. Navalo's operations are heavily reliant on its information technology systems which includes the Sugar Platform. Navalo is currently licensed to use the Sugar Platform until February 2026 (subject to termination by either party for material breach or insolvency/winding up).

If Navalo's licence was terminated prior to expiration of this term, Navalo would incur significant costs to transfer its platform to an alternative software provider. This would also be likely to cause significant disruption to business continuity, given the complexity involved in redeveloping and re customising the platform. As a result, Navalo's business, financial condition, results of operations and/or growth potential could be adversely impacted.

(b) Disruption of key business processes

Navalo's business model relies on the execution of several critical business processes, particularly to support the on boarding of new customers, service existing customers and to process transactions (using the Sugar Platform). Key business processes could be disrupted by events outside of Navalo's control such as system infrastructure disruption, system failures, service outages, corruption of information technology network or information systems as a result of computer viruses, bugs, worms or cyber attacks, as well as natural disasters, fire, power outages or other events outside the control of Navalo and that measures implemented by Navalo to protect against such events are ineffective. Any systemic failure could cause significant damage to Navalo's reputation, its ability to make informed credit decisions and assess the credit performance of its loan book. Such systemic failure could also impact Navalo’s ability to service merchants and customers in a timely manner, and its ability to retain existing, and generate new, merchant s and customers, any of which could have a material adverse impact on Navalo’s business, operating and financial performance, and/or growth.

6.3 General risks

(a) Future acquisitions

Navalo may selectively pursue acquisitions to complement its organic growth in the future. However, Navalo may not be able to identify suitable acquisition candidates at acceptable prices or complete and integrate acquisitions successfully. Even if successfully executed and integrated, there can be no guarantee of continued successful performance of those acquisitions. To the extent that Navalo’s acquisition strategy is unsuccessful, its financial performance could be adversely impacted.

(b) Compulsory acquisition of Navalo shares

If at any time a shareholder in Navalo obtains a beneficial interest in more than 90% of Navalo shares, it will be entitled to acquire the remaining Navalo shares pursuant to the compulsory acquisition provisions of the Corporations Act (but is not required to do so). This may result in Navalo shareholders being required to sell their shares to that shareholder (including at a price which a Navalo shareholder considers is not reflective of the value of their shares). In certain circumstances, a shareholder could acquire an interest in greater than 90% of the Navalo shares by making purchases to move from a level that is below 90%, to a level that is above 90%, without any Navalo shareholder approval being required. As set out in this Offer Information Statement, depending on shareholder take-up under the Entitlement Offer it is possible that Metrics and its related bodies corporate will increase their shareholding in Navalo to a level greater than 90%.

Metrics has advised the Company that it has not currently made any determination in relation to any further dealings in Company shares including a potential exercise of the general compulsory acquisition power in Chapter 6A of the Corporations Act.

(c) Litigation, claims and disputes

There is a risk that Navalo may be exposed to potential legal and other claims or disputes in the course of its business, including contractual disputes, intellectual property infringement claims, employment and shareholder disputes and indemnity claims. Even if Navalo is ultimately successful in defending any such claims, there is a risk that such litigation, claims and disputes could adversely impact Navalo’s reputation, as well as its financial position, due to the costs involved in defending or settling such claims.

In order to minimise the impact of future disputes and adverse outcomes resulting from the handling of customer and merchant disputes, Navalo employs a dedicated and experienced disputes resolution professional to oversee these dispute resolution processes.

(d) Changes to accounting standards

The Australian Accounting Standards are set by the Australian Accounting Standards Board (“AASB”). Changes to accounting standards issued by AASB could materially adversely affect the financial position and performance reported in Navalo's financial statements.

(e) Taxation changes may negatively affect the Company

There is the potential for changes to tax laws and changes in the way tax laws are interpreted. Any change to the current tax rates imposed on Navalo (including in foreign jurisdictions that Navalo may operate) is likely to affect returns to Shareholders.

An investment in Navalo shares may involve tax considerations which will differ for each shareholder. Each prospective shareholder is encouraged to seek professional tax advice in connection with any investment in Navalo.

(f) Risks of Shareholder dilution

The Company may in the future elect to issue Shares or engage in capital raisings to fund ongoing working capital requirements of the Company or acquisitions that the Company may decide to make, although none are contemplated in the short term. Shareholders at the time may be diluted as a result of such issues of Shares and capital raisings.

(g) Additional funding

The Company may need to raise additional funds from time to time to finance ongoing development and growth and meet its other longer-term objectives. Directors can give no assurance that future funds can be raised on favourable terms, if at all. If further funds are required but cannot be raised, this may force curtailment of product development initiatives, operations and may adversely impact the Company's financial position.

(h) Risks associated with an investment in shares

The market price of the Company's shares will fluctuate due to the financial and operating performance of the Company and various external factors (which are unpredictable and may be unrelated or disproportionate to the performance of the Company), many of which are non-specific to the Company and over which the Company and its directors have no control.

These include recommendations by brokers and analysts, Australian and international economic conditions, economic outlook, movements in the Australian and international capital markets, interest rates, exchange rates and rates of inflation, change in government, fiscal, monetary and regulatory policies, global geo political events and hostilities and acts of terrorism, investor perceptions, investor sentiment and other factors that may affect the Company's financial position and earnings. These factors may cause the price of the Company's shares to fluctuate and trade below the offer price and may affect the income and expenses of the Company.

(i) Limited share liquidity

Navalo is an unlisted public company and therefore the New Shares will have limited liquidity unless and until the Shares are listed on an exchange. Accordingly, Shareholders may have difficulty identifying persons who have an interest in acquiring Shares. Neither the Company or any other person guarantees that there will be any market for Shares, the Company will be successful, or it will pay any dividends in the future.

7. Additional information

7.1 Expenses of the Offer

Expenses connected with the Entitlement Offer are being borne by the Company. The approximate expenses of the Entitlement Offer including legal fees, registry fees, printing fees and other general costs are estimated to be $250,000 (exclusive of GST).

7.2 Disclosure

This Offer Information Statement is issued pursuant to section 709(4) of the Corporations Act. It is not a prospectus and it has a lower level of disclosure requirements than a prospectus. It does not contain all of the information that an investor would find in a prospectus or which may be required to make an informed investment decision regarding, or about the rights attaching to, the New Shares offered under this Offer Information Statement.

You should obtain professional investment advice before accepting the offer made under this Offer Information Statement.

The information in this Offer Information Statement and the accompanying Entitlement and Acceptance Form is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. It is important that you read this Offer Information Statement in its entirety before deciding whether or not to apply for New Shares. In particular, you should consider the risk factors that could affect the performance of the Company, some of which are outlined in Section 6. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek professional guidance before deciding whether to apply for New Shares. If you have any questions you should seek professional advice from your stockbroker, accountant or other professional adviser.

7.3 Disclaimer of representations

No person is authorised to give any information, or to make any representation, in connection with the Offer that is not contained in this Offer Information Statement.

Any information or representation that is not in this Offer Information Statement may not be relied on as having been authorised by the Company or any of its related bodies corporate in connection with the Offer. Except as required by law, and only to the extent so required, none of the Company or any other person, warrants or guarantees the future performance of the Company or any return on any investment made pursuant to this Offer Information Statement.

7.4 Withdrawal of Offer

The Company reserves the right to withdraw all or part of the Offer and this Offer Information Statement at any time, subject to applicable laws, in which case the Company will refund Application Monies in relation to New Shares not already issued in accordance with the Corporations Act and without payment of interest.

To the fullest extent permitted by law, you agree that any Application Monies paid by you to the Company will not entitle you to receive any interest and that any interest earned in respect of Application Monies will belong to the Company.

7.5 Consents

Chapter 6D of the Corporations Act imposes a liability regime on the Company (as offeror of the New Shares), the Directors and persons named in the Offer Information Statement with their consent as having made a statement in the Offer Information Statement involved in a contravention in relation to the Offer Information Statement with regard to misleading and deceptive statements made in the Offer Information Statement.

Although the Company bears primary responsibility for the Offer Information Statement, the other parties involved in the preparation of the Offer Information Statement can also be responsible for certain statements made in it.

Each of the parties referred to in this Section 7.5:

- does not make, or purport to make, any statement in this Offer Information Statement other than those referred to in this Section; and

- in light of the above, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Offer Information Statement other than a reference to its name and a statement included in this Offer Information Statement with the consent of the party named in this Section 7.5.

Metrics and MBFH have given their written consent to being named in this Offer Information Statement, in the form and context in which the information is included. Metrics and MBFH have not withdrawn their consent prior to the lodgement of this Offer Information Statement with ASIC.

RSM has given its written consent to being named as the Independent Expert in this Offer Information Statement, in the form and context in which the information is included. RSM has also consented to the inclusion of the Independent Expert's Report, and the references to that report, in the form and context in which they are included in this Offer Information Statement. RSM has not withdrawn its consent prior to the lodgement of this Offer Information Statement with ASIC.

KPMG has given its written consent to being named as auditor to the Company in this Offer Information Statement and for the inclusion of the audited financial information of the Company in the Appendix, in the form and context in which the information and the report are included. KPMG has not withdrawn its consent prior to the lodgement of this Offer Information Statement with ASIC.

Mills Oakley Lawyers has given its written consent to being named as the solicitors to the Offer in this Offer Information Statement, in the form and context in which the information is included. Mills Oakley Lawyers has not withdrawn its consent prior to the lodgement of this Offer Information Statement with ASIC.

Automic Pty Ltd has given its written consent to being named as the Share Registry in this Offer Information Statement, in the form and context in which the information is included. Automic Pty Ltd has not withdrawn its consent prior to the lodgement of this Offer Information Statement with ASIC.

7.6 Governing law

This Offer Information Statement, the Offer and the contracts formed on acceptance of the Offer pursuant to the personalised Entitlement and Acceptance Forms are governed by the laws applicable in New South Wales, Australia. Each applicant for New Shares submits to the non-exclusive jurisdiction of the courts of New South Wales, Australia.

7.7 Privacy

By applying for New Shares, you are providing information to the Company (directly and/or via the Share Registry) that may constitute personal information for the purposes of the *Privacy Act 1988* (Cth). The Company (and the Share Registry on its behalf) collects, holds and uses personal information provided to it to assess your application and administer your holding of Shares. The Company will use and administer your personal information accordance with its Privacy Policy which is available on its website at www.payright.com.au/privacy-policy/.

If you do not provide the information requested, the Company and the Share Registry may not be able to process or accept the form.

Access to your personal information may be provided to:

- third parties who carry out functions on behalf of the Company, including marketing and administration functions;

- third parties if that disclosure is required by law; and

- related bodies corporate (as that term is defined in the Corporations Act) which carry out functions on behalf of the Company.

You have a right to request access to the personal information that the Company holds about you subject to certain exemptions under law. A fee may be charged for access. Applicants may request access to personal information by telephoning or writing to the Company.

7.8 Foreign jurisdictions

This Offer Information Statement has been prepared to comply with Australian disclosure requirements. The distribution of this Offer Information Statement in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Offer Information Statement outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Indonesia

A registration statement with respect to the New Shares has not been, and will not be, filed with Otoritas Jasa Keuangan in the Republic of Indonesia. Therefore, the New Shares may not be offered or sold to the public in Indonesia. Neither this document nor any other document relating to the offer or sale, or invitation for subscription or purchase, of the New Shares may be circulated or distributed, whether directly or indirectly, in the Republic of Indonesia or to Indonesian citizens, corporations or residents, except in a manner that will not be considered as a “public offer” under the law of the Republic of Indonesia.

New Zealand

<u>Warning</u>

If you are a shareholder in the Company, then you are being offered New Shares under the terms of the Entitlement Offer.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual rules do not apply to this offer because it is a small offer in New Zealand. As a result, you may not be given all the information usually required. You will also have fewer other legal protections for this investment.

Ask questions, read all documents carefully and seek independent financial advice before committing yourself.

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document relating to the New Shares may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part 13 of the Securities and Futures Act 2001 of Singapore (the SFA) or another exemption under the SFA.

This document has been given to you on the basis that you are an existing holder of the Company’s shares. If you are not such a shareholder, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party in Singapore. On-sale restrictions in Singapore may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

7.9 Directors’ responsibility statement and consent

This Offer Information Statement is issued by the Company and its issue has been authorised by a resolution of the Directors. In accordance with section 720 of the Corporations Act, each Director has consented to this Offer Information Statement being lodged with ASIC and has not withdrawn that consent.

8. Glossary

Term	Meaning
$	Australian dollars
Applicant	A person which has applied to subscribe for New Shares under the Entitlement Offer
Application	a valid application made to subscribe for New Shares under the Offer in the manner set out in Sections 3.9 and 3.10
Application Monies	the aggregate money payable for New Shares applied for by an Applicant
ASIC	the Australian Securities and Investments Commission
Board	the board of directors of the Company
Closing Date	5:00pm (Sydney time) on 1 July 2024, unless extended by the Company
Commitment Letter	means the commitment letter between the Company, Metrics and MBFH dated 7 June 2024, pursuant to which Metrics and MBFH have agreed to take up their Entitlements under the Entitlement Offer
Company or **Navalo**	Navalo Financial Services Group Limited (ACN 605 753 535)
Constitution	the constitution of the Company as amended from time to time
Corporations Act	the *Corporations Act* 2001 (Cth)
Credit Act	the *National Consumer Credit Protection Act 2009* (Cth)
Directors	the directors of the Company
Eligible Shareholder	a person who is eligible to participate in the Offer and satisfies the requirements set out in Section 3.3.
Entitlement	the number of New Shares that an Eligible Shareholder is entitled to apply for under the Entitlement Offer (on the basis of 5.87 New Shares for every 1 Share held on the Record Date)
Entitlement Offer	the pro rata non-renounceable entitlement offer made to Eligible Shareholders to subscribe for 5.87 New Shares for every 1 Share which the Shareholder is the registered holder of on the Record Date at an Offer Price of $0.194 per New Share
Entitlement and Acceptance Form	the personalised form attached to or accompanying this Offer Information Statement
Financial Report	the audited financial report of the Company for the 12 month period ended 31 December 2023 and attached to this Offer Information Statement at Appendix B
GST	goods and services tax
Independent Expert	RSM Corporate Australia Pty Ltd
Independent Expert's Report	the report prepared by the Independent Expert in relation to the Entitlement Offer, and attached to this Offer Information Statement at Appendix A
Metrics	MCH Investment Management Services Pty Ltd as trustee for the

Term	Meaning
	MCP Credit Trust 1
MBFH	Metrics Business Finance Holdings Pty Ltd
New Share	a new Share to be issued under the Entitlement Offer
Offer Information Statement	this document and any supplementary or replacement Offer Information Statement in relation to this document
Offer Price	$0.194 per New Share
Pinnacle	Pinnacle Investment Management Group Limited
Record Date	the date for determining Entitlements under the Entitlement Offer, being 7:00pm (Sydney time) on 13 June 2024
Section	a section of this Offer Information Statement
Securities	has the meaning given in section 92 of the Corporations Act
Shareholder	a registered holder of Shares
Share Registry	Automic Pty Ltd
Share	a fully paid ordinary share in the capital of the Company
US Person	as defined in Regulation S under the US Securities Act
US Securities Act	US Securities Act of 1933 (as amended)

Corporate directory

Registered office

2 Ridge Street
North Sydney NSW 2060

Directors

Andrew Lockhart
Allan Griffiths
Matthew Pringle
Mark Licciardo
Lisa Davis

Website

www.navalo.com.au

Auditor

KPMG
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

Australian legal adviser

Mills Oakley
Level 6
530 Collins Street
Melbourne VIC 3000

Share Registry

Automic Group
Level 5, 126 Phillip Street
Sydney NSW 2000

Offer information line

Within Australia: 1300 288 664
Outside Australia: +61 2 9698 5414

Appendix A Independent Expert's Report

Navalo Financial Services Group Limited

Financial Services Guide and Independent Expert's Report

6 June 2024

Financial Services Guide

06 June 2024

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 (“**RSM Corporate Australia Pty Ltd**” or “**we**” or “**us**” or “**ours**” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“**FSG**”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination. If a complaint is received in advance of a shareholder meeting or other key date where shareholders or investors may be making decisions which are influenced by our report, we will make all reasonable efforts to respond to complaints prior to that date.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ("**AFCA**"). AFCA is an independent dispute resolution scheme that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au. You may contact AFCA directly by email, telephone or in writing at the address set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
Toll Free: 1800 931 678
Email: info@afca.org.au

Time limits may apply to make a complaint to AFCA, so you should act promptly or consult the AFCA website to determine if or when the time limit relevant to your circumstances expires.

Contact details

You may contact us using the details set out at the top of our letterhead on page 4 of this report.

Independent Expert's Report

RSM Corporate Australia Pty Ltd

Level 27, 120 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007
T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199

www.rsm.com.au

6 June 2024

The Independent Board Committee
Navalo Financial Services Group Limited
2 Ridge Street
North Sydney NSW 2060

Dear Independent Board Committee,

Introduction

This Independent Expert's Report (the "**Report**" or "**IER**") has been prepared to provide shareholders ("**Shareholders**") of Navalo Financial Services Group Limited ("**NFS**" or the "**Company**") with sufficient information to make an informed decision in relation to the entitlement offer ("**Entitlement Offer**") as set out in the Offer Information Statement ("**Offer Information Statement**").

Under the Offer Information Statement, NFS will undertake a pro rata non-renounceable entitlement offer of 5.87 new shares ("**New Shares**") for every existing NFS share ("**Share**") to raise up to approximately $10.0m including costs. MCH Investment Management Services Pty Ltd as trustee for the MCP Credit 1 Trust ("**Metrics**") and its related party, Metrics Business Finance Holdings Pty Ltd ("**MBFH**") hold a combined 88.79% interest in NFS. Metrics and MBFH have agreed to take up all their entitlements under the Entitlement Offer.

NFS is opting to make the Entitlement Offer to all NFS shareholders, making all registered shareholders at the record date for the Entitlement Offer eligible shareholders ("**Eligible Shareholders**") for the purpose of the Entitlement Offer. Metrics and MBFH will subscribe for their full entitlement of approximately 45.7m New Shares. If Shareholders other than Metrics and MBFH do not take up their full entitlement, the combined voting power of Metrics and MBFH may increase from its current level of 88.79%.

Scope of the report

There is no mandatory requirement for the Company to obtain an Independent Expert's Report in relation to the Entitlement Offer. The IBC has requested that RSM Corporate Australia Pty Ltd ("**RSM**"), being independent and qualified for the purpose, assess the Fair Value of a NFS Share to assist the IBC in determining the offer price ("**Offer Price**") and to provide Shareholders with sufficient information in relation to the Fair Value of a NFS Share to make an informed decision as to whether or not to participate in the Entitlement Offer (noting that Metrics and MBFH have already committed to participate in the Entitlement Offer to their full entitlement).

The ultimate decision whether to participate in the Entitlement Offer should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Entitlement Offer, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

The scope of this Report excludes any analysis of matters other than the valuation of a NFS Share that Shareholders may wish to consider in forming their decision as to whether to participate in the Entitlement Offer.

Approach

In preparing this report and assessing the Fair Value of a NFS Share, we have had regard to Australian Securities and Investment Commission ("**ASIC**") Regulatory Guide 111 – Content of Expert Reports ("**RG111**").

We have assessed the Fair Value of a NFS Share on a minority interest basis as Metrics, together with its associated entities, holds 88.79% of NFS and has already committed to its full entitlement of New Shares. All other Shareholders hold a minority interest in NFS.

Fair Value assessment of a NFS Share

RSM has assessed the Fair Value of a NFS Share on a minority interest basis using the capitalisation of future maintainable earnings (at the revenue level) as the primary valuation methodology. A summary of our assessment is set out below.

Table 1 Valuation summary

Navalo Financial Services Group Ltd Valuation summary - Capitalisation of FME	Low $'000	High $'000	Preferred $'000
FME (assessed at revenue level)	20,000	20,000	20,000
Assessed revenue multiple (Control basis)	6.00	6.40	6.20
Enterprise Value (100% interest)	**120,000**	**128,000**	**124,000**
Less: net debt	(121,144)	(121,144)	(121,144)
Fair Value of equity (Control basis)	**$Nil**	**6,856**	**2,856**
Discount for minority interest	(23.1%)	(23.1%)	(23.1%)
Discount for lack of marketability	(25.0%)	(20.0%)	(22.5%)
Fair Value of equity (Minority interest basis)	**$Nil**	**4,219**	**1,703**
Number of Shares on issue ('000)	8,777	8,777	8,777
Assessed Fair Value per Share (Minority interest) ($)	**$Nil**	**0.481**	**0.194**

Source: RSM analysis

We have assessed the Fair Value per Share of NFS in the range of $Nil to $0.481 with a preferred valuation of $0.194. The Fair Value per Share of NFS has been assessed on a minority interest basis, reflecting the position of Shareholders other than Metrics and its associates.

Whilst the valuation range at the Enterprise Value level represents a spread of circa 3% from the mid-point, the valuation range at the equity level is particularly wide as a result of the level of net debt in the Company. Details of the valuation approach and methodology are set out in Section 4.

The assessed Fair Value per Share is consistent with the net asset value of the Company, on a going concern basis, of $0.196 based on the unaudited pro-forma net asset position of the Company as at 31 March 2024.

General

An individual Shareholder's decision in relation to the Entitlement Offer may be influenced by their individual circumstances, including any tax implications relevant to an individual Shareholder. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

RSM Corporate Australia Pty Ltd

Andrew Clifford
Director

Nadine Marke
Director

Contents

1. Summary of Entitlement Offer

1.1 Overview

NFS is undertaking a pro-rata non-renounceable Entitlement Offer of new fully paid ordinary shares in the Company. New shares under the Offer will be issued at a price of $0.194 per share, which will raise up to $10.0m and result in the issuance of approximately 51.5m New Shares. The New Shares will be fully paid and rank equally in all respects with the Shares from their date of issue.

The Entitlement Offer is being undertaken to assist the Company to meet its present and on-going funding needs. The Directors have stated that the proceeds from the Entitlement Offer will be used to:

- repay the short-term shareholder loan of $4.5m received from Metrics as part of the funding package announced on 29 February 2024;
- provide additional working capital to cover operating expenses incurred in the Company's ongoing business operations until approximately December 2024; and
- pay for costs associated with the Entitlement Offer.

Prior to the Entitlement Offer, Metrics holds 68.40% of the issued share capital of NFS. MBFH, a related body corporate of Metrics, holds an interest in the Company of 20.39%. Accordingly, Metrics and MBFH hold voting power of appropriately 88.79% in the Company with other Shareholders making up the remaining 11.21% interest in the Company.

2. Scope of the Report

2.1 Purpose of this Report

The Independent Board Committee ("**IBC**") of the Company have requested that RSM, being independent and qualified for the purpose, prepare a report to assess the Fair Value of a NFS Share to:

- assist the IBC in determining the Offer Price; and
- provide Shareholders with sufficient information in relation to the Fair Value of a NFS Share to make an informed decision in relation to whether to participate in the Entitlement Offer (noting that Metrics and MBFH have already committed to participate in the Entitlement Offer to their full entitlement).

2.2 Basis of evaluation

In the valuation assessment, RSM has had regard to relevant Regulatory Guides issued by ASIC, including RG 111 and RG 112.

We have assessed the Fair Value of a NFS Share on a minority interest basis as Metrics and MBFH, hold 88.79% of NFS and have agreed to take up all their entitlement of New Shares under the Entitlement Offer. All other Shareholders hold a minority interest in NFS.

The scope of this Report excludes any analysis of matters other than the valuation of a NFS Share that Shareholders may wish to consider in forming their decision as to whether to participate in the Entitlement Offer.

Our assessment of the above is based on economic, market and other conditions prevailing at the date of this Report.

3. Profile of NFS

3.1 Overview

NFS, previously Payright Limited, was listed on the ASX until circa 28 July 2023, when it delisted from the exchange.

NFS provides Buy Now-Pay Later (“**BNPL**”) consumer finance products to a range of borrowers throughout Australia. It engages directly with merchant stores to offer a point-of-sale finance solution, where a customer elects to use finance as a method of settling their purchase. An application for finance is made via a merchant specific online portal with NFS who settle a transaction directly to the merchant, typically net of an agreed Merchant Service Fee (“**MSF**”).

NFS generates revenue via the MSF charged to the merchant and other fees charged to the end customer in place of applying an interest rate. In addition to the MSF, NFS charges customers an establishment fee, account keeping and payment processing fees on a monthly or fortnightly basis.

NFS currently has circa 50,000 active customers, with circa 144,000 customers served across approximately 3,000 merchant stores. The average transaction value financed by NFS is circa $4,300. The Company has circa 50 staff with an office located in Melbourne.

The Company typically services a merchant base that includes home improvement, health and beauty, education, retail, photography and automotive. The merchant base typically has a higher price point of transactions than many of NFS’ competitors that operate under a 4 equal instalment repayment model. NFS finances these higher value transactions with more diversified loan terms of up to 60 months.

3.2 Regulatory Environment

NFS’ BNPL product is not regulated by the National Consumer Credit Protection Act (Cth) 2009 (“**NCCP**”) as it falls under the exemptions available to certain types of credit in Schedule 1 to the Credit Act (the National Credit Code). BNPL products are not subject to the responsible lending standards or other requirements of the Credit Act and BNPL providers do not need to hold an Australian Credit License (“**ACL**”).

NFS is an accredited member of the BNPL Code of Practice.

On 22 May 2023, the Commonwealth Government announced the intent to change the law, so that BNPL products are regulated as credit products under the NCCP. Whilst the proposed legislation is still to be finalised, the Federal Government has indicated that providers will be required to:

- hold an ACL;
- comply with responsible lending obligations;
- meet statutory dispute resolution and hardship requirements;
- abide by existing restrictions on unacceptable marketing; and
- meet a range of other minimum standards in relation to conduct and products.

In March 2024, the Commonwealth Government released an exposure draft bill in relation to the above, with the exposure period closing 9 April 2024.

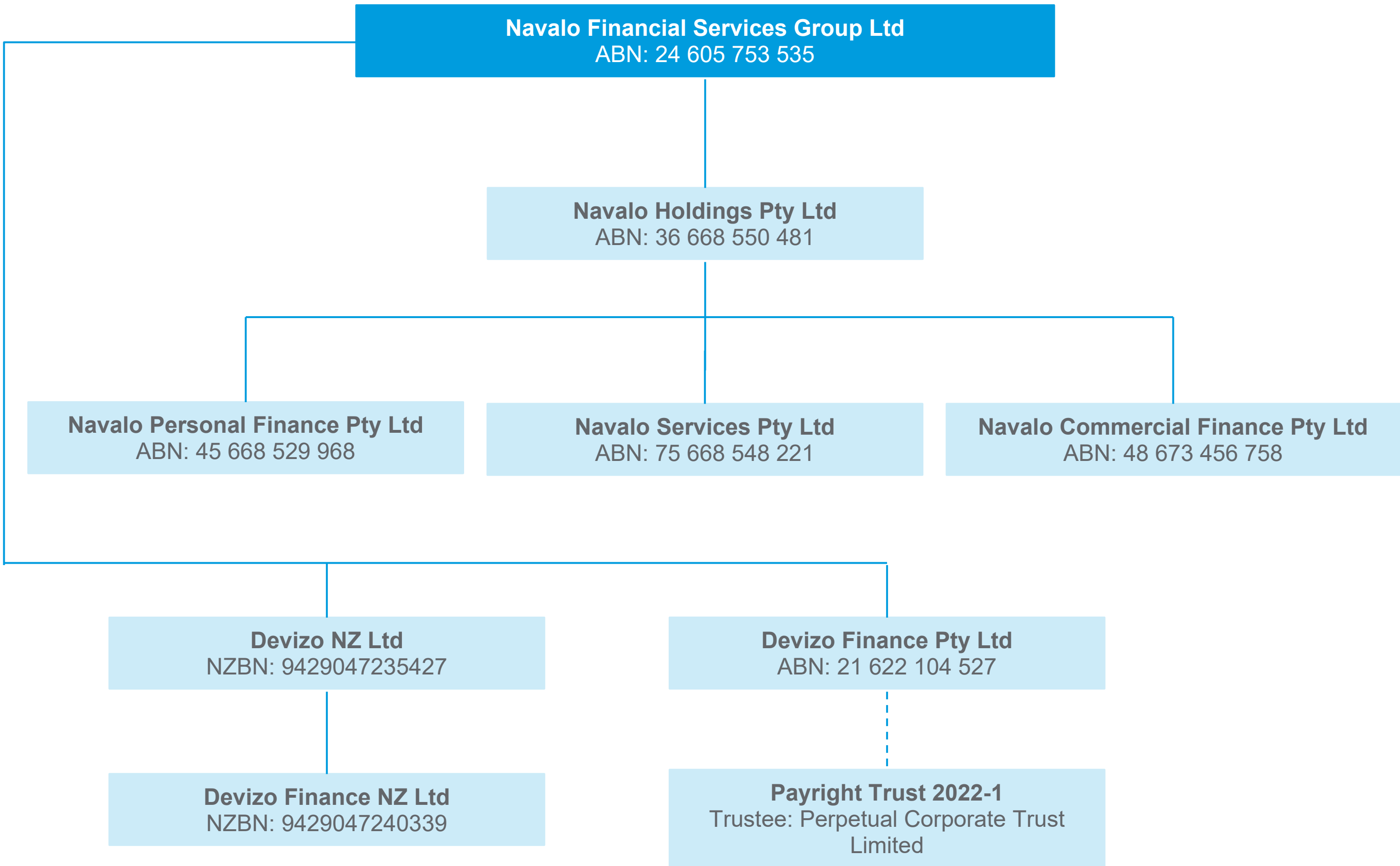
NFS was granted an ACL in August 2022 which provided the Company the ability to issue licensed credit products. The Company launched its first licensed credit offering in late November 2023. The initial product is a fixed term, unsecured personal loan distributed through the existing and prospective merchant network. The product is intended to complement the BNPL product and primarily be applied to transactions over $5k where fee caps have made it challenging for NFS to profitably acquire new business and service existing business in the absence of an interest rate that is typically attached to a licensed product.

3.3 Legal structure

An overview of the Company structure is set out below.

NFS is the ultimate parent of the NFS Group with the following wholly owned subsidiaries.

Figure 2 NFS Group company structure



3.4 Directors and management

The directors and company secretary of NFS are summarised in the table below.

Table 2 NFS Directors and Key Management Personnel

Name	Title	Experience
Andrew Lockhart	Chairman and Non-executive Director	Andrew has more than 30 years of banking, funds management and financial markets experience and is the Managing Partner and Director of Metrics Credit Holdings Pty Ltd, a leading Australian non-bank corporate lender and alternative asset manager specialising in fixed income, private credit, equity and capital markets, with more than $15bn of assets under management. Andrew has experience in loan origination, structuring and portfolio risk management, previously specialising in leverage and acquisition finance and corporate institutional lending at National Australia Bank. Andrew is also a Non-executive Director of several non-bank finance companies. Andrew holds a Bachelor of Business and Master of Business Administration from Queensland University of Technology. Andrew is a director of MCH Investment Management Services Pty Ltd (a member of the Metrics group). Andrew is a member of NFS' Audit and Risk Committee and Capital Management Committee.
Allan Griffiths	Non-executive Director	Allan has more than 30 years of experience in the financial services industry. Allan has held a number of executive positions within the industry, most notably as Chief Executive Officer of Aviva Australia (formerly Norwich Union) and later, Managing Director South Asia, Aviva Asia Pte Ltd based in Singapore. Prior to joining Aviva, he held executive positions with Colonial Ltd. Allan is Chairman of ASX listed Insignia Financial (formerly IOOF), having been appointed Chairman in 2019 and Director since 2014, St Andrew's Insurance Group and Metrics Credit Holdings Pty Ltd as trustee for MCH Investments Trust. Allan has a Bachelor of Business and is a member of NFS' Audit and Risk Committee and Capital Management Committee.
Matthew Pringle	Non-executive Director	Matthew has experience in corporate finance, audit and assurance, governance and strategy, including over 25 years' experience as a Partner at Pitcher Partners. His roles with Pitcher Partners included leading the corporate finance practice group, senior audit partner and leading the corporate governance and board advisory practice area. Matthew holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant. Matthew also holds a Graduate Diploma in Governance and is a Fellow of the Chartered Governance Institute, the Governance Institute of Australia and the Australian Institute of Company Directors. Matthew is a member and Chair of the Audit and Risk Committee and Capital Management Committee.
Mark Licciardo	Non-executive Director	Mark has experience working with boards of high-profile ASX-listed companies, with expertise in the listed investment, infrastructure, biotechnology and digital sectors. Mark is the founder of Mertons Corporate Services, now part of Acclime Australia and is responsible for Acclime Australia's Listed Services Division. He currently serves as a director on ASX listed Frontier Digital Ventures (ASX:FDV) as well as a number of other unlisted public company boards and foreign-controlled entities and private companies. Mark holds a Bachelor of Business degree in accounting, a Graduate Diploma in Governance and is a Fellow of the Chartered Governance Institute, the Governance Institute of Australia and the Australian Institute of Company Directors
Lisa Davis	Non-executive Director	Lisa has a background in Business Performance Optimisation, transformation and leadership of large-scale teams to drive customer outcomes. Lisa built her early career with GE Australia in key transformation leadership roles, before moving to a COO role. She has held P&L responsibility in both financial services and consumer products. Lisa has spent 6 years at Equifax, a global Data, Analytics and Tech business, as COO, and has experience in leading local teams within a global context and in-depth knowledge of digital, customer experience design and operational risk management.
Saara Mistry	General Counsel, Chief Risk Officer and Company Secretary	Saara has over 20 years of experience performing numerous in-house legal counsel, compliance and risk professional roles across financial services in Australia, the United Kingdom and the Middle East. She specialises in consumer finance, regulatory compliance and reform, as well as privacy and wealth management compliance. Prior to her role at NFS, Saara held roles at Barclays Bank in the UK, HSBC in the Middle East and National Australia Bank and Liberty Financial in Australia. She holds a Bachelor of Science/Bachelor of Laws (Hons) from Monash University.

3.5 Financial Performance

The following table sets out a summary of the financial performance of NFS for the 3 years ended 30 June 2023, and the 12 months ended 31 December 2023 ("**Historical Period**") extracted from the audited financial statements.

Table 3 NFS historical financial performance

Navalo Financial Services Group Ltd Financial performance ($000)	FY21 *Audited*	FY22 *Audited*	FY23 *Audited*	CY23 *Audited*
Revenue				
Customer fees	4,107	5,700	6,415	6,514
Merchant fees	7,345	10,229	11,657	12,244
Total fee income	**11,452**	**15,929**	**18,072**	**18,758**
Finance costs (product)	(5,259)	(7,722)	(8,225)	(10,401)
Revenue net of finance costs	**6,193**	**8,207**	**9,847**	**8,357**
Net revenue margin	*54%*	*52%*	*54%*	*45%*
Expected credit losses	(3,188)	(4,791)	(5,144)	(7,609)
Revenue net of finance costs and ECL	**3,005**	**3,416**	**4,703**	**748**
Operating expenses				
Administrative expenses	(1,122)	(1,625)	(1,951)	(2,333)
Advertising and marketing	(2,062)	(543)	(189)	(98)
Employee costs	(8,872)	(10,241)	(7,518)	(7,298)
Professional fees	(2,290)	(1,941)	(2,700)	(3,083)
Rent and occupancy	(96)	(62)	(69)	(29)
Other	(1,091)	(1,002)	(888)	(828)
Total operating expenses	**(15,533)**	**(15,414)**	**(13,315)**	**(13,669)**
Other income	722	386	816	2,434
EBITDA (inc. product finance costs)	**(11,806)**	**(11,612)**	**(7,796)**	**(10,487)**
EBITDA margin %	*-103%*	*-73%*	*-43%*	*-56%*
Depreciation	(159)	(176)	(125)	(68)
EBIT (including product finance costs)	**(11,965)**	**(11,788)**	**(7,921)**	**(10,555)**
EBIT margin %	*-104%*	*-74%*	*-44%*	*-56%*
Interest income	-	-	89	181
Finance costs	(769)	(874)	(2,294)	(2,123)
Net profit before tax	**(12,734)**	**(12,662)**	**(10,126)**	**(12,497)**
Income tax expense	-	-	-	-
Net profit after tax	**(12,734)**	**(12,662)**	**(10,126)**	**(12,497)**

Source: Audited accounts FY21, FY22, FY23 and CY23

We note the following in relation to NFS' financial performance:

- NFS generated revenue growth at a compound annual growth rate ("**CAGR**") of 25.6% over the 2 years to 30 June 2023.
- Merchant fees represent circa 65% of total revenue. Customer fees represent circa 35% of total revenue split by establishment fees (8%), account keeping fees (10%) and payment processing fees (17%).
- Growth in merchant and customer fees from FY22 was primarily driven by an increase in average loan terms in the loan book over the period and a focus on more profitable new originations.
- Revenue net of finance costs and expected credit losses ("**ECL**") declined substantially in CY23 compared to FY23 due to increased finance costs and a substantial ECL charge.
- ECL represented between 28% and 30% of revenue over FY21 to FY23, driven by a focus on customer quality and a proactive focus on arrears reduction strategies. However, ECL increased significantly during the second half of CY23, primarily due to a significant increase in write offs. ECL represented circa 41% of revenue over the full CY23.
- Other income in CY23 includes $1.6m of income received from a debt sale transaction which represents non-recurring income. Other income also includes $333k of late payment fees.

- Overheads declined over the Historical Period primarily due to:
  - a reduction in head count with circa 35% of employment positions made redundant, partly offset by increased consulting and professional services costs;
  - advertising and marketing expenses declined from $2.1m in FY21 to $189k in FY23. The cost incurred in FY21 was partly due to promotional and branding activities related to the launch of Payright. Further reductions have been driven by cost management activities; and
  - a reduction in occupancy costs due the relocation of the NFS office.
- Finance costs include the revaluation of the embedded derivative within the convertible notes representing a gain in FY22 of $1.1m and a loss of $533k in CY23.
- Whilst NFS has generated revenue growth and undertaken a reduction in overhead costs, the Company has generated significant trading losses over the Historical Period.
- Based on financial forecasts prepared in relation to NFS, the Directors expect NFS to remain loss making and cash flow negative on a stand-alone basis for at least the next 12 months.

3.6 Financial Position

The table below sets out a summary of the audited financial position of NFS for the 3 years ended 30 June 2023, as at 31 December 2023 and pro-forma 31 March 2024 (inclusive of a number of corporate transactions executed subsequent to 31 March 2024).

Table 4 NFS historical financial position

Navalo Financial Services Group Ltd Balance sheet ($'000)	30-Jun-21 *Audited*	30-Jun-22 *Audited*	30-Jun-23 *Audited*	31-Dec-23 *Audited*	31-Mar-24 *Pro-forma*
Current assets					
Cash and cash equivalents	7,088	12,683	9,640	8,695	11,633
Receivables	44,605	54,591	63,896	65,942	67,901
Prepayments	215	877	1,627	1,487	2,022
Other current assets	179	-	-	-	-
Total current assets	**52,087**	**68,151**	**75,163**	**76,124**	**81,556**
Non-current assets					
Receivables	19,972	40,989	48,705	50,630	52,184
Property Plant and Equipment	93	47	12	36	28
Right of use assets	161	80	-	-	-
Class B Warehouse note	-	-	-	-	18,651
Other assets	48	980	1,567	-	48
Total non-current assets	**20,274**	**42,096**	**50,284**	**50,666**	**70,911**
Total assets	**72,361**	**110,247**	**125,447**	**126,790**	**152,467**
Current liabilities					
Trade and other payables	3,068	4,605	2,501	3,654	3,222
Borrowings	16,740	4,558	-	-	23,144
Lease liabilities	95	91	-	-	-
Employee benefit liabilities	624	621	544	626	602
Total current liabilities	**20,527**	**9,875**	**3,045**	**4,280**	**26,968**
Non-current liabilities					
Borrowings	33,807	92,826	110,516	117,762	123,508
Derivative liability	-	462	853	818	-
Lease liabilities	83	-	-	-	-
Employee benefit liabilities	102	162	220	260	273
Total non-current liabilities	**33,992**	**93,450**	**111,589**	**118,840**	**123,781**
Total liabilities	**54,519**	**103,325**	**114,634**	**123,120**	**150,749**
Net assets	**17,842**	**6,922**	**10,813**	**3,670**	**1,718**

Source: Audited accounts for FY21, FY22, FY23 and CY23. Unaudited mgt accounts as at 31 March 2024 and pro-forma adjustments

We note the following in relation to NFS' financial position:

- The pro-forma balance sheet as at 31 March 2024 is sourced from unaudited management accounts adjusted for:
  - the cash payment of $19k in relation to the buyback of 60,238 Shares completed on 20 April 2024.
  - the assumption of Class B Warehouse Notes with a value of $18.7m from iPartners on 27 May 2024 funded by a corporate debt facility provided by a party associated with Metrics.
- Movements in net assets over the Historical Period have been driven primarily by the losses generated and $15m of equity capital raised (prior to costs) during FY23.
- Cash and cash equivalents as at 31 March 2024 includes restricted cash of $4.8m related to minimum balance requirements under the debt warehouse agreement.
- The increase in the cash balance between 31 December 2023 and 31 March 2024 is primarily due to funds raised on 29 February 2024 via:
  - a placement of $508k through the issue of 1,790,014 ordinary shares to MBFH at a price of $0.2838 ("**Placement**"); and
  - a short-term loan facility from Metrics of $4.5m with a repayment date of 8 July 2024.
- Receivables comprise the loan receivables net of the ECL provision.

Borrowings as at 31 March 2024 (pro-forma) comprise:

- secured loans of $115.7m comprising class A and class B notes. Loans are sold into the warehouse upon origination and funded by the class A and class B notes, with a portion funded by NFS. The total warehouse facility is $165.0m as at the date of this Report with 95% of the facility available for draw down and NFS retaining the remaining 5%;
- unsecured convertible notes of $7.6m (inclusive of the derivative liability embedded in the convertible notes) with a face value of $8.0m and a conversion price of $4.54, issued on 13 May 2022 and maturing on 13 May 2026;
- a short-term loan of $4.5m provided by Metrics; and
- a corporate loan provided by Metrics of $18.7m from a total available facility of $25.0m.

3.7 Capital Structure

At the date of this Report, NFS has 8,777,256 ordinary shares on issue. The top 20 shareholders of NFS are set out below.

Table 5 NFS top 20 shareholders

Ordinary shares on issue	Number of ordinary shares	%
MCH Investment Management Services Pty Ltd	6,003,655	68.40%
Metrics Business Finance Holdings Pty Limited	1,790,014	20.39%
Total Metrics holding	**7,793,669**	**88.79%**
PG Capital Pty Ltd	200,000	2.28%
Mr Amarandhar Reddy Kotha,	88,598	1.01%
Piers Redward	74,963	0.85%
Mr Irwin David Klotz,	72,000	0.82%
M Redward Investments Pty Ltd	71,264	0.81%
Great White Shark Services Pty	34,795	0.40%
Merrill Lynch (Australia)	26,213	0.30%
J E International Pty Ltd	24,080	0.27%
Philippa Statham Pty Ltd	19,971	0.23%
Mr Paul Samuel Cowan,	16,000	0.18%
Mr Ronald Mark Evans	15,917	0.18%
J P Morgan Nominees Australia	14,803	0.17%
Plecjam Pty Ltd	13,541	0.15%
Yavern Creek Holdings Pty Ltd	13,457	0.15%
Fincap Custodians Australia	12,122	0.14%
HSBC Custody Nominees	11,180	0.13%
Invia Custodian Pty Limited	10,230	0.12%
Vulcancrest Pty Ltd	9,969	0.11%
Total remaining holders balance	**983,587**	**11.21%**
Total ordinary shares on issue	**8,777,256**	**100.00%**

Source: NFS share register as at 4 June 2024

As at the date of this Report, Metrics (together with MBFH) holds 88.79% of NFS. Metrics also holds 14,545,454 convertible notes issued by NFS.

The tables below set out a summary of share options, warrants and convertible notes on issue as at the date of this report.

Table 6 NFS Summary of unquoted securities

Navalo Financial Services Group Ltd Unquoted securities	Number on issue	Exercise price $	Expiry date
Options over ord. shares issued	39,188	See below	See below
Convertible notes	35,555,560	3.99	13 May 2026
Warrants	21,713	4.54	16 May 2026

Source: NFS share register

Table 7 NFS Summary of options issued

Navalo Financial Services Group Ltd Options issued Description	Number on issue	Exercise price $	End date of escrow period
ESOP director options	33,000	260.91	23 December 2023
ESOP employee options	6,188	77.16	30 October 2023

Source: NFS share register

We consider the options and warrants to be significantly out of the money as at the Valuation Date and note that the exercise price of the convertible notes is significantly above our assessed Fair Value of the Company.

4. Valuation approach

4.1 Basis of evaluation

The valuation of a NFS share has been prepared on the basis of Fair Value being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

4.2 Valuation methodologies

RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:

- the discounted cash flow ("**DCF**") method and the estimated realisable value of any surplus assets;
- the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
- the amount which would be available for distribution on an orderly realisation of assets;
- the quoted price for listed securities; and
- any recent genuine offers received.

We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows.

Market based methods

Market based methods estimate the Fair Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include:

- the quoted price for listed securities; and
- industry specific methods.

The recent quoted price for listed securities method provides evidence of the Fair Value of a company's securities where they are publicly traded in an informed and liquid market.

Industry specific methods usually involve the use of industry rules of thumb to estimate the Fair Value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the Fair Value of a company than other market based valuation methods because they may not account for company specific risks and factors.

Income based methods

Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:

- discounted cash flow;
- capitalisation of future maintainable earnings.

The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

The capitalisation of future maintainable earnings is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings ("**FME**") of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

Asset based methods

Asset based methodologies estimate the Fair Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method;
- liquidation of assets method; and

- net assets on a going concern basis.

The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.

The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame. The liquidation of assets method will result in a value that is lower than the orderly realisation of assets method and is appropriate for companies in financial distress or where a company is not valued on a going concern basis.

The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

4.3 Selection of valuation methodologies

We gave selected the capitalisation of future maintainable earnings (at the revenue level) as the primary valuation methodology to assess the Fair Value of a NFS Share, having regard for the following:

- income based methods are appropriate where earnings of the business are maintainable and sufficient to justify a value exceeding the value of the underlying assets;
- RG111 states that an expert should not include prospective information (including forecasts and projections) or any other statements or assumptions about future matters (together, 'forward-looking information') in its report unless there are reasonable grounds for the forward-looking information; and
- in our opinion, the DCF approach cannot be used, as we do not consider that long term forecasts could be prepared with a sufficient degree of confidence to meet the reasonable grounds requirements of RG111.

We have selected the revenue level to assess FME on the basis that whilst NFS has generated revenue growth, it has disclosed significant trading losses over the Historical Period and is not expected to trade profitability for at least 12 months.

4.4 Valuation of a NFS Share

Our assessment of the Fair Value of a NFS Share is set out below.

Table 8 Assessed Fair Value of NFS

Navalo Financial Services Group Ltd Valuation summary - Capitalisation of FME	Ref.	Low $'000	High $'000	Preferred $'000
FME (assessed at revenue level)	4.5	20,000	20,000	20,000
Assessed revenue multiple (Control basis)	4.6	6.00	6.40	6.20
Enterprise Value (100% interest)		**120,000**	**128,000**	**124,000**
Less: net debt	4.7	(121,144)	(121,144)	(121,144)
Fair Value of equity (Control basis)		**$Nil**	**6,856**	**2,856**
Discount for minority interest	4.8	(23.1%)	(23.1%)	(23.1%)
Discount for lack of marketability	4.8	(25.0%)	(20.0%)	(22.5%)
Fair Value of equity (Minority interest basis)		**$Nil**	**4,219**	**1,703**
Number of Shares on issue ('000)	3.7	8,777	8,777	8,777
Assessed Fair Value per Share (Minority interest) ($)		**$Nil**	**0.481**	**0.194**

Source: RSM analysis

We have assessed the Fair Value of a NFS Share to be in the range of $Nil to $0.481 with a preferred valuation of $0.194, based on the capitalisation of FME methodology.

We have excluded any dilutive impact of options, warrants and convertible notes on issue on the basis that these instruments are significantly out of the money as at the date of this Report and, therefore, do not have a material impact on the Fair Value of NFS.

Whilst the valuation range at the Enterprise Value level represents a spread of circa 3% from the mid-point, the valuation range at the equity level is particularly wide as a result of the level of net debt in the Company.

We set out below the matters considered in arriving at the assessed Fair Value per share.

4.5 Assessment of Future Maintainable Earnings

In our assessment of Future Maintainable Earnings at the revenue level of $20m, we have considered the following:

- NFS generated normalised revenue of $18.4m for FY23 (after removal of non-recurring tax related credits for research and development costs). This represents revenue growth of 15.8% on FY22 revenue, driven by an increase in loan receivables and origination volumes together with longer term loans provided to customer;
- we have reviewed management information in relation to the trading results for the 6 months ended 31 December 2023 ("**1H FY24**") and considered the implications for an appropriate level of Future Maintainable Earnings. Revenue 1H FY24 was $9.6m (excluding other income generated from a sale of debt), representing annualised revenue of $19.2m;
- We have reviewed unaudited management accounts for the 9 months ended 31 March 2024 and note that the level of revenue on an annualised basis improved slightly compared to the 1H FY24 revenue; and
- our assessment of Future Maintainable Earnings at the revenue level is based primarily on historical revenue, inclusive of the consideration of revenue generated for the 9 months ended 2024.

4.6 Assessment of Earnings Capitalisation Multiple

The information available for valuation of entities in general is limited to public company data (share prices and earnings multiples). As such we have assessed the appropriate earnings multiple by reference to an equivalent revenue multiple from the public arena and after consideration of the differences between the public companies and NFS.

In selecting an appropriate capitalisation multiple to value NFS, we have reviewed trading multiples for equities of companies which are listed on the ASX or relevant international markets and are operating in the same or similar industry sectors as NFS.

Details of the comparable companies are set out in Appendix D and the comparable company multiple analysis is set out in Appendix C.

We make the following comments in relation to the comparable companies considered:

- EV/revenue LTM multiples for BNPL companies were between 2.0x and 9.1x, with a mean and median multiple of 4.5x and 3.4x, respectively;
- EV/revenue LTM multiples for consumer finance companies were between 3.2x and 10.5x with a mean and median multiple of 6.3x and 6.4x, respectively;
- EV/revenue NTM multiples for BNPL companies were between 4.1x and 7.0x, with both a mean and median multiple of 5.6x;
- EV/revenue NTM multiples for consumer finance companies were between 3.1x and 8.0x, with a mean and median multiple of 5.5x and 5.4x, respectively;
- there is no evidence of a premium in relation to company size based on the observed data; and
- NFS typically has longer loan terms on its BNPL product than the comparable BNPL companies.

On the above basis, we have assessed the comparable listed revenue multiple for NFS to be in the range from 4.7x to 4.9x on a minority interest basis.

Table 9 Assessed revenue multiple

Navalo Financial Services Group Ltd Capitalisation multiple (Revenue)	Low	High	Preferred
Comparable listed revenue multiple	4.70	4.90	4.80
Assessed revenue multiple (Minority interest basis)	**4.70**	**4.90**	**4.80**
Premium for control	30.0%	30.0%	30.0%
Assessed revenue multiple (Control basis)	**6.00**	**6.37**	**6.24**
Say	**6.00**	**6.40**	**6.20**

Source: Capital IQ and RSM calculations

Control premium

Obtaining control of an entity usually provides the acquirer with a number of advantages including the following:

- access to potential synergies;
- control over decision making and strategic direction;
- access to underlying cash flows; and
- control over dividend policies.

In the case of publicly traded securities, given the advantages control of an entity provides an acquirer, they are usually expected to pay a premium to the quoted market price to achieve control, which is often referred to as a control premium. A control premium is the amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the premium a buyer will pay to acquire control in a business enterprise. Consequently, multiples for listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).

RSM has conducted a study on 605 takeovers and schemes of arrangements involving companies listed on ASX over the 15.5 years ended 31 December 2020 ("**RSM Control Premium Study 2021**"). In determining the control premium, RSM compared the offer price to the closing trading price of the target company 20, 5 and 2 trading days pre the date of the announcement of the offer. Where the consideration included shares in the acquiring company, RSM used the closing share price of the acquiring company on the day prior to the date of the offer.

Table 10 Control premium study

	Number of transactions	20 days pre	5 days pre	2 days pre
Average control premium (all industries)	605	34.7%	29.2%	27.1%

Source: RSM Control Premium Study 2021

Based on the above, we consider that a control premium of 30% is appropriate in assessing the value of NFS on a controlling basis implying an EV/Revenue multiple in the range of 6.0x to 6.4x.

Implied discount for size and business risk factors

The discount for size and business risk factors reflects individual risk factors of the company. We have not applied a discount for size or business risk factors based on the following considerations:

- there is no evidence of a premium in relation to company size based on the observed data and NFS is of comparable size to a number of the BNPL comparable companies; and
- we consider that NFS faces broadly the same business, regulatory and economic risks as the other BNPL comparable companies.

4.7 Net debt and funding position

The table below sets out the pro-forma net debt position of NFS as at 31 March 2024.

Table 11 Summary of net debt

Net debt	30-Jun-23 Audited	31-Dec-23 Audited	31-Mar-24 Pro-forma
Cash and cash equivalents			
Cash and cash equivalents	9,640	8,695	11,633
Less restricted cash	(1,500)	(3,868)	(4,776)
Unrestricted cash	**8,140**	**4,827**	**6,857**
Class B Warehouse Note	-	-	18,651
Total financial assets	**8,140**	**4,827**	**25,508**
Borrowings			
Current	-	-	(23,144)
Non current	(110,516)	(117,762)	(123,508)
Derviative liability	(853)	(818)	NA
Financial liabilities	**(111,369)**	**(118,580)**	**(146,652)**
Net debt	**(103,229)**	**(113,753)**	**(121,144)**

Source: Audited accounts for FY21, FY22, FY23 and CY23. Unaudited mgt accounts as at 31 March 2024 and pro-forma adjustments

Net debt excludes restricted cash of $4.8m related to minimum balance requirements under the debt warehouse agreement.

4.8 Minority interest valuation basis

Minority interest discount

Shareholders other than Metrics and its associates, hold a minority interest in NFS. Minority interests typically trade at a discount to control value to reflect the inability of the minority interest shareholder to control decisions in relation to company strategy, capital allocation and other key decisions. To remove the assessed control premium of 30% we have applied a discount for minority interest of 23.1%.

Discount for lack of marketability (“DLOM”)

NFS is an unlisted public company and NFS shares are not listed on any securities exchange. Shareholders hold shares in a company with less liquidity that the comparable listed companies. Consequently, there is inherent uncertainty when a liquidity event will occur to allow Shareholders to realise their investment in NFS.

DLOMs vary widely and are dependent upon specific circumstances. However, a DLOM is typically assessed having regard to US restricted stock and pre-IPO studies, with these studies finding discount ranges of between 20% to 40% for restricted stock studies and pre-IPO studies ranging from 35% to 56%.

Shareholders recently had an opportunity to participate in a liquidity event, being the equal access share buyback at the same price as the equity placement with Metrics of $0.2838 per share. The buyback was completed on 26 April 2024 with the number of shares acquired under the buy-back being 60,238 out of a maximum of 704,748 shares available for buy-back.

We note that as a result of the Entitlement Offer, Metrics may increase its interest in NFS to above 90% which would provide Metrics with the ability to compulsorily acquire minority shareholdings if it elected to do so which would create a liquidity event for Shareholders. Metrics has advised the Company that it has not currently made any determination in relation to any further dealings in Company shares including a potential exercise of the general compulsory acquisition power in Chapter 6A of the Corporations Act.

We have assessed a DLOM of 20% to 25%.

4.9 Valuation cross check

In order to cross check the reasonableness of the assessed value of a NFS share set out above, we have considered:

- the net asset value on a going concern basis as at 31 March 2024; and
- recent transactions in NFS shares.

Net asset value

As at 31 March 2024, the Company disclosed pro-forma net assets of $1.72m implying a net asset per share value of $0.196.

Recent Transactions

The share placement of 1,790,014 ordinary shares to Metrics and the associated share buy-back of 60,238 shares (out of a maximum of 704,748 shares) was undertaken at $0.2838 per share.

Valuation cross check conclusion

We have placed limited reliance on the recent transactions as the primary participant was Metrics and the transaction formed part of a funding package where Metrics provided a short term unsecured and interest free loan of $4.5m.

Given the loss making position of the Company we consider that the most recent available net asset value position provides a reasonable basis to cross check the Fair Value per share derived from the primary valuation methodology.

We consider that the net asset per share value, on a going concern basis, of $0.196 is supportive of the Fair Value per share assessed of $0.194 using the capitalisation of future maintainable earnings valuation approach.

Appendices

A. Declarations and Disclaimers

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Andrew Clifford and Nadine Marke are directors of RSM Corporate Australia Pty Ltd. Both Andrew Clifford and Nadine Marke are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Entitlement Offer. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of Navalo Financial Services Group Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Andrew Clifford, Nadine Marke, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Entitlement Offer, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately $30,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of the outcome of the Entitlement Offer.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Offer Information Statement to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Offer Information Statement. Accordingly, we take no responsibility for the content of the Offer Information Statement.

B. Sources of Information

In preparing this Report we have relied upon the following principal sources of information:

- drafts of the Offer Information Statement;
- NFS annual audited financial statements for the 3 years ended 30 June 2023;
- NFS audited financial statements for the calendar year ended 31 December 2023;
- NFS unaudited management accounts for the 9 months ended 31 March 2024;
- public announcements in relation to NFS;
- IBISWorld; and
- S&P Capital IQ.

C. NFS Comparable listed trading multiples

Ticker	Company Name	Country	Market Cap. $'M	Enterprise Value $'M	Revenue LTM $'M	Revenue NTM $'M	F/cast Rev. Growth	NPAT LTM $'M	NPAT NTM $'M	NPAT LTM Margin	EV/Rev LTM	EV/Rev NTM
BNPL (or similar)												
ASX:ZIP	Zip Co Limited	Australia	1,254.4	3,674.4	789.7	887.3	12%	(55.9)	15.7	(7%)	4.7x	4.1x
ASX:HUM	Humm Group Limited	Australia	229.0	4,338.2	475.5	622.1	31%	(5.8)	5.3	(1%)	9.1x	7.0x
NasdaqCM: SEZL	Sezzle Inc.	United States	580.8	572.9	263.2	NA	NA	39.3	-	15%	2.2x	NA
ASX:B4P	Beforepay Group Limited	Australia	24.0	37.2	18.3	NA	NA	(0.0)	NA	(0%)	2.0x	NA
	All											
	Min		**24.0**	**37.2**	**18.3**	**622.1**	**12%**	**(55.9)**	**-**	**(7%)**	**2.0x**	**4.1x**
	Max		**1,254.4**	**4,338.2**	**789.7**	**887.3**	**31%**	**39.3**	**15.7**	**15%**	**9.1x**	**7.0x**
	Mean		**522.0**	**2,155.7**	**386.7**	**754.7**	**22%**	**(5.6)**	**7.0**	**2%**	**4.5x**	**5.6x**
	Median		**404.9**	**2,123.7**	**369.4**	**754.7**	**22%**	**(2.9)**	**5.3**	**(1%)**	**3.4x**	**5.6x**
Consumer finance												
ASX:HMY	Harmoney Corp Limited	New Zealand	43.8	746.5	116.9	127.7	9%	(3.0)	(0.3)	(3%)	6.4x	5.8x
ASX:LFS	Latitude Group Holdings Limited	Australia	1,206.0	6,704.9	989.5	NM	NM	(55.7)	78.4	(6%)	6.8x	NA
ASX:MME	MoneyMe Limited	Australia	47.7	1,068.2	215.1	216.0	0%	6.0	23.4	3%	5.0x	4.9x
ASX:PLT	Plenti Group Limited	Australia	122.2	2,165.8	207.2	272.1	NM	(7.3)	1.5	(4%)	10.5x	8.0x
ASX:QFE	QuickFee Limited	Australia	21.5	62.6	17.1	NA	NA	(4.4)	-	(26%)	3.7x	NA
ASX:SVR	Solvar Limited	Australia	203.8	699.7	215.4	224.4	4%	34.6	29.0	16%	3.2x	3.1x
ASX:WZR	Wisr Limited	Australia	50.8	835.2	96.7	NA	NA	(5.2)	-	(5%)	8.6x	NA
	All											
	Min		**21.5**	**62.6**	**17.1**	**127.7**	**0%**	**(55.7)**	**(0.3)**	**(26%)**	**3.2x**	**3.1x**
	Max		**1,206.0**	**6,704.9**	**989.5**	**272.1**	**9%**	**34.6**	**78.4**	**16%**	**10.5x**	**8.0x**
	Mean		**242.3**	**1,754.7**	**265.4**	**210.0**	**5%**	**(5.0)**	**18.9**	**(3%)**	**6.3x**	**5.5x**
	Median		**50.8**	**835.2**	**207.2**	**220.2**	**4%**	**(4.4)**	**1.5**	**(4%)**	**6.4x**	**5.4x**

Source: Capital IQ

D. NFS Comparable company descriptions

Company	Business Description
Zip Co Limited	Zip Co Limited engages in the provision of digital retail finance and payments solutions to consumers, and small and medium sized merchants (SMEs) in Australia, New Zealand, Canada, and the United States. The company offers Buy Now Pay Later services, which offer line of credit and installment products to consumers through online and in-store. It also provides unsecured loans and lines of credit to SMEs. The company was formerly known as ZipMoney Limited and changed its name to Zip Co Limited in December 2017. Zip Co Limited was incorporated in 2009 and is headquartered in Sydney, Australia.
Humm Group Limited	Humm Group Limited provides various financial services in Australia, New Zealand, Ireland, the United Kingdom, and Canada. The company operates through four segments: Point of Sale Payment Plans (PosPP), New Zealand Cards, Australia Cards, and Commercial. It offers long term interest free finance and everyday spend solutions under the humm90 brand; Q Mastercard, an interest free credit card; FlexiCommercial, a business financing solution, which includes leasing and chattel mortgages for small and medium businesses; and leasing solutions and small and medium enterprise financing services. The company was formerly known as FlexiGroup Limited and changed its name to Humm Group Limited in November 2020. Humm Group Limited was founded in 1988 and is headquartered in Sydney, Australia.
Sezzle Inc.	Sezzle Inc. operates as a technology-enabled payments company primarily in the United States and Canada. The company provides payment solution in-store and at online retail stores; and through proprietary payments solution that connects consumers with merchants. It also offers Sezzle Platform that provides a payments solution for consumers that extends credit at the point-of-sale allowing consumers to purchase and receive the ordered merchandise at the time of sale while paying in installments over time; Pay-in-Four, which allows consumers to pay a fourth of the purchase price up front and then another fourth of the purchase price every two weeks thereafter over a total of six weeks; Pay-in-Full that allows consumers to pay for the full value of their order up-front through the Sezzle Platform without the extension of credit; and Pay-in-Two and other alternative installment options, which allow consumer to pay half of the value of their order up-front and the second half in two weeks. In addition, the company provides Sezzle Virtual Card that allows consumers to access the Sezzle Platform in the form of close-end installment loans and shop with merchants that are not integrated with Sezzle; Sezzle Anywhere, a paid subscription service that allows consumers to use their Sezzle Virtual Card at any merchant online or in-store; Sezzle Premium, a paid subscription service that allows its consumers to access large, non-integrated premium merchants; and Sezzle Up, an opt-in feature of the Sezzle Platform. Further, it offers Long-Term Lending through collaboration with third-party lenders and Product Innovation. Sezzle Inc. was incorporated in 2016 and is headquartered in Minneapolis, Minnesota.
Beforepay Group Limited	Beforepay Group Limited engages in the provision of pay-on-demand services through mobile applications in Australia. The company provides finance to individuals by way of pay advances. It serves construction, retail trade, hospitality and restaurant, healthcare and social, transport and delivery services, manufacturing, mining, and other sectors. Beforepay Group Limited was incorporated in 2019 and is based in Sydney, Australia.
Harmoney Corp Limited	Harmoney Corp Limited provides online secured and unsecured personal loans in Australia and New Zealand. The company's personal loans are used for various purposes, including debt consolidation, home improvement, wedding, car, holiday, education, business, and medical expenses. It operates Stellare, a marketing platform. The company was incorporated in 2014 and is headquartered in Auckland, New Zealand.

Company	Business Description
Latitude Group Holdings Limited	Latitude Group Holdings Limited operates in digital payments, instalments, and lending business in Australia, New Zealand, and internationally. It operates through three segments: Australian and New Zealand Pay, Australia and New Zealand Money, and Other. It provides various lending products comprising latitude loans, personal loans, motor loans, and credit cards. The company offers debt consolidation, car, home renovation, travel, boat, caravan, medical, and solar and battery loans, as well as insurance services. In addition, it provides sales finance services and payment and finance solutions to merchants and their customers; and is involved in factoring/BNPL lending and non-trading activities; as well as acts as a general and life insurer and operates a payment platform. Latitude Group Holdings Limited was incorporated in 2015 and is based in Melbourne, Australia.
MoneyMe Limited	MoneyMe Limited, a digital financial service company, provides consumer finance under the MONEYME and SocietyOne brands in Australia. It offers personal loans, credit cards, and debt consolidation services. MoneyMe Limited was founded in 2013 and is based in Sydney, Australia.
Plenti Group Limited	Plenti Group Limited engages in the fintech lending business in Australia. The company offers personal, car, wedding, legal fee, motorcycle, and dental loans; green, holiday, debt consolidation, and EV loans, as well as engages in auto refinancing activities. It also offers automotive and renewable energy related loans. Plenti Group Limited was founded in 2014 and is headquartered in Sydney, Australia.
QuickFee Limited	QuickFee Limited provides a suite of payment and lending offerings through an online portal to professional, commercial, and homeowner services providers in Australia and the United States. The company's integrated online payment platform and financing solutions enables merchants to accept payments by ACH/EFT or card, payment plan/loan, or a 'buy now, pay later' instalment plan. QuickFee Limited was founded in 2009 and is based in Baulkham Hills, Australia.
Solvar Limited	Solvar Limited provides automotive and personal finance in Australia and New Zealand. The company offers vehicle loans that include loans for new and used cars, motorbikes, utility vehicles, trailers, tractors, trucks, caravan, boats, horse floats, ride on mowers, equipment, and jet skis, as well as secured and unsecured personal loans. It provides loans through brokers and dealers under the Money3, AFS, and Go Car Finance brand names. The company was formerly known as Money3 Corporation Limited and changed its name to Solvar Limited in November 2022. Solvar Limited was founded in 2000 and is headquartered in Bundoora, Australia.
Wisr Limited	Wisr Limited engages in the lending business in Australia. The company provides personal and secured vehicle loans to consumers. Wisr is based in The Rocks, Australia.

Source: Capital IQ

E. Industry Overview

Buy Now Pay Later[1]

The Australian finance sector is made up of companies that provide banking and lending services and investment trusts in Australia. The finance sector can be broken down into domestic banks, foreign banks, non-depository financiers and financial asset investors.

Navalo Financial Services Group Limited is a provider of BNPL and interest bearing personal loans. The Company operates in the Buy Now Pay Later sector in Australia.

The BNPL industry in Australia includes financiers that lend money or provide credit to consumers. Operators in this industry allow consumers to purchase goods and services immediately and make interest-free repayments in instalments over a specified period of time.

Widespread adoption of new payment technology over the last decade has resulted in the growth of the BNPL industry in Australia. Industry operators provide substitute services to challenge traditional payment methods such as credit cards and short-term loans. The adoption of this technology has been prevalent particularly in younger demographics and has increased alongside online shopping. Overall, industry revenue has increased by 29.3% over the past five years ended 2023-24, to reach $1.1bn.

The emergence of new providers, alongside financial institutions offering BNPL services to their established suite of payment options, has resulted in many players in the industry operating at a loss, despite growing revenue. Large providers of BNPL like Afterpay and Zip, have opted to create a global presence, while others have looked to consolidate a domestic footprint. As interest rates rise, firms may face more expensive credit in addition to being required to navigate fluctuations in consumer sentiment and business confidence, as investors and consumers adjust to excessive inflation. Amid economic concerns, some higher-profile mergers and acquisitions have broken down.

In May 2023, the Federal Government announced its intention to regulate BNPL providers in Australia. Providers will be required to hold an ACL and adhere to responsible lending obligations. Despite the material impact of regulatory changes on the performance of the industry, revenue is forecast to rise over the coming years.

The BNPL industry in Australia is highly competitive, as participants face strong competition from banks and financial institutions providing substitute services, such as short-term loans and credit cards. The key performance drivers for industry businesses are as follows:

- consumer sentiment index;
- demand from online shopping;
- demand from department stores; and
- demand from credit card issuance.

Consumer sentiment index

The consumer sentiment index measures how people feel about their financial situation and the economy. Positive consumer sentiment indicates that consumers are spending more. This translates into more purchases using BNPL methods, since consumers are more confident in their ability to pay the debt later.

[1] Source: IBISWorld Report OD5547 – Buy Now Pay Later in Australia, August 2023

Demand from online shopping

Many consumers are becoming increasingly wary of credit card debts and are using BNPL services to make online shopping purchases. As demand from online shopping increases, merchants process an increased value and volume of transactions.

Demand from department stores

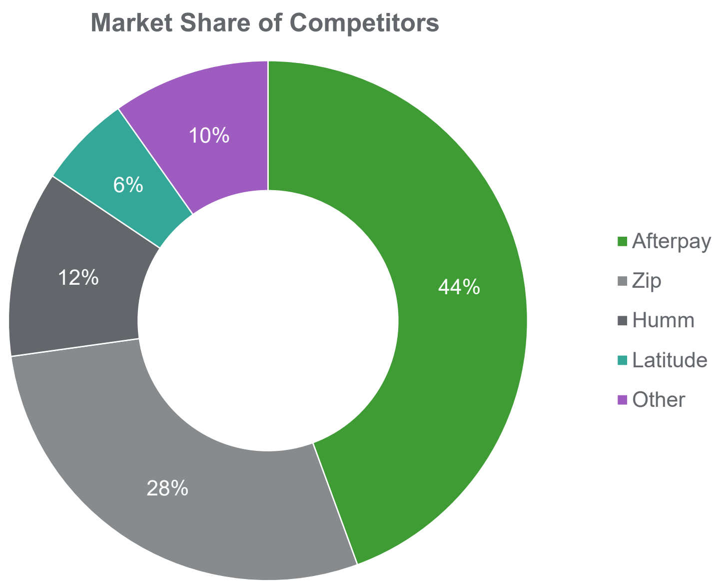
Department stores have an advantage over online operators, as consumers can physically inspect products, receive face-to-face customer service and acquire products instantly. Many department stores, including Myer, David Jones and Kmart, now offer BNPL services.

Demand from credit card issuance

Demand for credit cards influences demand for BNPL services. A higher number of credit card accounts means that consumers can access credit, without using BNPL services. Conversely, declining demand for credit cards boosts the number of consumers using BNPL services.

Companies in the Buy Now Pay Later Industry in Australia[2]

The chart below summarises the market share of major competitors in the BNPL industry in Australia.



As set out above, the major competitors in the Buy Now Pay Later industry in Australia include Afterpay, Zip, Humm and Latitude.

IBISWorld has forecast industry revenue to increase at an annualised rate of 8.2% per annum over the five years to 2028-29 to total $1.7bn.

[2] Source: IBISWorld Report OD5547 – Buy Now Pay Later in Australia, August 2023

F. Glossary of Terms

Term or Abbreviation	Definition
$	Australian dollar
1H FY24	Half year ended 31 December 2023
ACL	Australian Credit License
Act	Corporations Act 2001 (Cth)
AFCA	Australian Financial Complaints Authority
AFSL	Australian Financial Services Licence
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
Bn	Billion
BNPL	Buy now pay later
CAGR	Compound annual growth rate
CFME	Capitalisation of future maintainable earnings
Company or NFS	Navalo Financial Services Group Limited
Control basis	An assessment of the Fair Value on an equity interest, which assumes the holder or holders have control of the entity in which the equity is held
DCF	Discounted Cash Flow
Directors	Directors of the Company
ECL	Expected credit losses
Eligible Shareholders	NFS Shareholders that are eligible to participate in the Entitlement Offer as defined in the Offer Information Statement
Enterprise Value or EV	The market value of a business on a cash free and debt free basis
Entitlement Offer	The pro rata non-renounceable entitlement offer as set out in the Offer Information Statement
Fair Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
FME	Future Maintainable Earnings
Forward-looking information	Statements or assumptions about future matters
FSG	Financial Services Guide
FY20xx	Financial year ended 30 June 20xx
Historical Period	1 July 2020 to 31 December 2023
IER	This Independent Expert's Report
IBC	Independent Board Committee
k	Thousands
LTM	Last twelve month
m	Millions
Management	The management of Navalo Financial Services Group Limited
MBFH	Metrics Business Finance Holdings Pty Limited
Metrics	MCH Investment Management Services Pty Limited as trustee for the MCP Credit 1 Trust
Minority or Non-Controlling Interest	A non-controlling ownership interest, generally less than 50.0% of a company's voting shares
MSF	Merchant Service Fee
NCCP	National Consumer Credit Protection Act (Cth) 2009
New Shares	New NFS Shares to be issued in accordance with the Entitlement Offer
NPAT	Net profit after tax
NTM	Next twelve month
Offer Information Statement	The Offer Information Statement issued by NFS in relation to the Entitlement Offer
Offer Price	$0.194 per New Share
Report	This Independent Expert's Report prepared by RSM dated 6 June 2024
RG 111	ASIC Regulatory Guide 111 Content of Expert Reports
RG112	ASIC Regulatory Guide 112 Independence of Experts
Rights Issue Exception	Item 10 of Section 611 of the Act
RSM or We or Us or Ours	RSM Corporate Australia Pty Ltd
S&P Capital IQ	An entity of Standard and Poors which is a third party provider of company and other financial information
Share or NFS Share	Ordinary fully paid share in the capital of the Company
Shareholders	NFS ordinary shareholders

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www.rsm.com.au

Appendix B Financial Report

Navalo Financial Services Group Limited and its controlled entities

ABN 24 605 753 535

Financial Statement - 31 December 2023

Navalo Financial Services Group Limited and its controlled entities
Directors' report
31 December 2023

The directors submit their report on Navalo Financial Services Group Limited, trading as Payright Limited (the Company) and its controlled entities (collectively, the "Group" or "Navalo"), for the period ended 31 December 2023.

In June 2024 the Company will announce a pro rata, non-renounceable entitlement offer to raise approximately $10.0m (the offer). The Offer was documented by way of an Offer Information Statement (OIS). These audited financial statements, for the 12-month period ended 31 December 2023, have been prepared in order to satisfy the requirements of an OIS, the Company needed to make available audited accounts for a period of twelve months that are no longer than six months old at the time of issuing the OIS. The Offer will be used to:

(a) repay the short-term shareholder loan received from Metrics as part of the funding package announced on 29 February 2024
(b) provide additional working capital to cover operating expenses incurred in the Company's ongoing business operations until approximately the end of calendar year 2024; and
(c) pay for costs associated with the Entitlement Offer.

Directors and officers
The names and details of the company's directors in office during the period and until the date of this report are set out below. Directors were in office for this entire period, unless otherwise stated.

Allan Griffiths - Non-Executive Director (appointed as Director and Chairman 25 January 2023 and resigned as Chairman 31 December 2023)
Andrew Lockhart - Chairman and Non-Executive Director (appointed as Chairman 31 December 2023)
Peter McCluskey - Chairman and Non-Executive Director (resigned as Chairman 25 January 2023 and resigned as Director 31 May 2023)
Lindley Edwards - Non-Executive Director (resigned as Director 25 January 2023)
Lisa Davis (appointed as Director 6 February 2024)
Mark Licciardo - Non-Executive Director (appointed as Director 18 October 2023)
Matthew Pringle - Non-Executive Director
Myles Redward - Executive Director (resigned as Director 25 January 2023)
Paul Cowan - Non-Executive Director (resigned as Director 25 January 2023)
Piers Redward - Executive Director (resigned as Director 25 January 2023)

Principal activities
The principal activity of the company during the financial period was to provide point of sale consumer finance solutions.
There were no other significant changes in the nature of these activities for the financial period ended 31 December 2023.

Review of operations
Navalo is a participant in the growing non-bank finance industry with distribution throughout Australia. It provides consumer finance solutions to encourage point of sale conversion and enables customers to spread the cost of purchases over time.

Summary of financial results for the 12 month period ended 31 December 2023

	2023 $'000	2022 $'000	Change $'000	Change %
Total income	21,373	17,640	3,733	21%
Total expenses	(21,278)	(20,271)	(1,007)	5%
Net finance costs	(11,991)	(10,115)	(1,876)	19%
Depreciation	(68)	(158)	90	(57%)
Gain(loss) on revaluation of embedded derivative	(533)	1,316	(1,849)	(141%)
Loss before income tax expense	(12,497)	(11,588)	(909)	8%
Basic EPS (cents) [1]	(177)	(1,787)	1,610	(90%)

[1] For the prior period, EPS measures have been restated to take into account the 125:1 share consolidation which approved by Shareholders at the EGM on 26 June 2023, taking effect on 27 June 2023 and completed by the ASX on 7 July 2023.

- Income totalled $21,373k for the period ended 31 December 2023, an increase of 21% from the prior period.
- A review of profitability of merchant relationships required that some agreements were negotiated to new terms to maximise the economics of loans written over the period. Other unprofitable and low yielding merchants were offboarded resulting in a reduction in total merchant stores by 11% to 3,546 (2022: 3,997).
- Increase in expenses for the group largely resulted from increase in Expected Credit Loss (ECL) driven by growth within the loan book, increased spend on software development and consultancy costs
- Net finance costs increased due to higher average interest rates and borrowings in the period, supporting growth in loan receivables

Outlook
Navalo's strategy is to seek expansion across products, distribution channels and market segments to ensure a more sustainable long term business proposition that is able to meet its operating expenses, access scalable capital solutions and achieve profitability.

The historical financial performance of the Group and near-term outlook indicate that the Group lacks sufficient scale to operate profitably in the BNPL and consumer lending markets. Further, there are significant challenges in terms of accessing sufficient funding to reach the required scale with the current product mix.

Having currently only one distribution channel (via merchants) for its products, and modest take up of the new regulated personal loan product via the merchant network, the Company is vulnerable to industry challenges such as congestion, competitive pressures, and over reliance on a single distribution channel. These challenges create additional headwinds for the Company in its current form, such as being unable to aggressively scale, secure material and cost-effective capital and realise operational efficiencies available to a more diverse lender.

The primary objectives of Navalo are to:

- Accelerate the uptake of the new regulated personal loan product.
- Expand the product offerings.
- Identify new distribution channels for its products.
- Profitable growth to the loan book such that the Group can become profitable.
- Identify other organic and inorganic growth opportunities which may include the acquisition of target companies that may assist in achieving the above objectives and/or accelerating the path to profitability.

Significant changes in the state of affairs and likely developments
Following the EGM held on 26 June 2023, the shareholders passed the resolution to approve the delisting of the Company from official quotation on the ASX. The delisting was completed on the 28 July 2023.

Navalo completed an extension of the warehouse facility of Class A notes from $100.0m to $140.0m held by Goldman Sachs ("GS") and Class B notes held by iPartners from $16.8m to $18.8m in order to facilitate continued growth in the receivables book.

There were no other significant changes in the state of affairs of the consolidated entity during the calendar period.
In June 2024 the Company will announce a pro rata, non-renounceable entitlement offer to raise approximately $10.0m.

Significant events after the reporting date
Navalo announced on 29 February 2024, a funding package of approximately $5m obtained from its major shareholder, MCH Investment Management Services Pty Ltd as trustee for MCP Credit Trust 1 (Metrics) to fund a share buy back and support working capital.
The funding package is comprised of:

- a placement of $508,005.97 through the issue of 1,790,014 ordinary shares to Metrics Business Finance Holdings Pty Ltd (a related party of Metrics) (MBFH) at a price per share of $0.2838 (Placement); and
- a short-term loan facility from Metrics of up to $4,493,000 (Loan) repayable 3 months after funding.

Navalo announced on 20 March 2024, an equal access buy-back of up to 704,748 ordinary shares at a price per share of A$0.2838. On 26 April 2024, Navalo announced that it completed an acquisition of 60,238 ordinary shares in the company from shareholders pursuant to the equal access buy-back. As the number of shares accepted into the buy-back did not exceed the maximum buy-back amount, the company acquired all shares that were accepted into the buy-back. Following the buy-back the Company has 8,776,096 shares on issue.

Following completion of the placement in February 2024 and buy-back in April 2024, Metrics' Group shareholding in the Company is approximately 88.2% (including MBFH).

Navalo Financial Services Group Limited and its controlled entities
Directors' report
31 December 2023

On 27 May 2024, Navalo announced a deal with a new institutional investor to refinance the Class B Notes for the Warehouse Facility, purchasing them off iPartners after the end of the Availability Period of the existing facility. The new facility provides for an additional undrawn commitment which is available to the Company to subscribe for additional Class B Notes to fund potential growth of the loan book.

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Indemnification and insurance of Directors and officers
The company has indemnified the directors and executives of the company 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.

As a controlled subsidiary of Metrics, the Group receives coverage under the Metrics insurance program, which includes coverage to insure the directors and executives of the company against a 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.

Auditor
KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

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

During the financial period, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Auditor's independence declaration
The directors have received a declaration from the auditor of Navalo Financial Services Group Limited, KPMG (Australia). This has been included on *page 4*.

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

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Signed in accordance with a resolution of the directors.

Andrew Lockhart	Matthew Pringle
Chairman	Non-Executive Director

3 June 2024

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

To the Directors of Navalo Financial Services Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Navalo Financial Services Group Limited for the 12 month period ended 31 December 2023 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
3 June 2024

General information

About this report

This report for Navalo Financial Services Group Limited and its controlled entities (collectively, the "Group") for the 12-month period ended 31 December 2023 has been written to support the Offer. Navalo Financial Services Group Limited (the "Company") is a for-profit entity limited by shares incorporated and domiciled in Australia, whose shares were publicly traded on the Australian Securities Exchange (ASX: PYR). The Company was delisted from the ASX on 28 July 2023.

Navalo Financial Services Group Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	Principal place of business
2 Ridge Street, North Sydney, NSW, 2060.	42 Cambridge Street, Collingwood, VIC 3066.

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 3 June 2024. The directors have the power to amend and reissue the financial statements.

Navalo Financial Services Group Limited and its controlled entities
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000
Revenue			
Fee income	2	18,758	17,223
Finance income	2	181	37
Other income	2	2,434	380
Total income		21,373	17,640
Expenses			
Employee benefits expense	3	(7,298)	(9,199)
Consulting and professional fees		(3,083)	(2,392)
Administration costs		(2,333)	(1,583)
Other expenses		(828)	(1,248)
Advertising and marketing		(98)	(204)
Rent		(29)	(78)
Expected credit loss	8	(7,609)	(5,567)
Total expenses		(21,278)	(20,271)
Operating profit/(loss)		95	(2,631)
Finance costs	3	(11,991)	(10,115)
Gain/(loss) on revaluation on embedded derivative	14	(533)	1,316
Depreciation	3	(68)	(158)
Loss before income tax expense		(12,497)	(11,588)
Income tax expense	6	-	-
Loss after income tax expense for the period attributable to the owners of Navalo Financial Services Group Limited	16	(12,497)	(11,588)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(107)	37
Other comprehensive income for the period, net of tax		(107)	37
Total comprehensive income for the period attributable to the owners of Navalo Financial Services Group Limited		(12,604)	(11,551)
		Cents	**Cents**
Basic earnings per share	4	(177)	(1,787)
Diluted earnings per share	4	(177)	(1,787)

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

Navalo Financial Services Group Limited and its controlled entities
Consolidated statement of financial position
As at 31 December 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000
Assets			
Current assets			
Cash and cash equivalents	5	8,695	7,679
Receivables	8	65,942	62,095
Prepayments and other current assets		1,487	1,158
Total current assets		76,124	70,932
Non-current assets			
Receivables	8	50,630	46,731
Property, plant and equipment		36	32
Right-of-use assets	9	-	40
Total non-current assets		50,666	46,803
Total assets		126,790	117,735
Liabilities			
Current liabilities			
Trade and other payables	10	3,654	2,968
Loans and borrowings	13	-	4,548
Employee benefits	11	626	468
Total current liabilities		4,280	7,984
Non-current liabilities			
Loans and borrowings	13	117,762	105,607
Employee benefits	11	260	162
Derivative liability	14	818	284
Total non-current liabilities		118,840	106,053
Total liabilities		123,120	114,037
Net assets		**3,670**	**3,698**
Equity			
Issued Capital	12	59,722	47,383
Other reserves		741	611
Accumulated losses	16	(56,793)	(44,296)
Total equity		**3,670**	**3,698**

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

Navalo Financial Services Group Limited and its controlled entities
Consolidated statement of changes in equity
For the period ended 31 December 2023

Consolidated	Issued capital $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2022	44,505	330	(139)	(32,708)	**11,988**
Loss after income tax expense for the period	-	-	-	(11,588)	**(11,588)**
Other comprehensive income for the period, net of tax	-	-	37	-	**37**
Total comprehensive income for the period	-	-	37	(11,588)	**(11,551)**
Issuance of share capital	3,376	-	-	-	**3,376**
Share issuance costs	(498)	-	-	-	**(498)**
Warrants issued	-	188	-	-	**188**
Transactions with owners in their capacity as owners:					
Share-based payments (note 3)	-	195	-	-	**195**
Balance at 31 December 2022	47,383	713	(102)	(44,296)	**3,698**

Consolidated	Issued capital $'000	Share based payment reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2023	47,383	713	(102)	(44,296)	**3,698**
Loss after income tax expense for the period	-	-	-	(12,497)	**(12,497)**
Other comprehensive income for the period, net of tax	-	-	(107)	-	**(107)**
Total comprehensive income for the period	-	-	(107)	(12,497)	**(12,604)**
Issuance of share capital	13,234	-	-	-	**13,234**
Share issuance costs	(895)	-	-	-	**(895)**
Transactions with owners in their capacity as owners:					
Share-based payments (note 3)	-	237	-	-	**237**
Balance at 31 December 2023	59,722	950	(209)	(56,793)	**3,670**

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

Navalo Financial Services Group Limited and its controlled entities
Consolidated statement of cash flows
For the period ended 31 December 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000
Cash flows from operating activities			
Receipts from customers		101,938	90,177
Payments to suppliers and employees		(13,439)	(15,034)
Payments to merchants		(95,270)	(102,765)
Interest received		3	201
Interest paid		(11,675)	(8,583)
Interest paid on lease liability		(4)	(12)
Net cash used in operating activities		(18,447)	(36,016)
Cash flows from investing activities			
Purchase for property, plant and equipment		(39)	(26)
Net cash used in investing activities		(39)	(26)
Cash flows from financing activities			
Proceeds from issue of share capital	12	13,234	3,376
Proceeds from warehouse facility	13	12,348	102,798
Proceeds from issuance of notes		-	8,651
Repayment of notes		(4,983)	(80,584)
Note issuance costs		-	29
Payment of warehouse facility costs		(568)	(2,775)
Payment of share issuance costs	12	(895)	(498)
Proceeds from issuance of convertible notes		-	8,000
Convertible notes issuance costs		-	(587)
Payment of restricted cash		404	(1,154)
Principal portion of lease liability		(38)	(97)
Proceeds from subordinated loans		-	(7,400)
Payment of related party loans		-	24
Net cash from financing activities		19,502	29,783
Net increase/(decrease) in cash and cash equivalents		1,016	(6,259)
Cash and cash equivalents at the beginning of the financial period	5	7,679	13,938
Cash and cash equivalents at the end of the financial period	5	8,695	7,679

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

Note 1. Basis of preparation

These financial statements are for Navalo Financial Services Group Limited and its controlled entities ("the Group"). The Company is a limited liability for-profit company incorporated in Australia and registered under the Corporations Act 2001 (ABN 24 605 753 535). These financial statements are for a 12-month period ended 31 December 2023 and are prepared to comply with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'), International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

In June 2024 the Company will announce a pro rata, non-renounceable entitlement offer to raise approximately $10.0m (the Offer). The Offer was documented by way of an Offer Information Statement (OIS). These audited financial statements, for the 12-month period ended 31 December 2023, have been prepared in order to satisfy the requirements of an OIS, the Company needed to make available audited accounts for a period of twelve months that are no longer than six months old at the time of issuing the OIS.

Basis of preparation

These general purpose financial statements have been prepared for the 12-month period ending 31 December 2023 and are in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realise its assets and settle its liabilities in the normal course of business and at amounts stated in the financial report.

As at 31 December 2023 the Group had consolidated net assets of $3.7m (2022: $3.7m) and incurred a loss of $12.5m (2022: $11.6m). The Group's net operating cash outflows were $18m for 12-month period ended 31 December 2023 (2022: $36m).

It is anticipated that further losses will be incurred by the Group as it continues to focus on improving profitability, growth in Australian markets and improving operating systems and efficiencies. The Board and Management of Navalo will continue to explore further capital and/or debt raising to ensure the capital requirements of the Group are adequately supported. The Board is considering a range of financing options with current stakeholders and other third parties to ensure the capital requirements of the business are satisfied moving forward.

The Directors at the date of signing, have reasonable grounds to believe that it will continue to be successful in sourcing sufficient debt and/or equity funding in the future. In the event sourcing new or additional funding arrangements are not successful, the Group has options available including but not limited to slowing down growth, further reductions in operating costs and pursuing alternate strategic opportunities to preserve cash reserves. Accordingly, the Directors believe the going concern basis in which the financial reports are prepared is appropriate.

Should the Group be unsuccessful in achieving the matters set out in the above paragraph, a material uncertainty would exist that may cause significant doubt on the ability of the Group to continue as a going concern, and therefore, whether it will realise its liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Key judgements and estimates

In the process of applying the Group’s accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the interim report are found in the following notes:

- Receivables (note 8)
- Convertible notes (note 14)

The accounting policies that are material to the consolidated entity are set out below. The accounting policies adopted are consistent with those of the previous financial year, unless otherwise stated.

The financial statements have been prepared under the historical cost convention.

Note 1. Basis of preparation (continued)

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 21.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Navalo Financial Services Group Limited ('company' or 'parent entity') as at 31 December 2023 and the results of all subsidiaries for the period then ended. Navalo Financial Services Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity 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 consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Navalo Financial Services 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 period-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
Income, including merchant fees, customer fees and interest income are recognised in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate (EIR) method. The Group allocates fee income over the life of the associated end consumer’s receivable balance.

Customer fees
Customer fees comprise account keeping fees, establishment fees and payment processing fees. Customer fees are charged dependent on the plan duration and can vary depending on the terms and conditions of each plan. Late fees may also be charged in the event of missed or late repayments.

Merchant fees
Merchant fees are fees paid by merchants in exchange for the Group’s payment solution services. It is derived from the difference between the customer’s underlying sale transaction value and the amount paid to the merchant for that transaction.

Note 1. Basis of preparation (continued)

Finance income
Finance income relates to interest income earned from cash and cash equivalents.

Other revenue
Other revenue, including late fees is recognised when it is received or when the right to receive payment is established.

Expenses
Employee benefits expense
Employee benefits expense are wages and salaries, including non-monetary benefits such as accumulated annual leave, long service leave, termination benefits and employee share-based-payments which are recognised in respect of employees' services up to the reporting date. They are measured as the amounts expected to be paid, when the liabilities are settled. Wages and salaries expenses are recognised as services which are incurred.

Employee entitlement benefits are recognised when the benefits are earned and are measured at the rates paid or payable.
The policy for employee benefit liabilities and share-based payments are set out in note 11 and note 17, respectively.

Depreciation
Depreciation reflects the use of property, plant and equipment and right-of-use assets over their useful life.

Finance costs
All finance costs are expensed in the period in which they occur. Directly attributable transaction costs are recognised in the profit and loss statement based on the effective interest rate of these borrowings.

The implementation of the warehouse facility and issuance of convertible notes in 2022, and warehouse facility extension in 2023 incurred borrowing costs which will be amortised over a four-year period. In addition, the borrowing costs related to the funding program in New Zealand have been fully amortised in the calendar year ended 31 December 2023.

Other expenses
Other expenses consist of merchant fees and bank charges related to payment processing, security trustee agent fees, credit check fees and other miscellaneous expenses.

Loss per share
Basic Earnings Per Share
Basic EPS is calculated by dividing the loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share
Diluted EPS is calculated by dividing the loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the potential dilutive ordinary shares into ordinary shares (if any).

The adjustment for the calculation of diluted EPS in the adjacent table does not take into account the 35,555,560 of convertible notes issued (2022: 35,555,560), 21,713 of warrants issued post share consolidation (2022: 2,714,079), 33,000 of shares which may be issued under the director options grant (2022: 4,125,000) and 6,188 of shares issued under the employee options grant (2022: 773,369) because they are anti-dilutive as at the reporting period.

Current vs non-current classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:
- Expected to be recognised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be recognised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Note 1. Basis of preparation (continued)

A liability is current when:
- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
Deferred tax assets and liabilities are classified as non-current assets and/or liabilities.
The Group classifies all other liabilities as non-current.

Cash and Cash equivalents
Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Property, plant and equipment
Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis or diminishing value methods over the estimated useful lives of the assets as follows:

Class	**Depreciation rate**	**Depreciation method used**
Office equipment	20 to 100%	Diminishing value
Furniture and fittings	10 to 100%	Diminishing value
Computer equipment	5 years	Straight line
Leasehold improvements	5 years	Straight line

Derecognition
An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

The residual values, useful lives, and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment
All non-current tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Receivables
Receivables are financial assets generated in the ordinary course of business. They are generally due for settlement within 2 to 60 months. If collection of the amount is expected in one year or less, they are classified as current assets otherwise, they are classified as non-current assets. The Group’s model is to hold the receivables with the objective to collect the contracted cashflows. Receivables are Initially recognised at fair value and are subsequently measured at amortised cost less an allowance for impairment.

Significant increase in credit risk (SICR)
The provisioning model recognised receivables past due 30 days as the criteria to identify increases in credit risk. In the event of the identification of a SICR, the Group no longer calculates ECL based on 12-month probability default (PD) model but based on lifetime PD.

Note 1. Basis of preparation (continued)

Definition of default and credit-impaired assets
A receivable is considered to be in default at 90 days past due or if it satisfies the criteria for being written off. It is the Group's policy to write off balances where it is unlikely to receive the outstanding amount in full based on internal or external indicators.
Impairment of receivables

The Group applies the general provision approach to account for ECL on receivables measured at amortised cost. ECLs are based on the difference between the contractual cashflows due in accordance with the receivable terms and all the cash flows that the Group expects to receive.

ECL on Stage 1 receivables are calculated based on the 12 month PD model. In the event of the identification of a SICR, the Group no longer calculates ECL based on 12-month PD but based on lifetime PD. Lifetime PD leverages off the Group's 12-month PD model and extends it to a lifetime PD where it looks forward to the contractual loan maturity to estimate future losses expected to be incurred on its receivables. The ECL model is further adjusted to reflect current and forward-looking information, including macro-economic factors that are not captured within the base ECL calculations, which may affect the ability of the customers to settle the receivables. Management has enhanced the impact of the macro-economic factors in 2023, to capture the rising interest rates, increased cost of living pressures and rising inflation on their customers.

At each reporting date, the Group assesses impairment risk of the receivables and movements in the ageing of outstanding receivables to estimate the ECLs. The Group classifies its receivables into three stages and measures the ECL based on credit migration between the stages.

On a monthly basis, the Group provides for Expected Credit Losses based on movements in receivable balances, in addition to reflecting the impact of write-offs that are assessed monthly in both Australia and New Zealand.

Stage	**Ageing**	**Measurement basis**
Stage 1	Up to 30 days past due	Although there is usually no objective evidence of impairment in stage 1, an ECL has been determined based on a probability of a default event occurring over the next 12 months.
Stage 2	30 to 89 days past due	When a receivable is past due between 30 to 89 days, it is an indication that credit risk has increased. As a result, the loss allowance for that receivable is measured at an amount equal to the lifetime ECL. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of the receivables.
Stage 3	90 days or more past due	Stage 3 includes receivables aged 90 days or more past due where there is objective evidence of impairment at reporting date. Ageing of 90 days or more is considered to have an adverse impact on the estimated future cash flows of the receivables.

Right-of-use assets and lease liabilities
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company no longer has any ongoing leases, and presently has no Right-of-Use assets or corresponding lease liabilities.

Short-term leases
Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Trade and other payables
Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. Due to their short-term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. Accrued interest is settled monthly, quarterly or half-yearly throughout the period.

Note 1. Basis of preparation (continued)

Employee benefit liabilities
The Group recognised a liability for long service leave and annual leave 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 bond rates with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Liabilities for employee benefits where the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date are presented as current. Liabilities for employee benefits where the Group has an unconditional right to defer settlement for at least 12 months after the reporting date are presented as non-current.

Equity
Recognition and measurement
Ordinary shares
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. Ordinary shares have no par value and entitle the holder to the right to receive dividends as declared and, in the event of winding up the Group, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amount paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Group.

Options
Options are issued as part of Employee Options Grant and Director Options Grant. Refer to note 17 for further details

Loans and borrowings
Recognition, measurement and classification
Loans and borrowings are financial liabilities, initially recognized at the fair value of the consideration received less directly attributable transaction costs.
After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees which are directly attributable to the establishment of the loan facilities that are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for a least 12 months after the reporting date.

Derecognition
Loans and borrowings are derecognised when the obligation under the liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is derecognised in the consolidated statement of profit or loss and other comprehensive income.

Employee share ownership plans (ESOP)
Recognition and measurement
The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they were granted. The fair value was determined by the Directors and management using an adjusted form of the Black-Scholes-Merton Model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to profit or loss is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period. The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods where there is a corresponding credit to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a

Note 1. Basis of preparation (continued)

market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The recognised expense arising from equity settled share-based payment plans during the period is shown in note 17. During the calendar year ended 2023, the Group had the following share-based payment plans in place:
- Employee Gift Offer
- Employee Options Grant
- Director Options Grant

There have been no cancellations to any of the plans during the reporting period.

Cessation of employment
Where an employee ceases employment with the Company during the restriction period, the employee will be entitled to keep their shares and the dealing restriction will cease at the time of the employment ends.

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 rate for each jurisdiction, 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 which intend to settle simultaneously.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

Note 1. Basis of preparation (continued)

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period 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.

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

The fair value of the convertible note liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

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

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, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:
- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Note 1. Basis of preparation (continued)

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 the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

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.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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. 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.

Convertible notes
Valuation and disclosure within fair value hierarchy
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or;
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 1. Basis of preparation (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices inactive markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.
For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The Group is required to revalue the embedded derivative of the convertible notes at each reporting date.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 consolidated entity. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Income

	Consolidated	
Fee income	**2023 $'000**	**2022 $'000**
Customer fees	6,514	6,137
Merchant fees	12,244	11,086
Total fee income	18,758	17,223

	Consolidated	
Other income	**2023 $'000**	**2022 $'000**
Finance income	181	37
Other income [1]	2,434	380
Total other income	2,615	417

[1]Other income is largely comprised of income received from the debt sale transaction of $1,583k (2022: nil) and Late Payment Fees $333k (2022: $262k).

Note 3. Expenses

	Consolidated	
	2023	**2022**
	$'000	**$'000**
Employee Benefits Expense		
Salary Costs	7,061	9,004
Share-Based Payment	237	195
Total	7,298	9,199

	Consolidated	
	2023	**2022**
	$'000	**$'000**
Depreciation		
Depreciation on property, plant and equipment	28	78
Depreciation on right-of-use assets	40	80
Total	68	158

	Consolidated	
	2023	**2022**
Finance Costs		
Interest Expense	10,401	8,196
Amortisation of borrowing costs	991	1,572
Other Fees	599	347
	11,991	10,115

Note 4. Loss per share

	Consolidated	
	2023	**2022**
	$'000	**$'000**
Loss attributable to the equity holders of the parent	(12,497)	(11,588)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share[1,3]	7,047,480	648,576
Weighted average number of ordinary shares used in calculating diluted earnings per share [1,3]	7,047,480	648,576
	Cents	**Cents**
Basic earnings per share	(177)	(1,787)
Diluted earnings per share	(177)	(1,787)

Note 4. Loss per share (continued)

[1] Weighted average number of ordinary shares
[2] For 2022 period the EPS measures have been restated to take into account the 125:1 share consolidation which was approved by Shareholders at the EGM on 26 June 2023, taking effect on 27 June 2023. The impact of the consolidation was that every 125 ordinary shares were consolidated into one ordinary share.

The adjustment for the calculation of diluted EPS in the adjacent table does not take into account the 35,555,560 of convertible notes issued (2022: 35,555,560), 21,713 of warrants issued post share consolidation (2022: 2,714,079), 33,000 of shares which may be issued under the director options grant (2022: 4,125,000) and 6,188 of shares issued under the employee options grant (2022: 773,369) because they are anti-dilutive as at the reporting period.

Note 5. Cash and cash equivalents

	Consolidated	
	2023 $'000	2022 $'000
Cash at bank	4,827	4,841
Restricted cash[1]	2,100	1,502
Liquidity reserve[2]	1,768	1,336
	8,695	7,679

[1] Under the terms of the warehouse facility arrangement, the Group is required to satisfy the requirement for a minimum $2.1m cash upon each payment date, and the Group has therefore held this cash as restricted. This increased from $1.5m following the extension of the warehouse facility.
[2]The Group is required to maintain the balance of the Liquidity Reserve Account, in the name of the Trustee, equal to two times the monthly senior interest entitlements.

Reconciliation of net loss after tax to net cash flows from operating activities	Consolidated	
	2023 $'000	2022 $'000
Loss for the year	(12,497)	(11,588)
Adjustments for:	-	-
Depreciation on property, plant and equipment	28	78
Depreciation on right-of-use assets	40	80
Expected credit losses (net of debts written-off)	7,609	5,567
Amortisation and write-off of borrowing costs[1]	991	1,572
Share-based payments expense	237	195
Changes in assets and liabilities:	-	-
(Increase) in receivables	(16,176)	(29,651)
(Increase) in other assets and prepayments	(111)	(752)
(Decrease)/Increase in trade and other payables	752	(144)
(Decrease)/Increase in employee benefit liabilities	147	(57)
(Decrease)/Increase in embedded derivative liability	533	(1,316)
Net cash flows used in operating activities	(18,447)	(36,016)

[1]Relates to warehouse facility loan. Refer to note 14 for further information. Net non-cash movement for warehouse loan and convertible notes includes the amortisation of funding costs for warehouse facility and convertible notes.

Note 6. Income tax expense

	Consolidated 2023 $'000	2022 $'000
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(12,497)	(11,588)
Tax at the statutory tax rate of 30% (2022: 25%)	(3,749)	(2,897)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share based payment expenses	71	48
Other non-assessable income	(135)	-
Other non-deductible expenses	5	10
Adjustment to prior year balances[1]	(2,261)	-
	(6,069)	(2,839)
Current period tax losses not recognised	6,069	2,839
Income tax expense	-	-

[1] A tax rate of 30% (2022: 25%) applies on the basis that Navalo is not a base rate entity for the calendar year ended 31 December 2023.

Note 7. Taxes

Tax losses

The Group has unrecognised deferred tax assets of $17.56 m (2022: $9.21m). The unused tax losses belong to the Navalo income tax consolidated group. The deferred tax asset in relation to the Group's unused tax losses have not been recognised as the directors have determined it is not probable at this stage that the benefit will flow to the Group.

The unrecognised tax losses can be carried forward indefinitely, subject to the meeting the continuity of ownership test or business continuity test. During the year ended 31 December 2023, the Navalo income tax consolidated group failed the continuity of ownership test, and as a result the Group will be required to satisfy the business continuity test in order to carry forward and utilise the tax losses in the future. Management performed an assessment to confirm Navalo’s ability to satisfy the requirements of the business continuity test at 31 December 2023.

Australian income tax consolidation legislation

Navalo Financial Services Group Limited and its wholly-owned Australian-controlled entities have implemented the tax consolidated legislation as of 6 October 2017. The head entity, Navalo Financial Services Group Limited and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. These amounts are measured as if each entity in the tax consolidated Group continues to be a stand-alone taxpayer in its own right.

Note 7. Taxes (continued)

	Consolidated 2023 $'000	Consolidated 2022 $'000
Non-current assets		
Deferred tax liabilities relate to the following:		
Property, plant and equipment	(10)	17
Right-of-use assets	-	(10)
Other assets - prepayments	(77)	(37)
Unrealised gain/(loss) on revaluation of embedded derivative	(235)	(71)
	(322)	(101)
Deferred tax assets relate to the following:		
Intangible assets	426	215
Right-of-use liability	-	22
Provision for ECL	2,685	2,181
Deferred income	673	590
Employee benefits	317	192
Capital raising costs	339	213
Unused tax losses	13,222	5,897
Net unrecognised deferred tax asset	17,340	9,209

Note 8. Receivables

	Consolidated 2023 $'000	Consolidated 2022 $'000
Current assets		
Receivables	71,048	67,266
Less: Provision for expected credit loss	(5,106)	(5,171)
Total current receivables	65,942	62,095
Non-current assets		
Receivables	54,587	50,631
Less: Provision for expected credit loss	(3,957)	(3,900)
Total non-current receivables	50,630	46,731
	116,572	108,826

Movements in the provision for expected credit losses were as follows:	Consolidated 2023 $'000	Consolidated 2022 $'000
Opening provision	(9,071)	(5,230)
Provided in the period	(7,609)	(5,566)
Debts written-off[1]	7,617	1,725
Closing provision	(9,063)	(9,071)

[1] Debts written-off during the period are not recoverable and are still subject to enforcement activity.

Note 8. Receivables (continued)

Set out below is the information about the credit risk exposure on the Group's receivable using the ECL model adopted by management.

31 December 2023	**Stage 1 Up to 30 days past due**	**Stage 2 Aged 30 to 89 days**	**Stage 3 Aged 90 days or more past due**	**Total**
ECL[1] rate (%)	4.02	51.55	94.22	
ETGCD ($'000)[2]	119,595	2,989	2,886	125,470
ECL ($'000)[1]	(4,803)	(1,541)	(2,719)	(9,063)
31 December 2022				
ECL[1] rate (%)	2.51	47.79	90.32	
ETGCD ($'000)[2]	109,434	2,874	5,476	117,784
ECL ($'000)[1]	(2,752)	(1,373)	(4,946)	(9,071)

[1]Estimated credit loss.
[2]Estimated exposure at default (EAD) and total gross carrying amount at default.

Note 9. Right-of-use assets

Set out below are the carrying amounts of right-of-use asset recognised and the movements during the period:

Consolidated	Right of Use Asset $'000	Accumulated Depreciation $'000	Total $'000
Balance at 1 January 2022	321	(201)	120
Depreciation expense	-	(80)	(80)
Balance at 31 December 2022	321	(281)	40
Depreciation expense	-	(40)	(40)
Balance at 31 December 2023	321	(321)	-

Note 10. Trade and other payables

	Consolidated	
	2023 $'000	**2022 $'000**
Current liabilities		
Trade payables	1,060	1,203
GST Payable	217	424
Interest payable	419	276
Other payable	1,958	1,065
	3,654	2,968

Note 11. Employee benefits

	Consolidated	
	2023 $'000	2022 $'000
Current liabilities		
Annual leave	626	468
Non-current liabilities		
Long-Service Leave	260	162
	886	630

Note 12. Issued Capital

	Consolidated	
	2023 $'000	2022 $'000
Authorised fully paid ordinary shares	59,722	47,384

[1]The Group raised $13.2m of authorised share capital in calendar year 2023. This included issuing 70.3 million ordinary shares for $0.045 per share in January 2023 (61.7 million issued to MCH Investment Management), and 671 million ordinary shares for $0.015 between March and April (640.4 million issued to MCH Investment Management). This resulted in MCH Investment Management holding 85.2% of Navalo's issued capital as at 31 December 2023.

[2]The Company conducted a consolidation of its shares, prior to delisting, on a 125:1 basis. The impact of the consolidation was that every 125 ordinary shares was consolidated into one ordinary share. The consolidation of shares was approved by Shareholders at the EGM on 26 June 2023, taking effect on 27 June 2023 and completed by the ASX on 7 July 2023.

	2023 Number of shares ('000)	2023 Share Capital $'000	2022 Number of shares ('000)	2022 Share Capital $'000
Opening balance	139,158	47,383	89,100	44,505
Shares issued[1]	741,728	13,234	50,056	3,376
Share issuance costs	-	(895)	-	(498)
Share Consolidation[2]	(873,838)	-	-	-
Closing balance	7,048	59,722	139,156	47,383

Note 13. Loans and borrowings

	Consolidated 2023 $'000	Consolidated 2022 $'000
Current liabilities		
Notes payable	-	4,548
Non-current liabilities		
Warehouse loan facilities	110,901	99,188
Convertible notes	6,861	6,419
	117,762	105,607
	117,762	110,155

Warehouse loan facilities are secured against assets of $125.6m (2022: $117.9m).

Warehouse facilities	Available Limit 2023 $'000	Drawn 2023 $'000	Interest Margin 2023 %	Available Limit 2022 $'000	Drawn 2022 $'000	Interest Margin 2022 %
Class A[1]	140,000	95,472	4.50%	100,000	85,872	4.00%
Class B[1,2]	18,750	17,901	7.75%	18,750	16,101	9.25%
	158,750	113,373		118,750	101,973	

[1] The warehouse facility was extended for Class A notes to $140.0m held by Goldman Sachs and matures on 20/09/2027. The Class B note limit was increased to $18.8m and matures on 16/05/2026. These facility is eligible to be drawn down to 95%, with Navalo retaining the remaining 5%.
[2] Interest rate for Class B notes changed from a flat coupon rate to the Interest Margin + 1 Month BBSW.

Note 14. Convertible notes

Recognition, measurement and classification

As at grant date	**($'000)**
Face value of convertible notes	8,000
Embedded derivative	(1,600)
Capitalised borrowing costs	(558)
Net convertible note as at grant date	5,842

Note 14. Convertible notes (continued)

Carrying value of convertible notes	**2023 $'000**	**2022 $'000**
Opening balance	6,419	6,400
Finance costs	1,162	379
Interest paid	(720)	(360)
Closing balance	6,861	6,419

The value of the derivative liability is measured at each reporting date using the Black Scholes valuation model.

Value of derivative liability	**2023 $'000**	**2022 $'000**
Opening fair value of embedded derivative	(284)	(1,600)
Fair value movement	(534)	1,316
Closing derivative liability value	(818)	(284)

Black-Scholes valuation inputs	**2023**	**2022**
Share Price	$0.56	$0.04
Exercise Price	$4.54	$0.13
Volatility	80%	70%
Risk Free Rate	3.69%	3.51%
Effective Life (Years)	2.0	3.0
Dividend Yield	0%	0%
Derivative valuation per note	**$0.023**	**$0.008**

Key terms:
- Issue Date 13 May 2022
- Number of notes issued 35,555,560
- Principal value of notes $8.0m
- Maturity date May 2026
- Interest accrues on the principal at a fixed rate of interest of 9% p.a. until the date of redemption or conversion
- Interest is payable semi-annually in arrears
- Conversion may be exercised at the option of the note holder at any time from 13 November 2022 to 13 May 2026
- Current conversion price $4.54 (after adjustments for share consolidation and capital raisings)

The convertible notes have two components, host debt of $6.4m and an embedded derivative of $1.6m at initial recognition. The host debt component is accounted at amortised cost, recognised interest expense over the life of the instrument and the embedded derivative is measured at fair value, with changes in fair value recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Note 15. Financial instruments and risk management

This note provides information about components of our equity as well as our capital management policies. In order to maintain or adjust the capital structure, we may issue or repay debt, return capital to shareholders or issue new shares.

Note 15. Financial instruments and risk management (continued)

	Notes	2023 $'000	2022 $'000
Loans and borrowings - current	13	-	4,548
Loans and borrowings - non-current	13	117,762	105,607
		117,762	110,155

Debt covenants

Under the terms of the major borrowing facilities, the Group is required to comply with financial covenants, including loan value ratio, and non-financial covenants including concentration limits per state and industry.

Under the terms of the warehouse facility arrangement, the Group is required to satisfy the requirement for a minimum $2.1m cash upon each payment date, and the Group has therefore held this cash as restricted. The Group is also required to maintain the balance of the Liquidity Reserve Account (account in the name of the Trustee) in an amount equal to two times the monthly senior entitlements, to service:
•Trustee, Security Trustee, Manager fees and Trust expenses
•Servicer Senior Fees
•Interest on the Class A Loan Notes and Class B Notes

These covenants have been complied with during the year, and as at 2023 and 2022.

Financial instruments and risk management

The Group’s principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group’s operations. The Group’s principal financial assets include receivables and cash and cash equivalents.

The Group’s underlying business activities result in exposure to operational risks and a number of financial risks, including interest rate, market risk, credit risk and liquidity risk. The Group’s senior management oversees the management of these risks whilst the Board of Directors reviews and agrees policies for managing each of these risks.

This note summarises how we manage these financial risks.

Managing our interest rate risk

The Group’s principal financial liabilities comprise of loans and borrowings which are subject to floating interest rate movements. The main purpose of these financial liabilities is to finance the group’s operations. The Group’s principal financial assets including receivables and cash and cash equivalents.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At balance date, the Group had the following mix of financial assets and financial liabilities exposed to variable interest rate.

Note 15. Financial instruments and risk management (continued)

	2023 $'000	2023 Weighted average interest rate %	2022 $'000	2022 Weighted average interest rate %
Financial Assets - subject to interest rate risk				
Cash and cash equivalents	8,695	4.35%	7,679	3.10%
Financial Liabilities - subject to interest rate risk	-	-	-	-
Loans and borrowings - current	-	-	4,548	13.37%
Loans and borrowings - non-current	117,762	9.81%	105,607	7.90%

The sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

The impact of sensitivity analysis to interest rate on cash and cash equivalents is not material to the Group.

Based on the variable rate component of the loans and borrowings held at period end, if interest rates had changed by +/- 100 basis points from the period rates with all other variables held constant, the impact on the Group's finance cost would have been $1.1m higher / $1.1m lower (2022: $859k higher / $859k lower).

Managing our credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss. Credit risk arises from cash and cash equivalents and credit exposures to customers through outstanding receivables.

The Group's exposure to credit risk arises from potential default of its receivables, with a maximum exposure equal to the gross amount of the receivables.
Credit risk also arises from cash held with banks and financial institutions.

Credit risk related to receivables

The provision for expected credit loss represents management's best estimate at reporting date of the expected credit losses based on their experienced judgement. The expected credit loss model (ECL) is detailed in note 8.

The Group regularly reviews the adequacy of the provision for expected credit loss to ensure that it is sufficient to mitigate credit risk exposure in terms of financial reporting. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. The credit score parameters are regularly updated and adjusted to changing market conditions, to ensure losses remain within provisioning parameters as set by the Directors.

Credit risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

The Group deals with a large number of individually insignificant customers. As such the credit risk is spread and not concentrated in a small number of customers. In addition, the Group focuses on maintaining a balance of its receivables book across diversified industry groups, with any identified concentration of credit risks controlled and managed accordingly.

Note 15. Financial instruments and risk management (continued)

A sensitivity analysis was undertaken by increasing /(decreasing) the loss given default by 5%. This resulted in an increase/(decrease) in the provision of ECL by $488,031 and ($488,031) respectively (2022: $316,966 and ($316,966) respectively).

A sensitivity analysis was also undertaken by increasing /(decreasing) the probability of default by 10%. This resulted in an increase/(decrease) in the provision of ECL by $634,414 and ($634,414) respectively (2022: $412,039 and ($412,039) respectively).

Managing our liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities. The Group mitigates funding and liquidity risks by ensuring it has:

•sufficient funds on hand to meet its working capital and investment objectives
•is focused on improving operational cashflow
•has adequate flexibility in financing facilities to balance the growth objectives with short-term and long-term liquidity requirements; and
•complied with all debt covenants.

Liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to ensure there is sufficient cash allocated to fund working capital requirements.

Management monitors rolling budgets of the Group's liquidity reserve (comprising of any undrawn borrowing facilities (note 13) and cash and cash equivalents on the basis of expected cash flows and expected cash restrictions.

Note 16. Accumulated losses

	Consolidated	
	2023	**2022**
	$'000	**$'000**
Accumulated losses at the beginning of the financial period	(44,296)	(32,708)
Loss after income tax expense for the period	(12,497)	(11,588)
Accumulated losses at the end of the financial period	(56,793)	(44,296)

Note 17. Employee share ownership plans

A transaction will be classified as share-based compensation where the Group receives services from employees and pays for these in shares or similar equity instruments. There have been no cancellations or modifications to any of the plans during the period.

This note summarises the primary employee share plans and the key movements in the share-based payment arrangements during the period.

Note 17. Employee share ownership plans (continued)

	Employee Gift Offer		Employee Options Grant		Director Options Grant	
	Number 2023	Number 2022	Number 2023	Number 2022	Number 2023	Number 2022
Outstanding at the beginning of the period	40,817	40,817	773,369	872,571	4,125,000	4,125,000
Granted during the period	-	-	-	-	-	-
Forfeited during the period	-	-	-	(99,202)	-	-
Exercised during the period	-	-	-	-	-	-
Share Consolidation[1]	(40,474)	-	(767,181)	-	(4,092,000)	-
Outstanding at the end of the period	343	40,817	6,188	773,369	33,000	4,125,000

[1]The Company conducted a consolidation of its shares, prior to delisting, on a 125:1 basis. The impact of the consolidation was that every 125 ordinary shares were consolidated into one ordinary share. The consolidation of shares was approved by Shareholders at the EGM on 26 June 2023, taking effect on 27 June 2023 and completed by the ASX on 7 July 2023. There was no further impact from capital raises performed during 2023 and change of control.

Employee Gift Offer

In financial year 2021, in consideration of providing employees with the opportunity to share the Company's future success in performance and growth, the Company granted 833 of restricted shares per eligible employee, for nil consideration pursuant to the terms of the ESOP.

The key terms of the employee gift offer are as follows:

• There is no initial cost to the recipient to participate in the employee gift offer, but the restricted shares will be restricted from trading for three years from grant date whilst being employed by the Group.
• The employee gift shares are allocated to each eligible employee with the number of restricted shares determined by dividing the $1,000 remuneration value by the IPO offer price of $1.20.

In the reporting period, the Group hasn't issued any employee shares under employee gift offer in share capital (2022: $nil).

Cessation of employment

Where an employee ceases employment with the Company during the restriction period, the employee will be entitled to keep their shares and the dealing restriction will cease at the time of the employment ends.

Employee Options Grant

To motivate Employees to grow the Company and share in its financial success, align the interests of employees and shareholders, and attract and retain employees, a total of 1,168,152 options (in aggregate) was awarded to eligible employees of the Company under the terms of the ESOP in FY 2021. There were no changes made to these awarded options since FY 2021.

The key terms of the employee options grant are as follows:

•Until the Employee Options Grant vest and ordinary shares are issued, the participant is not entitled to exercise any voting rights attached to the Performance Rights and is not entitled to any dividend payments.
•Vesting will occur on expiry of a three-year term, subject to continuity of employment and the options will lapse if not exercised upon expiry of a four-year term after the grant date.

Cessation of employment

Note 17. Employee share ownership plans (continued)

The Board has discretion to determine the manner in which a recipient's unvested awards will be dealt with in the event that they cease employment with the Company, including to determine that some or all awards vest or lapse. Vested rights or options must be exercised within 60 days of cessation of employment, save that where a recipient ceases employment by reason of termination for cause or breaches restraints, vested awards will lapse.

Fair value of options granted

The fair value is estimated using a binomial option pricing model. The following table lists the inputs to the model for grants made:

	Grant on 31 October 2020
Expiry date	31 October 2024
Exercise price [2]	$0.63
Option life	4 years
Risk free rate	0.207%
Dividend yield	0%
Expected volatility[1]	36.0742%

[1]Expected volatility was calculated on the underlying security over a specified period, considering a comparable group of companies.
[2]As a result of the share consolidation, the corresponding exercise price increased on a 1:125 basis to $78.74 as at 30 June 2023. There was no further impact from capital raises performed during 2023 and change of control.

The assessed fair value at grant date of options granted during the FY 2021 reporting period was at $0.3638 per option.
In the reporting period, the Group has recognised $82k of share-based payment expense in the statement of profit or loss (2022: $39k).

Director Options Grant
The options were granted with an exercise price equal to 175% of the listing price. The premium pricing of CEO exercise right on their Options is designed to incentivise the former CEOs and Directors to promote the Company's long-term growth post listing. There were no changes made to these awarded options 2023.
The options will vest subject to continuity of employment and will vest immediately upon expiry of a three-year period from date of issue.

The key terms of the Director Options Grant are as follows:

•The grant is for a fixed number of options exercisable for shares in the Company on a1:1 basis. The number of shares that would be acquired on exercise of the options is an aggregate total of 4,125,000 (33,000 post share consolidation);
•Until the Director Options Grant vest and ordinary shares are issued, the participant is not entitled to exercise any voting rights attached to the options and is not entitled to any dividend payments.

Cessation of employment

The Board has discretion to determine the manner in which a recipient's unvested awards will be dealt with in the event that they cease employment with the Company, including to determine that some or all awards vest or lapse.

During 2023, certain Directors with unvested awards resigned. The board elected to allow Directors to continue to maintain their Director options. Vested rights or options must be exercised within 60 days of cessation of employment, save that where a recipient ceases employment by reason of termination for cause or breaches restraints, vested awards will lapse.

Fair value of options granted

The fair value is estimated using a binomial option pricing model. The following table lists the inputs to the model for grants made:

Note 17. Employee share ownership plans (continued)

	Grant on 23 December 2020
Expiry date	23 December 2024
Exercise price [2]	$2.10
Option life	4 years
Risk free rate	0.207%
Dividend yield	0%
Expected volatility[1]	36.0742%

[1]Expected volatility was calculated on the underlying security over a specified period, considering a comparable group of companies.
[2] As a result of the share consolidation, the corresponding exercise price increased on a 1:125 basis to $262.50 during the year. There was no further impact from capital raises performed during 2023 and no change of control.

The assessed fair value at grant date of options granted during FY 2021 reporting period was at $0.1161 per option. In the reporting period, the Group has recognised $155k of share-based payment expense in the statement of profit or loss (2022: $155k).

Note 18. Key management personnel compensation

Key management personnel (KMP) refer to those who have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are the same as those directors listed in the directors' report.

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

	2023 $'000	2022 $'000
Short-term employee benefits	2,075	2,113
Post-employment benefits	110	175
Long-term benefits	31	22
Termination benefits	-	36
Share-based payments	160	170
Total	2,376	2,516

Note 19. Remuneration of auditors

The auditor of Navalo Financial Services Group Limited and its controlled entities is KPMG (Australia). Amounts received or due and receivable by KPMG (Australia) for:

	Consolidated	
	2023 $	2022 $
Fees to the group auditor for audit and review of financial statements [1]	482	366
Other assurance services [2]	-	27
Non-audit (other) related fees	55	70
	55	97
	537	463

[1] $206k Fees were paid to KPMG in 2023 with remaining fees paid to EY. 2022 all fees paid to EY.
[2] Fees paid to EY in 2023 and 2022.

Note 19. Remuneration of auditors (continued)

Note 20. Commitments and Contingencies

The Group had no capital commitments as at 31 December 2023 (2022: Nil).

The Group had no contingent liabilities or contingent assets at 31 December 2023 (2022: Nil).

Note 21. Parent entity information

The financial information for the parent entity, Navalo Financial Services Group Limited, has been prepared on the same basis as the consolidated financial statements, except for the accounting of investments in subsidiaries which is accounted for at cost less impairment, if any.

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2022 and 2023.

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2022 and 2023.

	Consolidated	
	2023	**2022**
	$'000	**$'000**
Statement of financial position		
Total current assets	76,124	70,932
Total assets	126,790	117,735
Total current liabilities	4,280	7,984
Total liabilities	123,120	114,037
Equity		
Issued capital	59,722	47,383
Other reserves	741	611
Accumulated losses	(56,793)	(44,296)
Total equity	3,670	3,698

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2022 and 2023.

Note 22. Subsidiaries

The consolidated financial statements include the financial statements of Navalo Financial Services Group Limited as the ultimate parent, and results of the following subsidiaries:

Note 22. Subsidiaries (continued)

Name	Country of incorporation	% of equity interest[1] 2023 %	% of equity interest 2022 %	Tax residency	Principal Activity
Navalo Holdings Pty Ltd	Australia	100%	-	Australia	Holding company
Navalo Services Pty Ltd	Australia	100%	-	Australia	Holding company
Navalo Personal Finance Pty Ltd	Australia	100%	-	Australia	Holding company
Devizo Finance Pty Ltd	Australia	100%	100%	Australia	To provide technology-enabled payments solutions for consumers in Australia
Devizo Finance NZ Limited	New Zealand	100%	100%	New Zealand	To provide technology-enabled payments solutions for consumers in New Zealand
Devizo NZ Limited	New Zealand	100%	100%	New Zealand	Holding company
Payright Trust 2022-1	Australia	100%	100%	Australia	Trust holding warehouse loan receivables

Note 23. Related party transactions

Transactions and their terms and conditions with related parties

Lease Agreement

On 22 May 2023, the Group ceased their lease arrangements at their existing head office location in Hawthorn East and commenced a 12-month lease agreement with Metrics Credit Holdings Pty Ltd as trustee for the MCH Investments trust, for ground level of 42 Cambridge Street, Collingwood, 3066 at $6,050 per annum.

Secondment Agreement

Myles and Piers Redward resigned as Joint-CEO's effective 25 January 2023 and were appointed into executive positions within the Company, receiving the same salary of $316k per annum. Stewart Creighton replaced Myles and Piers Redward as CEO on an interim basis. Mr Creighton is providing services to the Company under a secondment agreement with MCH Corporate Services Pty Ltd ('MCHCS') (a related body corporate of Metrics) for an initial period of 6 months, which has been extended to a rolling agreement to meet the needs of the Company.

David Leach resigned as CFO effective from 11 January 2022 and was replaced by Tom Kellaway, who is providing services to the Company on an interim basis under a secondment agreement with MCHCS, which has been extended to a rolling agreement to meet the needs of the Company.

The secondment agreements for Mr Creighton and Mr Kellaway are on standard commercial terms. MCHCS is a wholly-owned subsidiary of Metrics Credit Holdings Pty Ltd ACN 150 647 091 and a related body corporate of MCH Investment Management Services Pty Ltd, which as trustee of the MCP Credit Trust 1. The terms of the secondment agreement include a full-time engagement with a daily rate payable of $1,575 by the Company. The secondment agreements may be terminated on 30 days written notice by either party (or such other notice period as agreed by the parties) or immediately for cause, with fees paid up to termination date.

Receiving of services from related parties

The Group has services arrangements in place with related parties, these transactions were conducted with normal employee, customer or supplier relationships under arm's length dealings and on ordinary commercial terms, except for the lease agreement.

Note 23. Related party transactions (continued)

The following transactions occurred with related parties:

	Consolidated	
	2023 $'000	2022 $'000
Lease agreement	3	-
Secondment agreement	805	37
Related Party Directors	64	41
	872	78

Note 24. Events after the reporting period

Navalo announced on 29 February 2024, a funding package of approximately $5m obtained from its major shareholder, MCH Investment Management Services Pty Ltd as trustee for MCP Credit Trust 1 (Metrics) to fund a share buy back and support working capital.
The funding package is comprised of:

- a placement of $508,005.97 through the issue of 1,790,014 ordinary shares to Metrics Business Finance Holdings Pty Ltd (a related party of Metrics) (MBFH) at a price per share of $0.2838 (Placement); and
- a short-term loan facility from Metrics of up to $4,493,000 (Loan) repayable 3 months after funding. The maturity date has subsequently been extended to 8 July 2024.

Navalo announced on 20 March 2024, an equal access buy-back of up to 704,748 ordinary shares at a price per share of A$0.2838. On 26 April 2024, Navalo announced that it completed an acquisition of 60,238 ordinary shares in the company from shareholders pursuant to the equal access buy-back. As the number of shares accepted into the buy-back did not exceed the maximum buy-back amount, the company acquired all shares that were accepted into the buy-back. Following the buy-back the Company has 8,776,096 shares on issue.

Following completion of the placement in February 2024 and buy-back in April 2024, Metrics' Group shareholding in the Company is approximately 88.2% (including MBFH).

On 27 May 2024, Navalo announced a deal with a new institutional investor to refinance the Class B Notes for the Warehouse Facility, purchasing them off iPartners after the end of the Availability Period of the existing facility. The new facility provides for an additional undrawn commitment which is available to the Company to subscribe for additional Class B Notes to fund potential growth of the loan book.

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Navalo Financial Services Group Limited and its controlled entities
Directors' declaration
31 December 2023

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 consolidated entity's financial position as at 31 December 2023 and of its performance for the 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 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Andrew Lockhart
Chairman

Matthew Pringle
Non-Executive Director

3 June 2024

KPMG

Independent Auditor's Report

To the members of Navalo Financial Services Group Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Navalo Financial Services Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 31 December 2023 and of its financial performance for the 12 month period ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2023
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the period then ended
- Notes, including material accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the period end or from time to time during the 12 month period ended 31 December 2023.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Company in accordance with 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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG

Material uncertainty related to going concern

We draw attention to Note 1, "Going Concern" in the Financial Report, which indicates that the Group incurred a net operating cash outflow of $18.4 million and a net loss of $12.6 million for the period ended 31 December 2023. The ability of the Group to continue as a going concern is dependent upon maintaining cash reserves and securing additional funding facilities and/or equity, which will be used to support its business growth and working capital. The events or conditions disclosed in the note, indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Financial Report. Our conclusion is not modified in respect of this matter.

Other information

Other Information is financial and non-financial information in Navalo Financial Services Group Limited's annual report which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

Other matter

Comparatives have been included in this financial report for the purposes of the offer document, however the Consolidated statement of financial position as at 31 December 2022, and Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the 12 month period ended on that date was not audited. We have performed opening balance audit procedures at 1 January 2023 to enable us to form our audit opinion for the year ended 31 December 2023.

KPMG

KPMG

Andrew Reeves

Partner

Sydney

3 June 2024