

Navalo Financial Services Group Limited and its controlled entities

ABN 24 605 753 535

Financial Report - For the half-year ended 31 December 2024

Navalo Financial Services Group Limited and its controlled entities

Contents

31 December 2024

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General information

About this report

This report for Navalo Financial Services Group Limited and its controlled entities (collectively, the "Group" or "Navalo") for the half-year ended 31 December 2024. Navalo Financial Services Group Limited (the "Company") is a for-profit entity limited by shares incorporated and domiciled in Australia.

The Company is an unlisted public company and its registered office and principal place of business are:

Registered office

Level 16, 1 Martin Place NSW 2000.

Principal place of business

42 Cambridge Street, Collingwood, VIC 3066.

A description of the nature of the Group'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 17 March 2025. The directors have the power to amend and reissue the financial statements.

Navalo Financial Services Group Limited and its controlled entities
Directors' report
31 December 2024

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 2024.

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.

Andrew Lockhart - Chairman and Non-Executive Director
Allan Griffiths - Non-Executive Director
Lisa Davis - Non-Executive Director
Mark Licciardo - Non-Executive Director
Matthew Pringle - Non-Executive Director

Principal activities

The principal activity of the Company during the half-year ended 31 December 2024 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 2024.

Dividends

No dividends have been paid or declared for the financial period ended 31 December 2024 (31 December 2023: \$nil).

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$6,943,000 (31 December 2023: loss after income tax of \$7,286,000).

Navalo is a participant in the 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 half-year ended 31 December 2024

	31 December 2024	31 December 2023	Change	Change
Lauren Simpson <lauren.simpson@metrics.com.au>; Andrew Lockhart <Andrew.Lockhart@metrics.com.au>; Matt <matt@mattpringle.com.au>	\$'000	\$'000	\$'000	%
Net finance income	4,042	5,120	(1,078)	(21%)
Total expenses	(10,985)	(12,442)	1,457	(12%)
Gain on revaluation of embedded derivative	-	36	(36)	(100%)
Loss before income tax expense	<u>(6,943)</u>	<u>(7,286)</u>	<u>343</u>	<u>(5%)</u>

- Net finance income decreased to \$4m for the half-year ended 31 December 2024, a decrease of 21% from the prior period driven by a decrease in other income, owing to a large debt sale worth \$1.6m made in the previous half-year ended 31 December 2023. No debt sale was made in the half-year ended 31 December 2024.
- Reduction in expenses for the Group largely resulted from lower employee expenses and reduced spend on consultancy and professional fees.

Navalo Financial Services Group Limited and its controlled entities
Directors' report
31 December 2024

Financial Position Summary

	31 December 2024 \$'000	30 June 2024 \$'000	Change \$'000	Change %
Total assets	132,785	134,260	(1,475)	(1%)
Total liabilities	(131,437)	(134,846)	3,409	(3%)
Net (liabilities)/assets	<u>1,348</u>	<u>(586)</u>	<u>1,934</u>	<u>(330%)</u>
Equity	<u>1,348</u>	<u>(586)</u>	<u>1,934</u>	<u>(330%)</u>

Outlook

The historical financial performance of the Group and near-term outlook indicate that the Group lacks sufficient scale to operate profitably in the Buy-Now-Pay-Later and merchant-distributed 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 Group 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 Group in its current form, such as being unable to achieve sustainable 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 of 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.

As at 31 December 2024 the Group had consolidated net assets of \$1.35m (30 June 2024: Net liabilities of \$586k) and incurred a loss of \$6.9m (31 December 2023: \$7.3m). The Group's net operating cash outflows were \$3.58m for the half-year ended 31 December 2024 (31 December 2023: \$7.85m).

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.

Significant changes in the state of affairs and likely developments

Metrics Business Finance Holdings Pty Ltd ACN 638 490 776 (MBFH), together with its related bodies corporate, holds full beneficial interests in at least 90% of the Navalo shares on issue. MBFH gave notice to Navalo shareholders to exercise its rights under Part 6A.2 of the Corporations Act 2001 (Cth) (Act) to compulsorily acquire all of the Navalo shares it does not already own (Compulsory Acquisition). Shareholders holding in excess of 10% of the shares subject to the compulsory acquisition lodged objections to the compulsory acquisition. Resolution of the compulsory acquisition is currently subject to a court proceedings and the Directors are unable to provide an update at this time.

There were no other significant changes in the state of affairs of the consolidated entity during the half-year period.

Significant events after the reporting date

No matter or circumstance has arisen since 31 December 2024 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' report
31 December 2024

Indemnification and insurance of Directors and officers

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

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 Group 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 Group has not, during or since the end of the half-year ended 31 December 2024, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the half-year ended 31 December 2024, the Group 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 5.

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 Group 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
Chairman



Matthew Pringle
Non-Executive Director

17 March 2025



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 2024 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

17 March 2025

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 2024

		Consolidated	
	Note	31 December 2024 \$'000	31 December 2023 \$'000
Net finance income			
Fee and finance income	2	10,522	9,695
Finance costs	2	(6,729)	(6,444)
Other income	2	249	1,869
Net finance income		<u>4,042</u>	<u>5,120</u>
Expenses			
Employee benefits expense		(3,477)	(4,016)
Consulting and professional fees		(953)	(1,727)
Administration costs		(1,171)	(1,096)
Other expenses		(485)	(449)
Advertising and marketing		(33)	(52)
Expected credit loss	4	(4,849)	(5,097)
Depreciation		(17)	(5)
Total expenses		<u>(10,985)</u>	<u>(12,442)</u>
Operating loss		(6,943)	(7,322)
Gain/(loss) on revaluation on embedded derivative	8	-	36
Loss before income tax expense		(6,943)	(7,286)
Income tax expense		-	-
Loss after income tax expense for the period attributable to the owners of Navalo Financial Services Group Limited		(6,943)	(7,286)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		-	30
Other comprehensive income for the period, net of tax		-	30
Total comprehensive income for the period attributable to the owners of Navalo Financial Services Group Limited		<u>(6,943)</u>	<u>(7,256)</u>

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 2024

		Consolidated	
	Note	31 December 2024 \$'000	30 June 2024 \$'000
Assets			
Current assets			
Cash and cash equivalents	3	13,074	10,374
Receivables	4	67,052	69,013
Prepayments and other current assets		343	1,582
Total current assets		<u>80,469</u>	<u>80,969</u>
Non-current assets			
Receivables	4	50,431	51,420
Property, plant and equipment		37	27
Other non-current asset		1,848	1,844
Total non-current assets		<u>52,316</u>	<u>53,291</u>
Total assets		<u>132,785</u>	<u>134,260</u>
Liabilities			
Current liabilities			
Trade and other payables	5	2,613	4,279
Loans and borrowings	7	22,714	23,206
Employee benefits		688	626
Total current liabilities		<u>26,015</u>	<u>28,111</u>
Non-current liabilities			
Loans and borrowings	7	105,098	106,456
Employee benefits		324	279
Total non-current liabilities		<u>105,422</u>	<u>106,735</u>
Total liabilities		<u>131,437</u>	<u>134,846</u>
Net (liabilities)/assets		<u>1,348</u>	<u>(586)</u>
Equity			
Other reserves		703	724
Accumulated losses		(67,513)	(60,570)
Deficiency in equity attributable to the owners of Navalo Financial Services Group Limited		(66,810)	(59,846)
Issued capital	6	68,158	59,260
Total (deficiency)/equity		<u>1,348</u>	<u>(586)</u>

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 2024

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

	Issued capital \$'000	Share based payment reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated					
Balance at 1 July 2024	59,260	948	(224)	(60,570)	(586)
Loss after income tax expense for the half-year	-	-	-	(6,943)	(6,943)
Other comprehensive income for the half-year, net of tax	-	-	(21)	-	(21)
Total comprehensive income for the half-year	59,260	948	(245)	(67,513)	(7,550)
<i>Transactions with owners in their capacity as owners:</i>					
Issuance of share capital	8,994	-	-	-	8,994
Share issuance costs	(96)	-	-	-	(96)
Balance as at 31 December 2024	68,158	948	(245)	(67,513)	1,348

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 2024

		Consolidated	
	Note	31 December 2024 \$'000	31 December 2023 \$'000
Cash flows from operating activities			
Receipts from customers		53,744	52,443
Payments to suppliers and employees		(6,572)	(5,890)
Payments to merchants		(44,898)	(48,545)
Interest received		209	115
Interest paid		(6,063)	(5,971)
		<u>(3,580)</u>	<u>(7,848)</u>
Net cash used in operating activities			
Cash flows from investing activities			
Purchase for property, plant and equipment		(27)	(29)
		<u>(27)</u>	<u>(29)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from issue of share capital	6	8,995	-
Proceeds from warehouse facility		-	7,500
Repayment of warehouse facility		(2,095)	-
Repayment of borrowing from related parties		(4,493)	-
Proceeds from borrowing from related parties		3,000	-
Proceeds from borrowing		1,000	-
Payment of warehouse facility costs		(4)	(568)
Payment of share issuance costs		(96)	-
		<u>6,307</u>	<u>6,932</u>
Net cash from financing activities			
Net increase/(decrease) in cash and cash equivalents		2,700	(945)
Cash and cash equivalents at the beginnings of the financial half-year	3	<u>10,374</u>	<u>9,640</u>
Cash and cash equivalents at the end of the financial half-year	3	<u><u>13,074</u></u>	<u><u>8,695</u></u>

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

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 1. Material accounting policies

Basis of preparation

These general purpose financial statements have been prepared for the half-year ended 31 December 2024 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').

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

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 2024.

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

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 2024 the Group had consolidated net assets of \$1.35m (30 June 2024: Net liabilities of \$586k) and incurred a loss of \$6.9m (31 December 2023: loss of \$7.3m). The Group's net operating cash outflows were \$3.6m for the half-year to 31 December 2024 (31 December 2023: \$7.9m).

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 annual report are found in the following notes:

- Receivables (note 4)
- Convertible notes (note 8)

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 and amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 1. Material accounting policies (continued)

New and amended Accounting Standards and Interpretations not yet mandatory

Any new or amended Accounting Standards and Interpretations that are not mandatory have not been early adopted by the Group.

Note 2. Net fee and finance income

Fee and finance income	Consolidated	
	31 December 2024 \$'000	31 December 2023 \$'000
Customer fees	2,830	3,274
Merchant fees	7,483	6,306
Finance Income	209	115
Fee and finance income	<u>10,522</u>	<u>9,695</u>
Other Income	Consolidated	
	31 December 2024 \$'000	31 December 2023 \$'000
Debt Sale Income	-	1,583
Late Payment Fees	171	172
Other	78	114
Total other income	<u>249</u>	<u>1,869</u>
	Consolidated	
	31 December 2024 \$'000	31 December 2023 \$'000
Finance costs		
Interest expense	(6,175)	(5,938)
Amortisation of borrowing costs	(512)	(460)
Other fees	(42)	(46)
Total finance costs	<u>(6,729)</u>	<u>(6,444)</u>

Note 3. Cash and cash equivalents

	Consolidated	
	31 December 2024 \$'000	30 June 2024 \$'000
Cash at bank	10,974	8,274
Restricted cash ¹	2,100	2,100
Total cash and cash equivalents	<u>13,074</u>	<u>10,374</u>

¹ Under the terms of the warehouse facility arrangement, the Group is required to satisfy the requirement for a minimum \$2.1m cash (30 June 2024: \$2.1m) and the Group has therefore held this cash as restricted.

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 4. Receivables

	Consolidated	
	31 December	30 June 2024
	2024	2024
	\$'000	\$'000
<i>Current assets</i>		
Receivables	71,636	73,380
Less: Provision for expected credit loss	(4,584)	(4,367)
	<hr/>	<hr/>
Total current receivables	67,052	69,013
<i>Non-current assets</i>		
Receivables	53,879	54,685
Less: Provision for expected credit loss	(3,448)	(3,265)
	<hr/>	<hr/>
Total non-current receivables	50,431	51,420
	<hr/>	<hr/>
Total receivables	117,483	120,433
	<hr/> <hr/>	<hr/> <hr/>

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

	Consolidated	
	31 December	30 June 2024
	2024	2024
	\$'000	\$'000
Opening provision	(7,632)	(8,758)
Provided in the period	(4,849)	(6,388)
Debts written-off ¹	4,449	7,514
	<hr/>	<hr/>
Closing provision	(8,032)	(7,632)
	<hr/> <hr/>	<hr/> <hr/>

¹Debts written-off during the half-year ended 31 December 2024 are not recoverable and are still subject to enforcement activity.

Note 5. Trade and other payables

	Consolidated	
	31 December	30 June 2024
	2024	2024
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	1,598	2,440
GST Payable	61	177
Interest payable	532	455
Other payable	422	1,207
	<hr/>	<hr/>
Total trade and other payables	2,613	4,279
	<hr/> <hr/>	<hr/> <hr/>

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 6. Issued Capital

	Consolidated			
	31 December		30 June 2024	
Authorised fully paid ordinary shares	2024		2024	
	'000		'000	
	68,158		59,260	
	31 December	31 December	30 June 2024	30 June 2024
	2024	2024	2024	2024
	Number of	Share Capital	Number of	Share Capital
	shares	\$'000	shares	\$'000
Opening balance	8,777,256	59,260	7,047,480	59,723
Shares issued ^{1,3}	46,365,289	8,995	1,790,014	508
Share issuance costs	-	(97)	-	(954)
Share buy back ²	-	-	(60,238)	(17)
Closing balance	<u>55,142,545</u>	<u>68,158</u>	<u>8,777,256</u>	<u>59,260</u>

¹On 29 February 2024, the Company announced it had received a funding package that included a placement of \$508,005.97 through the issue of 1,790,014 ordinary shares to Metrics Business Finance Holdings Pty Ltd (MBFH), a related party of Metrics at a price per share of \$0.2838.

²On 26 April 2024, the Company announced it had completed the acquisition of 60,238 ordinary shares from shareholders at a cost of \$17,095.49 pursuant to the equal access buy-back announced by the Company on 20 March 2024.

³On 10 July 2024, Navalo announced the results of the entitlement offer, raising gross proceeds of \$8,994,866 from the issue of 46,365,289 new shares at the offer price of \$0.194 per new share. Following completion of the Offer, Metrics' voting power in Navalo (which includes Metrics Business Finance Holdings Pty Ltd's shareholding) is 97.10%.

Note 7. Loans and borrowings

	Consolidated	
	31 December	30 June
	2024	2024
	\$'000	\$'000
<i>Current liabilities</i>		
Borrowings ¹	19,714	18,713
Borrowings with related parties ²	3,000	4,493
Total current liabilities	<u>22,714</u>	<u>23,206</u>
<i>Non-current liabilities</i>		
Warehouse loan facilities ³	97,758	99,615
Convertible notes (note 8)	7,340	6,841
Total non-current liabilities	<u>105,098</u>	<u>106,456</u>
Total loans and borrowings	<u>127,812</u>	<u>129,662</u>

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 7. Loans and borrowings (continued)

¹This represents a \$19.7m loan facility originally lent for the purpose of purchasing Class B notes in the warehouse, secured by a general security agreement against the assets of the Group. The purpose of the facility was amended during the half-year ended 31 December 2024 to include carrying on the operations of the company, with \$1m drawn to provide working capital support, the other \$18.7m is used to hold the Warehouse Class B Notes.

²This represents a short term, unsecured loan of \$3m from MCH Investment Management Services Pty Ltd (MCH) as trustee for the MCP Credit Trust 1, a related party entity which was drawn on 30 December 2024. The loan matures on 1 July 2025 with interest payable at a rate of 0% per annum. The previous loan from MCH for \$4.5m was repaid on 15 July 2024.

³Warehouse loan facilities represents net drawn balance less funding costs directly attributable to the establishment of the loan facilities and are secured against assets of \$125.5m (30 June 2024: \$128.1m).

Warehouse facilities	Available Limit	Drawn	Interest Margin ¹	Available Limit	Drawn	Interest Margin ¹
	31 December 2024 \$'000	31 December 2024 \$'000	31 December 2024 %	30 June 2024 \$'000	30 June 2024 \$'000	30 June 2024 %
Class A	140,000	99,377	4.50%	140,000	101,472	4.50%

¹Interest rate plus 1-month BBSW

Note 8. Derivatives

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	<u>5,842</u>

Carrying value of convertible notes

**31 December 2024
\$'000** **30 June 2024
\$'000**

Opening balance	6,841	6,215
Finance costs	859	1,346
Interest paid	(360)	(720)
Closing balance	<u>7,340</u>	<u>6,841</u>

Value of derivative liability

**31 December 2024
\$'000** **30 June 2024
\$'000**

Opening fair value of embedded derivative	-	(853)
Fair value gain/(loss)	-	853
Closing derivative liability value	<u>-</u>	<u>-</u>

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 8. Derivatives (continued)

	31 December 2024 and 30 June 2024
Black-Scholes valuation inputs	
Share Price	\$0.19
Exercise Price	\$4.54
Volatility	70%
Risk Free Rate	4.18%
Effective Life (Years)	1.5
Dividend Yield	0%
Derivative valuation per note	\$0.000

Key terms:

- Issue Date 13 May 2022
- Number of notes issued 35,555,560
- Principal value of notes \$8.0m
- Maturity date 13 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.

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

Note 9. 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 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.

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 9. Financial instruments and risk management (continued)

	31 December 2024	31 December 2024 Weighted average interest rate %	30 June 2024	30 June 2024 Weighted average interest rate %
	\$'000		\$'000	
Financial Assets - subject to interest rate risk				
Cash and cash equivalents	13,074	4.35%	10,374	4.35%
Financial Liabilities - subject to interest rate risk				
Loans and borrowings - current	19,714	7.37%	18,713	7.30%
Warehouse Class A Notes	99,377	8.83%	101,472	8.80%

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 \$1.2m higher / \$1.2m lower (30 June 2024: \$1.2m higher / \$1.2m 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.

Financial assets	Notes	Consolidated 2024 \$'000	Consolidated 2023 \$'000
Cash and cash equivalents	3	13,074	10,374
Gross receivables	4	125,515	128,065
Liquidity reserve		1,848	1,844

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 4.

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.

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 9. Financial instruments and risk management (continued)

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.

31 December 2024	Stage 1	Stage 2	Stage 3	Total
	Up to 30 days past due	Aged 30 to 89 days	Aged 90 days or more past due	
ECL ¹ rate (%)	2.50	53.29	77.68	
ETGCD (\$'000) ²	117,989	3,119	4,408	125,515
ECL (\$'000) ¹	(2,947)	(1,662)	(3,423)	(8,032)

30 June 2024	Stage 1	Stage 2	Stage 3	Total
	Up to 30 days past due	Aged 30 to 89 days	Aged 90 days or more past due	
ECL ¹ rate (%)	2.09	40.92	92.48	
ETGCD (\$'000) ²	120,370	3,853	3,841	128,065
ECL (\$'000) ¹	(2,518)	(1,603)	(3,511)	(7,632)

¹Estimated credit loss.

²Estimated exposure at default (EAD) and total gross carrying amount at default.

ECL provision balance changes due to the migration of financial assets between stages:	31 December 2024	30 June 2024
	\$'000	\$'000
Stage 1 to stage 2	952	437
Stage 1 to Stage 3	1,411	1,304
Stage 2 to Stage 1	(316)	(166)
Stage 2 to Stage 3	172	68
Stage 3 to Stage 1	(152)	(91)
Stage 3 to Stage 2	(57)	(21)
	<u>2,010</u>	<u>1,531</u>

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 \$670,374 and (\$670,374) respectively (30 June 2024: \$571,301 and (\$571,301) 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 \$804,355 and (\$804,355) respectively (30 June 2024: \$397,384 and (\$397,384) respectively).

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 10. Dividends

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

Note 11. 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.

	31 December	
	2024	2023
	\$	\$
Short-term employee benefits	832	939
Post-employment benefits	60	57
Long-term benefits	6	7
Share-based payments	-	73
	<hr/>	<hr/>
Total	898	1,076
	<hr/> <hr/>	<hr/> <hr/>

Note 12. Related party transactions

Transactions and their terms and conditions with related parties

Lease Agreement

The Group holds 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.

Convertible Note

MCH Investments Trust holds 14,545,454 convertible notes issued by the Company.

Secondment Agreement

Stewart Creighton was appointed as CEO on an interim basis. Mr Creighton is providing services to the Group 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 agreements for Mr Creighton 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 Group. 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.

At 31 December 2024, the following services were provided by Metrics Credit Holdings Pty Ltd and remain outstanding:

- Capital and debt structuring advisory services totalling \$987,714 (including GST)
- Marketing and Design services totalling \$41,104.
- December Payroll Tax of \$34,794. Navalo Financial Services Group is grouped for Payroll Tax with MCHCS.

Entitlement Offer completed in July 2024

On 10 July 2024, Navalo announced the results of the entitlement offer, raising gross proceeds of \$8,994,866 from the issue of 46,365,289 new shares at the offer price of \$0.194 per new share. The short term loan of \$4.493 million owing by the Group to MCH Investment Management Services Pty Ltd as trustee for the MCP Credit Trust 1 (Metrics) was repaid at settlement of the Offer out of the gross proceeds raised. Following completion of the Offer, Metrics' voting power in Navalo (which includes Metrics Business Finance Holdings Pty Ltd's shareholding) is 97.10%.

Navalo Financial Services Group Limited and its controlled entities
Notes to the consolidated financial statements
31 December 2024

Note 12. Related party transactions (continued)

Funding Package provided in December 2024

A short term, unsecured loan of \$3m from MCH Investment Management Services Pty Ltd as trustee for the MCP Credit Trust 1, a related party entity with a maturity date of 1 July 2025 was drawn on 30 December 2024. Interest is payable on the loan at a rate of 0% per annum.

The following transactions occurred with related parties:	Consolidated	
	31 December	31 December
	2024	2023
	\$'000	\$'000
Lease agreement	3	3
Secondment agreement	221	359
Related party Directors	85	85

The following transactions occurred with related parties:	Consolidated	
	31 December	30 June 2024
	2024	\$'000
	\$'000	\$'000
Short Term Loan	3,000	4,493
Trade Payables	1,064	988

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2024 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 2024

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 2024 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

17 March 2025



Independent Auditor's Review Report

To the members of Navalo Financial Services Group Limited

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 December 2024 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 2024
- 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
- Notes 1 to 13 comprising material accounting policies and other explanatory information
- 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 \$3.6 million and a net loss of \$6.9 million for the Half-year ended 31 December 2024. 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 [Condensed] [Half-year/Interim] 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 2024 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

Andrew Reeves

Partner

Sydney

17 March 2025