Navalo Financial Services Group Limited and its controlled entities

Interim 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 half-year ended 31 December 2023.

Directors

The names and details of the company's directors in office during the year 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 (resigned as Chairman 31 December 2023)

Andrew Lockhart - Chairman and Non-Executive Director (appointed as Chairman 31 December 2023)

Lisa Davis - Non-Executive Director (appointed as Director 6 February 2024)

Mark Licciardo - Non-Executive Director (appointed as Director 18 October 2023)

Matthew Pringle - Non-Executive Director

Principal activities

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

Dividends

No dividends have been paid or declared for the financial half-year ended 31 December 2023 (30 June 2023: $nil).

Review of operations

Navalo is an established participant in the rapidly growing non-bank finance industry with operations across 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 financial half-year ended

	31 December 2023	31 December 2022	Change	Change
	$'000	$'000	$'000	%
Total income	11,564	9,116	2,448	27%
Operating expenses[4]	(12,437)	(9,554)	(2,883)	30%
Net finance costs	(6,444)	(4,598)	(1,846)	40%
Depreciation	(5)	(62)	57	(92%)
Gain on revaluation of embedded derivative	36	178	(142)	(80%)
NLAT[1]	(7,286)	(4,920)	(2,366)	48%
Basic and diluted EPS (cents) [2,3]	(103)	(759)	656	(86%)

[1] Throughout this report, certain non-IFRS information such as Gross Merchandise Value (GMV), Average Transaction Value (ATV), total merchants and total customers are used. Such information is used to assist users of financial statements to better understand the financial performance of the Group in each financial period. Non-IFRS information is not audited.
[2] Calculation of diluted EPS does not take into account the 35,555,560 of convertible notes issued (31 December 2022: 35,555,560), 21,713 of warrants (30 June 2023: 21,713), 33,000 of shares which may be issued under the director options grant (30 June 2023: 33,000) and 6,188 of shares issued under the employee options grant (30 June 2023: 6,188) because they are anti-dilutive as at the reporting period.
[3] For the half-year prior to the half-year ended 31 December 2023, the measures have been restated to take into account the share consolidation which took place in the year ended 30 June 2023. 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.
[4] Operating expenses less depreciation and finance costs.

Group financial performance and reported results

Group income totalled $11,564k for the half-year ended 31 December 2023, an increase of 27% from the prior comparative period (pcp). The increase in income reflects continued expansion within the consumer lending market. During the reporting period, the following key activities supported the increase in income:

A renewed focus on increased profitability on new originations following a review of merchant relationships. A number of merchant agreements were negotiated to new terms to maximise the economics of loans written over the period.

The focus on retention of more profitable merchants and measured industry vertical diversification strategy resulted in a reduction in total merchant stores by 15% to 3,208 (30 June 2023: 3,762).

Group financial performance and reported results continued

The Group reported an increased Net Losses After Tax (NLAT) of $7,286k compared to the prior half-year 2022 of $4,920k. Total income increased by 27% to $11,564k, which was offset by the increase in operating expenses less depreciation of $12,437k, an increase of 30% from pcp of $9,554k. The increase in operating spend was mostly due to the increase in expected credit losses, driven by the review of the loan portfolio and the increased software development costs.

Net finance costs for the half-year ended 31 December 2023 were $6,444k, an increase of 40% from the prior year due to higher average interest rates and borrowings in the period, supporting growth in underlying loan receivables.

The Group also recorded a $36k gain on the revaluation of the embedded derivative component of the convertible notes issued on May 13, 2022. This embedded derivative is required to be revalued at each reporting period.

As a result, the net loss after tax (NLAT) of the Group for the half-year ended 31 December 2023 was $7,286k (31 December 2022: $4,920k).

Financial position and cash flow

Cash flow summary	**31 December 2023**	**31 December 2022**	**Change**	**Change**
	$'000	**$'000**	**$'000**	**%**
Net cash flows used in operating activities	(7,848)	(20,525)	12,677	(62%)
Net cash used in investing activities	(29)	-	(29)	-
Net cash flows from financing activities	6,932	14,185	(7,253)	(51%)
Net decrease in cash and cash equivalents	(945)	(6,340)	5,395	(85%)

Financial Position Summary	**31 December 2023**	**30 June 2023**	**Change**	**Change**
	$'000	**$'000**	**$'000**	**%**
Total assets	126,787	125,448	1,340	1%
Total liabilities	(123,120)	(114,635)	(8,485)	7%
NET ASSETS	3,667	10,813	(7,145)	(66%)
EQUITY	3,667	10,813	(7,145)	(66%)

Outlook

Navalo continues to focus on building a sustainable foundation for the Group's lending activities and ensuring improvement in the credit quality and risk management activities of the company.

Board and Management are aligned with the Group's plan to focus on sustainability, expanded product range and improved credit risk management to drive more profitable trading outcomes in a reduced time frame. Strategic areas of attention in executing these plans include:

- Focused sales activity on existing, high calibre merchants; looking to maximise higher profit transaction volumes and grow Navalo's share of business from existing merchants;
- Ongoing review of merchant and product profitability;
- Development of a licensed consumer lending product for planned launch during financial year ended 30 June 2024;
- Ongoing analysis of cost drivers, including further efficiency activities to ensure a sustainable cost base enabling ongoing growth; and
- Increasing attention to credit risk management, arrears and collections activities.

The Group's strategic focus makes note of current macroeconomic and interest rate conditions, as well as preparing to take advantage of growth opportunities over the coming 12 months.

The Board remains focused on managing existing relationships with debt and equity partners and is confident in its ability to be able to raise additional debt and/or equity during financial year 2024 when required to enable the delivery of its strategic objectives and ensure growth activities are appropriately funded.

Significant changes in the state of affairs

Following the EGM held on 26 June 2023, the shareholders passed the resolution to approve the delisting of the Company from official quotation of 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 from $16.8m to $18.8m held by iPartners 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 financial half-year.

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).

Following completion of the placement on 29 February, Metrics' shareholding in the Company is now approximately 88.2%.

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.

Likely developments and expected results on operations

There are no other developments and expected results on operations, other than those mentioned in the 'Outlook' section.

Environmental regulation

The Group is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory.

Share Options

During the year, no options to acquire shares in the Company were granted and no shares were issued. Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price[1]	Number under option[1]
31 October 2020	31 October 2024	$78.74	6,188
23 December 2020	23 December 2024	$262.50	33,000

[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. Therefore, the corresponding exercise price increased on a 1:125 basis. 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.

Indemnification and insurance of Directors and officers

A deed of indemnity, insurance and access has been entered into with each Director of the Group. During the financial year the Group paid a premium for Directors' and Officers' Liability insurance. Further disclosure is prohibited under the terms of the contract.

Indemnification of auditor

To the extent permitted by law and professional regulations, no indemnities have been given or insurance premiums paid, during or since the end of the period, for any person who is or has been an officer or auditor of Navalo Financial Services Group Limited.

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.

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 8*.

Signed in accordance with a resolution of the directors.

Andrew Lockhart

Chairman

7 March 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 review of Navalo Financial Services Group Limited for the half-year 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 review; and

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

KPMG

Andrew Reeves

Partner

Sydney

7 March 2024

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General information

About this report

This is the interim report for Navalo Financial Services Group Limited and its controlled entities (collectively, the "Group") for the half-year ended 31 December 2023. Navalo Financial Services Group Limited (the "Company") is a for-profit unlisted public company 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.

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 7 March 2024. The directors have the power to amend and reissue the financial statements.

Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2023

	Note	Consolidated 31 December 2023 $'000	31 December 2022 $'000
Revenue			
Fee income	2	9,580	8,918
Finance income	2	115	23
Other income	2	1,869	175
Total income		11,564	9,116
Expenses			
Rent		(3)	(43)
Employee benefits expense		(4,016)	(4,241)
Advertising and marketing		(52)	(144)
Consulting and professional fees		(1,727)	(1,345)
Depreciation		(5)	(62)
Other expenses		(449)	(436)
Expected credit loss		(5,097)	(2,634)
Administration Costs		(1,093)	(711)
Operating loss		(878)	(500)
Finance costs		(6,444)	(4,598)
Gain on revaluation on embedded derivative	9	36	178
Loss before income tax expense		(7,286)	(4,920)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Navalo Financial Services Group Limited		(7,286)	(4,920)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		30	140
Other comprehensive income for the half-year, net of tax		30	140
Total comprehensive income for the half-year attributable to the owners of Navalo Financial Services Group Limited		(7,256)	(4,780)

		Cents	Cents
Basic earnings per share	3	(103)	(759)
Diluted earnings per share	3	(103)	(759)

Consolidated statement of financial position
As at 31 December 2023

	Note	Consolidated 31 December 2023 $'000	Consolidated 31 December 2022 $'000
Assets			
Current assets			
Cash and cash equivalents	4	8,695	9,641
Receivables	5	65,942	63,896
Prepayments and other current assets		1,436	1,627
Total current assets		76,073	75,164
Non-current assets			
Receivables	5	50,630	48,705
Property, plant and equipment		36	12
Other non-current asset		48	1,567
Total non-current assets		50,714	50,284
Total assets		126,787	125,448
Liabilities			
Current liabilities			
Trade and other payables	6	3,654	2,502
Employee benefits		626	544
Total current liabilities		4,280	3,046
Non-current liabilities			
Loans and borrowings	8	117,762	110,516
Employee benefits		260	220
Derivative liability	9	818	853
Total non-current liabilities		118,840	111,589
Total liabilities		123,120	114,635
Net assets		3,667	10,813
Equity			
Other reserves		738	598
Accumulated losses		(56,793)	(49,507)
Issued capital	7	59,722	59,722
Total equity		3,667	10,813

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

Consolidated statement of changes in equity
For the half-year 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 July 2022	45,895	651	(243)	(39,381)	6,922
Loss after income tax expense for the half-year	-	-	-	(4,920)	(4,920)
Other comprehensive income for the half-year, net of tax	-	-	140	-	140
Total comprehensive income for the half-year	-	-	140	(4,920)	(4,780)
Issuance of share capital	1,876	-	-	-	1,876
Share issuance costs	(388)	-	-	-	(388)
Transactions with owners in their capacity as owners:					
Share-based payments (note 11)	-	60	-	-	60
Balance at 31 December 2022	47,383	711	(103)	(44,301)	3,690

Consolidated	Issued capital $'000	Share based payment reserves $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2023	59,722	837	(240)	(49,507)	10,812
Loss after income tax expense for the half-year	-	-	-	(7,286)	(7,286)
Other comprehensive income for the half-year, net of tax	-	-	30	-	30
Total comprehensive income for the half-year	-	-	30	(7,286)	(7,256)
Transactions with owners in their capacity as owners:					
Share-based payments	-	111	-	-	111
Balance at 31 December 2023	59,722	948	(210)	(56,793)	3,667

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

Consolidated statement of cash flows
For the half-year ended 31 December 2023

	Consolidated	
	31 December 2023	31 December 2022
	$'000	$'000
Cash flows from operating activities		
Receipts from customers	52,443	47,172
Payments to suppliers and employees	(5,890)	(8,329)
Payments to merchants	(48,545)	(54,416)
Interest received	115	201
Interest paid	(5,971)	(5,149)
Interest paid on lease liability	-	(4)
Net cash used in operating activities	(7,848)	(20,525)
Cash flows from investing activities		
Purchase for property, plant and equipment	(29)	-
Net cash used in investing activities	(29)	-
Cash flows from financing activities		
Proceeds from issue of share capital	-	1,876
Proceeds from warehouse facility	7,500	13,175
Payment of warehouse facility costs	-	(21)
Payment of share issuance costs	-	(388)
Payment of restricted cash account	-	(404)
Principal portion of lease liabilities	-	(53)
Payment of warehouse facility costs	(568)	-
Net cash from financing activities	6,932	14,185
Net decrease in cash and cash equivalents	(945)	(6,340)
Cash and cash equivalents at the beginning of the financial half-year	9,640	12,683
Cash and cash equivalents at the end of the financial half-year	8,695	6,343

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

Notes to the consolidated financial statements, for the half-year ended 31 December 2023

Note 1. Basis of preparation

This section explains the basis of preparation of our interim report and provides a summary of our key accounting estimates and judgements.

These general purpose consolidated financial statements for the interim half-year reporting period ended 31 December 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The half-year consolidated financial statements have been prepared on a historical cost basis and are presented in Australian dollars ($), which is the Group's functional currency. In accordance with ASIC Corporations (rounding in Financial/Directors' reports) Instrument 2016/191, the amounts in the Financial Report have been rounded to the nearest thousand dollars, unless otherwise stated.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2023.

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

Significant changes in the current reporting period

There have been no significant changes in the current reporting period.

Terminology used

Earnings before income tax expense, depreciation and amortisation (EBTDA) reflects profit or loss for the period prior to including the effect of depreciation and amortisation. Management uses EBTDA, in combination with other financial measures, primarily to evaluate the Group's operating performance.

New or amended Accounting Standards and Interpretations adopted

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2023.The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have a material impact on the interim consolidated financial performance or position of the consolidated entity.

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 $3,667k (30 June 2023: $10,813k) and incurred a loss of $7,286k (30 June 2023: $10,126k) and had net operating cash outflows of $(7,848k) for the financial half-year ended 31 December 2023 (30 June 2023: $29,788k). 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, in the consideration of the appropriateness of the going concern basis for the preparation of the financial statements, have prepared a cash flow forecast to assess the cash requirements of the business for the next 12 months from date of signing.

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, as and when required. 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 5
- Convertible notes note 9
- Employee share ownership plans note 11

Note 2. Income

	Consolidated	
	2023	**2022**
	$'000	**$'000**
Customer fees	3,274	3,184
Merchant fees	6,306	5,734
Total fee income	9,580	8,918

Other income	Consolidated	
	2023	**2022**
	$'000	**$'000**
Finance income	115	23
Other income [1]	1,869	175
Total other income	1,984	198

Other income

[1]Other income is largely comprised of income received from the debt sale transaction of $1,583k (31 December 2022: nil) and Late Payment Fees $172k (31 December 2022: $142k).

Note 3. Loss per share

This note outlines the calculation of Loss Per Share (EPS) which is the amount of post-tax profit attributable to each share. We calculate basic and diluted EPS. Diluted EPS reflects the effects of the equity instruments allocated to our employee share schemes under Navalo's share-based payment plans, the convertible notes, and warrants issued. The following table reflects the income and share data used in the basic and diluted EPS calculations.

	Consolidated	
	31 December 2023	**31 December 2022**
	$'000	**$'000**
Loss attributable to the equity holders of the parent	(7,286)	(4,920)
	Number	**Number**
Weighted average number of ordinary shares used in calculating diluted earnings per share [1,3]	7,047,480	648,576
	Cents	**Cents**
Basic and diluted earnings per share[2,3]	(103)	(759)

[1] Weighted average number of ordinary shares (WANOS).
[2] Basic and diluted earnings per share attributable to the ordinary equity holders of the company.
[3] For the half-year prior to the half-year ended 31 December 2023, the measures have been restated to take into account the share consolidation which took place in the year ended 30 June 2023. 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.

Recognition and measurement

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 (31 December 2022: 35,555,560), 21,713 of warrants issued post share consolidation (31 December 2022: 2,714,079), 33,000 of shares which may be issued under the director options grant (31 December 2022: 4,125,000) and 6,188 of shares issued under the employee options grant (31 December 2022: 773,369) because they are anti-dilutive as at the reporting period.

Note 4. Cash and cash equivalents

	Consolidated	
	31 December 2023	**30 June 2023**
	$'000	**$'000**
Cash on hand	-	1
Cash at bank	6,595	8,140
Restricted cash[1]	2,100	1,500
	8,695	9,641

[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 upon the extension of the warehouse facility.

Note 5. Receivables

	Consolidated 31 December 2023 $'000	30 June 2023 $'000
Current assets		
Receivables	71,048	68,861
Less: Provision for expected credit loss	(5,106)	(4,965)
Total current receivables	65,942	63,896
Non-current assets		
Receivables	54,587	52,498
Less: Provision for expected credit loss	(3,957)	(3,793)
Total non-current receivables	50,630	48,705
	116,572	112,601

Movements in the provision for expected credit losses were as follows:

	Consolidated 31 December 2023 $'000	30 June 2023 $'000
Opening provision	(8,758)	(6,916)
Provided in the period	(5,097)	(5,144)
Debts written-off[1]	4,792	3,302
Closing provision	(9,063)	(8,758)

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

Recognition and measurement

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 contractual 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 utilises 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 of default (PD) model but based on lifetime PD.

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 months 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. 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. During the half-year, the Group has recorded $5,097k (30 June 2023:$5,144k) in loss allowance due to an increase in the gross carrying amount of the receivables.

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.

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)

30 June 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 (%)	2.50	50.40	91.60	-
ETGCD ($'000)[2]	113,743	2,524	5,092	121,359
ECL ($'000)[1]	(2,823)	(1,273)	(4,662)	(8,758)

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

Key estimates – provision for expected credit losses

Management estimates and judgement are utilised in measuring provision for ECLs and determining whether the risk of default has increased significantly since initial recognition of the receivables. The Group considers both quantitative and qualitative information in determining the ECLs on its receivables.

The measurement of the provision for ECL is a result of:

- probability of default
- loss given default
- exposure at default

The probability of default has been developed by analysing customer credit score (sourced from independent third party) and days past due, against the proportion of those balances that have defaulted over time, to form a basis to determine the PD. The loss given default is based on historical loss experienced. The exposure at default represents the present value of the estimated customer receivable at the reporting date.

Note 6. Trade and other payables

	Consolidated	
	31 December 2023	**30 June 2023**
	$'000	**$'000**
Current liabilities		
Trade payables	1,060	944
GST Payable	217	386
Interest payable	419	335
Other payable [1]	1,958	837
	3,654	2,502

[1] Other includes accrued loan payable which is an intercompany balance which offsets other current assets balance.

Note 7. Share Capital

	Consolidated	
	31 December 2023	30 June 2023
	$'000	$'000
Authorised fully paid ordinary shares	59,722	59,722

Movements in ordinary shares	Number of Shares	Share Capital
	'000	$'000
At 1 July 2022	97,434	45,895
Shares issued[1]	783,451	15,111
Share issuance costs	-	(1,284)
Share consolidation[2]	(873,838)	-
At 30 June 2023	7,047	59,722

[1]The Group raised $15,110,914 of authorised share capital in financial year 2023. This included issuing 109.9 Million ordinary shares for $0.045 per share between December 2022 and January 2023 (100.8 Million issued to MCH Investment Management), and issuing 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. No further shares have been issued 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.

Movements in ordinary shares	Number of Shares	Share Capital
	'000	$'000
At 30 June 2023	7,047	59,722
Shares issued	-	-
Share issuance costs	-	-
At 31 December 2023	7,047	59,722

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 11 for further details.

Note 8. Loans and borrowings

	31 December 2023	30 June 2023
	$'000	$'000
Non-current liabilities		
Loans and borrowings	110,901	104,301
Convertible notes payable	6,861	6,215
	117,762	110,516

Secured notes are secured against assets of $125,635k (30 June 2023: $121,358k).

Secured notes with a gross value of $113,373k (30 June 2023: $106,248k) were issued to institutional and professional investors at fixed and variable interest rates and are expected to be settled when due:

Series	Drawn amount	Interest rate[2]	Maturity date
	$'000	%	
Class A[1]	95,472	4.50%	20 September 27
Class B[1]	17,901	7.75%	16 May 26

[1] The warehouse facility was extended for Class A notes to $140.0m held by Goldman Sachs ("GS") and Class B notes to $18.8m. This facility is eligible to be drawn down to 95%, with Payright retaining the remaining 5%.
[2] Interest rate plus 1- month BBSW

As at 31 December 2023, the undrawn portion of the warehouse facility related to senior and mezzanine notes is $45,377k (30 June 2023: $12,502k).

Note 9. 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

As at 31 December 2023	**$ '000**
Opening balance at 1 July 2023	6,215
Finance costs	1,006
Interest paid	(360)
Closing balance at 31 December 2023	6,861

As at 30 June 2023	**$ '000**
Opening balance at 1 July 2022	5,842
Finance costs	1,093
Interest paid	(720)
Closing balance at 30 June 2023	6,215

Recognition, measurement and classification continued

As at 31 December 2023	$ '000
Fair value of embedded derivative at 30 June 2023	(853)
Fair value movement	36
Closing derivative liability value at 31 December 2023	(817)

Recognition, measurement and classification continued

As at 30 June 2023	$ '000
Fair value of embedded derivative at 30 June 2022	(462)
Fair value movement	(391)
Closing derivative liability value at 30 June 2023	(853)

On 13 May 2022, the Group issued 35,555,560 convertible notes. The total amount raised from the convertible note issue was $8,000k. The convertible notes mature on the 4th anniversary of the issue date, being 13 May 2026. Interest will accrue on the principal amount of each convertible note at a fixed rate of interest of 9% p.a. accruing daily (from the issue date until the date of redemption or conversion). Interest is payable semi-annually in arrears (payable on 30 September and 31 March each year).

The convertible notes may be exercised at the option of the note holder at any time during the period commencing 6 months after the issue date (13 November 2022) and ending on the 4th anniversary of the issue date, being 13 May 2026. The convertible notes may also be exercised at the option of the note holder if a material event (as defined) occurs within 6 months after the issue date.

In the event of conversion, the convertible notes convert into the number of shares determined in accordance with the exchange ratio, being the principal outstanding divided by the conversion price. The conversion price is defined in the deed poll as the initial conversion price or the adjusted conversion price (as applicable) and sets out a mechanism for the conversion price to be adjusted in the event of capital raising activities undertaken by the Company. As a result of the Company's capital raising activities during 2023 and share consolidation the convertible note conversion price increased to $4.5375 compared with $0.225 at 30 June 2022 with no further impact from change of control.

Recognition, measurement and classification continued

Convertible notes that have not otherwise been converted, redeemed, or cancelled will be redeemed on the earlier of the voluntary redemption by the company, the occurrence of an event of default or change of control, or the maturity date. The redemption amount is determined as the principal amount plus any accrued but unpaid interest.

In addition, 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. The valuation of the embedded derivative at 31 December 2023 is $818k (30 June 2023: $853k) as per the Black-Scholes Methodology. The Group is required to revalue the embedded derivative of the convertible notes at each reporting date.

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.

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.

Valuation and disclosure within fair value hierarchy continued

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 embedded derivative has been revalued at 31 December 2023 in accordance with Accounting Standard AASB 9 Financial Instruments. Following the revaluation at 31 December 2023, the Group has reported a financial liability in relation to the underlying host debt component of the convertible notes of $6,860k (30 June 2023: $6,215k), and the embedded derivative has been valued at fair value of $818k (30 June 2023: $853k), using the Black Scholes option valuation model. The fair value has been based on the Group's closing share price at the date of delisting (28 July 2023) of $0.56 (30 June 2023: $0.51), volatility of 80% (30 June 2023: 75%), and a risk free rate of 3.69% (30 June 2023: 4.03%). A fair value gain of $36k has been recorded, being the movement in the fair values of the embedded derivative between 30 June 2023 and 31 December 2023 (30 June 2023: loss of $391k. The level of the fair value hierarchy within which the fair value measurement of the derivative liability is recognised as Level 3 (non-market observable inputs).

Note 10. 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

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.

Managing our interest rate risk continued

	Consolidated	
	31 December 2023	30 June 2023
	$'000	$'000
Financial assets		
Cash and cash equivalents	8,695	9,640
Warehouse class A notes	95,472	89,472
Warehouse class B notes[1]	17,901	-
Total exposure	122,068	99,112

[1] As part of the warehouse extension, the interest rate for Class B was adjusted to include BBSW in HY24.

The Group's exposure to market interest rates relates to the Group's cash and cash equivalents. The sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

During the half-year ended 31 December 2023, the weighted average of the variable interest rate component for cash and cash equivalents subject to interest rate risk was 4.35% (30 June 2023: 3.10%). At half-year, 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 secured loans held at half-year, if interest rates had changed by +/- 100 basis points from the half-year rates with all other variables held constant, the impact on the Group's finance cost would have been $1,133k higher / $1,133k lower (30 June 2023: $895k higher / $895k lower).

Managing our foreign exchange risk

Foreign currency risk is the risk that the value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when income or expenses are denominated in a foreign currency).

The Group's consolidated financial statements for the half-year ended 31 December 2023 can be affected by movements in the New Zealand Dollar.

The Group's current exposure to foreign exchange risk is minimal and management will continue to monitor its foreign operations and transactions pro-actively.

Note 11. 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.
This note summarises the primary employee share plans and the key movements in the share-based payment arrangements during the period.
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 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.

During the half-year ended 31 December 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 or modifications to any of the plans during the half-year period

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.

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.

Summary of Shares Issued under the Employee Gift Offer

The following table illustrates the number of, and movements in shares granted during the reporting period:

	Consolidated	
	31 December 2023	**30 June 2023**
	Number	**Number**
Outstanding at the beginning of the period	343	40,817
Granted during the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Share Consolidation[1]	-	(40,474)
Outstanding at the end of the period	343	343

[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.

No options were granted during the half-year ended (30 June 2023: $nil).

In the reporting period, the Group hasn't issued any employee shares under employee gift offer in share capital (30 June 2023: $nil).

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 FY21. There were no changes made to these awarded options since FY21.
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

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.

Summary of Shares Issued under the Employee Options Grant

The following table illustrates the number of, and movements in options granted during the reporting period:

	Consolidated	
	31 December 2023	**30 June 2023**
	Number	**Number**
Outstanding at the beginning of the period	6,188	773,369
Granted during the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Share Consolidation[1]	-	(767,181)
Outstanding at the end of the period	6,188	6,188

[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.

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 FY21 reporting period was at $0.3638 per option.

In the reporting period, the Group has recognised $32k of share-based payment expense in the statement of profit or loss (31 December 2022: $56k).

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 in FY23.
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.

Summary of Shares Issued under Director Options Grant

The following table illustrates the number of, and movements in options granted during the reporting period:

	Consolidated	
	31 December 2023	**30 June 2023**
	Number	**Number**
Outstanding at the beginning of the period	33,000	4,125,000
Granted during the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Share Consolidation[1,2,3]	-	(4,092,000)
Outstanding at the end of the period	33,000	33,000

[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 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.
[2] During 2023, certain Directors with unvested options resigned. As per the applicable rules of the Director Options plan, the Board elected to allow Directors to continue to maintain their unvested director options.
[3]As a result of the share consolidation, the corresponding exercise price increased on a 1:125 basis to $262.50. There was no further impact from capital raises performed during 2023 and change of control.

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 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 will increase on a 1:125 basis to $262.50 as at 30 June 2023. There was no further impact from capital raises performed during 2023 and change of control.

Fair value of options granted continued

The assessed fair value at grant date of options granted during FY21 reporting period was at $0.1161 per option.

In the reporting period, the Group has recognised $77k of share-based payment expense in the statement of profit or loss (31 December 2022: $77k).

Note 12. Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 13. 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.
KMP compensation for the half-year is shown as follows:

Compensation

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

	Consolidated	
	31 December 2023	**31 December 2022**
	$'000	**$'000**
Short-term employee benefits	939	835
Post-employment benefits	57	68
Long-term benefits	7	7
Share-based payments	73	116
Total	1,076	1,026

Note 14. 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 & 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 & 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. The secondment agreement is 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 Agreement 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.

David Leach resigned as CFO effective from 11 January 2023 and was replaced by Tom Kellaway, who is providing services to the Company on an interim basis under a secondment agreement with 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. The terms of the secondment agreement include a full time engagement with a daily rate payable of $1,575 by the Company. The Secondment Agreement 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.

The following transactions occurred with related parties:

	Consolidated	
	31 December 2023	**31 December 2022**
	$'000	**$'000**
Lease agreement	3	-
Secondment agreement	359	-
Related Party Directors	85	39
	447	39

Note 15. 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).
  Following completion of the placement on 29 February, Metrics' shareholding in the Company is now approximately 88.2%.

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.

Director's declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2023 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

Andrew Lockhart

Chairman

7 March 2024

Independent Auditor's Review Report

To the members of Navalo Financial Services Group Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Navalo Financial Services Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Navalo Financial Services Group Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 Dec 2023 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated 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 Half-year ended on that date 31 Dec 2023
- Notes 1 to 15 including selected explanatory notes
- The Directors' Declaration.

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Navalo Financial Services Group Limited, would be in the same terms if given to the Directors as at the time of this Auditor's Review Report.

Material uncertainty related to going concern

We draw attention to Note 1, "Going Concern" in the Half-year Financial Report, which indicates that the Group incurred a net operating cash outflow of $8.4 million and a net loss of $7.3 million for the half year 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 Half-year Financial Report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001.*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2023 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Andrew Reeves

Partner

Sydney

7 March 2024