PaySauce

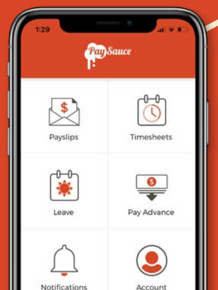
THE HALF-TIME REPORT

September 2019

It's good to grow

We continue to see considerable growth in both customer numbers and revenues.

But we're not just getting bigger. We're developing our product, our leadership and our culture. We're covering more ground, but also making a deeper impact.



Highlights

Customers
At Sept 2019
2,248

Customer growth
from March 2019
▲ **62%**

ARR
At Sept 2019
$1,602,872

ARR growth
from March 2019
▲ **54%**

$59
ARPU
Monthly,
at Sept 2019

1.3%
Churn
% (monthly)

8:1
LTV : CAC Ratio

Living Wage Accredited Employer

Regional Business Excellence Awards Finalist

Gold Awards Finalist

Explanations and calculations for the SaaS ("Software as a service") terms used above are outlined from page 10.

Message from the CEO

To our shareholders,

We're proud and excited to share this update with you all. The last six months have flown by, bringing greater challenges and rewards than ever. We continue to see surges in customer numbers, while making strides in building out our team and strengthening our senior leadership. As our internal structure becomes more complex, we've needed to quickly become more deliberate with our policies and processes. This has introduced the challenge of keeping our startup spirit intact as we become a bigger, slicker operation. I'm happy to say that we've come out the other side with an even closer and more collaborative work culture.

While we've been taking a look inwards, we've also sustained exceptional financial performance. Our growth speaks for itself, and has brought increasing interest and awareness from customers and investors. Our first AGM in September offered us the chance to lay out our vision for our shareholders and invite their perspectives, as well as share the very tangible success we've already achieved. It was a pleasure to meet our shareholders in person, and we'd like to once again offer our thanks for your support and your confidence.

Sustained growth has fuelled our ambitions, and during September, we visited Ireland and the UK as part of Callaghan Innovation's Ireland and UK Agritech Mission. The trip was extremely illuminating, offering us an initial overview of the competitive landscape and the current challenges faced by their agricultural sectors. This was a valuable opportunity to connect with other Kiwi innovators and get a first-hand look at the potential market.

While we're very happy with our commercial and financial achievements, I'd also like to highlight a different kind of success. Our business is all about people, and we're proud to share a few initiatives that reflect those values. As of September 1st, we are now an accredited Living Wage employer. This means that we've demonstrated that all our staff, contractors and ongoing sub-contractors are earning at least $21.15 an hour. The Living Wage is regularly reviewed and adjusted to reflect the cost of living in New Zealand, and we intend to maintain our commitment to meeting that standard. While this is certainly positive PR, we also feel that earning this accreditation demonstrates our commitment to people and culture.

On a similarly altruistic note, we've just seen the first implementation of our volunteer time off policy, Time Present, with Adi from Marketing lending his expertise to help plan Student Volunteer Week 2020. We look forward to seeing other employees make use of this policy as our newest staff reach the 6-month mark for eligibility.

People are the most important part of this business, in principle and in practice. So let me finish by acknowledging the extraordinary contributions of our team, our customers, our partners and of course, our shareholders. It's a privilege to share this with you.

Yours,

Asantha Wijeyeratne
CEO

Chairman's message

On behalf of the board and my fellow directors, I'm pleased to present this interim report of our business and financial results. I'm confident that readers will find plenty to be excited about, and even more to look forward to.

This period has seen us retain our key priorities while adapting to emerging opportunities. As always, relationships are our driving force and central focus. In recent months, the team has forged invaluable partnerships across the software and financial spaces, strengthening our product and our position in the market. We're proud to be aligned with the nation's foremost innovators; we've connected with Sharesies to enable innovative investment, rolled out a series of educational initiatives for our accounting partners alongside CAANZ, and we're extremely excited to be working closely with Xero and Figured to offer a unified rural app stack around financial foresight and cloud-based compliance. As we become a more active presence in the national SaaS ecosystem, we're making better use of the opportunities and support available for innovative Kiwi businesses, winning funding from Callaghan Innovation and recruiting young talent through Summer of Tech. We were also honoured to have received public acknowledgement for our exceptional growth and execution, being named as finalists in both the Gold Awards and Regional Business Excellence Awards.

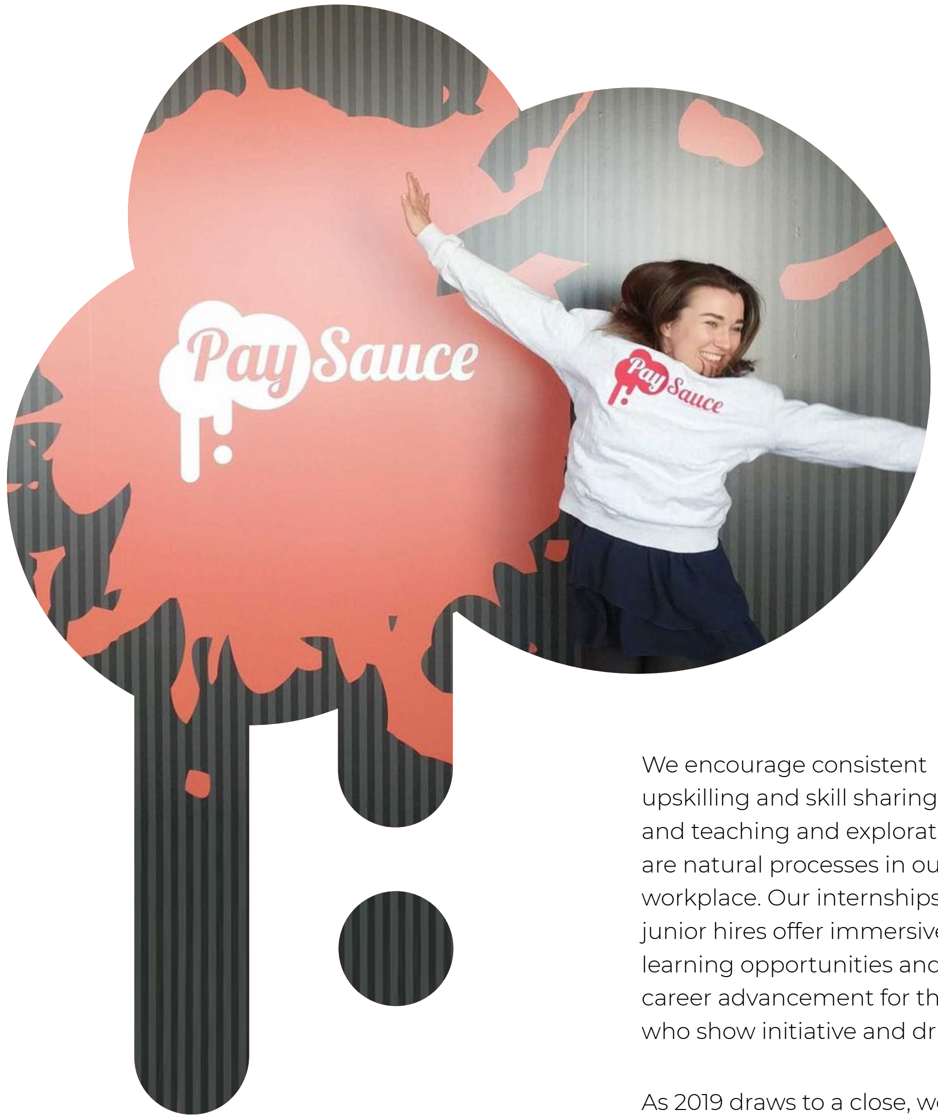
While we continue to grow locally, we're also thinking global. In September, Asantha was part of Callaghan Innovation's Ireland and UK Agritech Mission 2019. The trip was planned to coincide with UK Dairy Day and the Irish Ploughing Champs, the largest agricultural event in the world. This was an opportunity to assess the competitive landscape and sound out unsolved issues in this market. We believe that Ireland and the UK present significant opportunities to apply our knowledge of farming employment and deliver marked improvements for the industry. Based on a preliminary exploration, we believe New Zealand's agritech sector has huge advances to offer to these markets, and we hope to lead that charge in partnership with our nation's best thinkers and makers.

This report provides a chance to review our progress, look forward and acknowledge our supporters. As always, I'd like to extend our warmest thanks to all those who have pitched in, from our partners and advocates to our team and board. And of course, to our shareholders, for keeping the lights on and the magic happening. Here's to the future.

Sincerely,

Andrew Barnes
Director (Non-Independent)/
Chairman

The Culture Stuff



We encourage consistent upskilling and skill sharing, and teaching and exploration are natural processes in our workplace. Our internships and junior hires offer immersive learning opportunities and rapid career advancement for those who show initiative and drive.

As 2019 draws to a close, we're proactively upskilling our junior development team with a BlackRaven Dojo course, aimed at building the foundations for more complex coding work.

From November, we're taking on two interns through Summer of Tech, funded through Callaghan Innovation. These internships will offer real-world experience to the students, while also developing leadership skills among our established team and boosting developer output.

We're also putting our culture into practise by investing in social good. We are in the final stages of releasing our new payroll giving feature, which enables employees to effortlessly donate to registered charities direct from their pay cheque. Our volunteer time off policy, Time Present, is in active use. We remain a long-time sponsor of Wellington's own 1% Collective, and as of September we became a fully accredited Living Wage employer.

The Customer Stuff

Agriculture is still our core focus, and will continue to be. As we set ourselves higher and higher goals, we're strengthening our agri approach by developing a parallel service offering for accountants and advisors, with an emphasis on the rural advisory space. Our sales team has developed an extensive network of accountants and bookkeepers, and have already won us a number of vital partnerships in financial institutions across the country. This will continue to be a key emphasis for sales, marketing and support teams in the coming months.

Agriculture has been our fastest-growing customer segment for some time, and we're proud to ally ourselves with farming employers. We've retained our farm focus across marketing, product development and relationship building. So at first, it came as a surprise when, in October, we began to see a much broader base of businesses coming on board. On closer inspection, we found that the overwhelming majority of these customers, though from assorted industries, were coming from our strongest rural areas. This is a powerful indicator that our established word-of-mouth effect is not only sticking around, but is now crossing verticals. We intend to balance our agri focus with providing exceptional service and software to these markets as they develop organically.

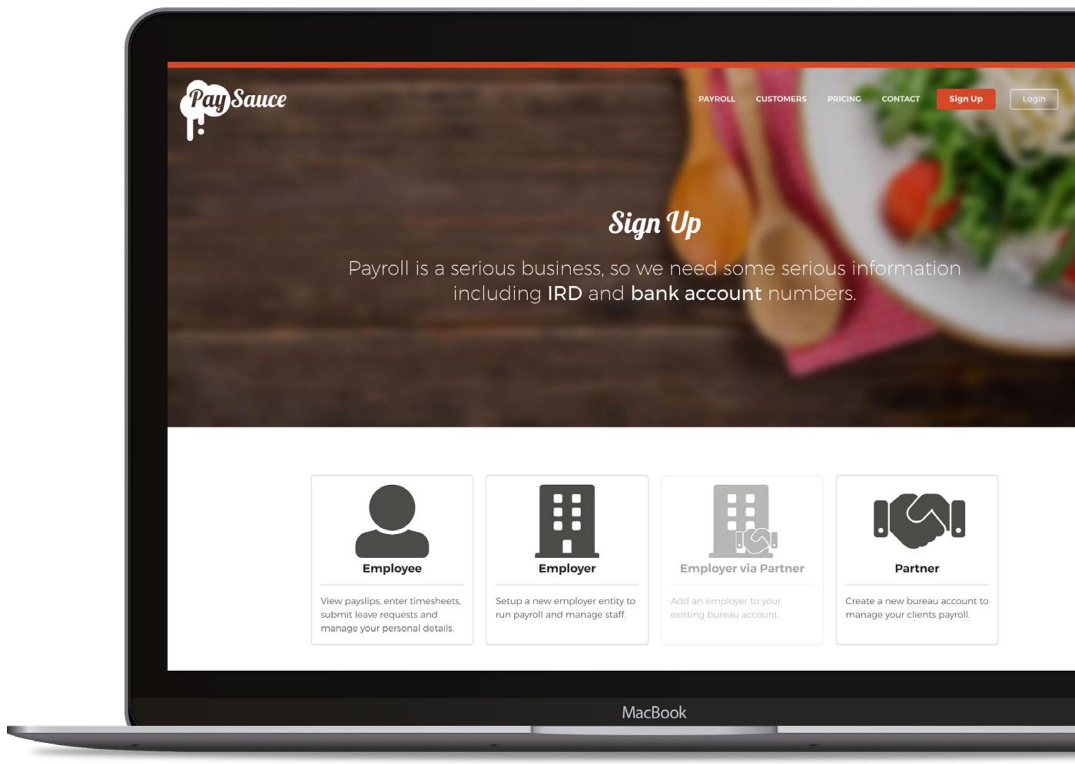
Employment in the agri space is uniquely challenging, which means that we've had to work hard and think inventively to find solutions. The payoff, however, is that those solutions are then easily applied to similar issues in other industries.

Sam Dews
Sierra Delta Civil

Customer distribution by region

The Tech Stuff

After many months of planning, coding and testing, we've unveiled a new onboarding and sign-up process. This is one of the most challenging and problematic parts of payroll, requiring entry of sensitive payment and tax information, "wet" signatures and the manual transfer of employee records. We've spent many sleepless nights trying to transform this into a 21st century customer experience, and we're really happy with the result. The new process digitises virtually all initial paperwork, captures on-screen signatures, and minimises information gathering at sign-up. Onboarding 2.0 is smart, seamless and more secure.



We are also in the process of adding our second application to the PaySauce platform, the MBIE Contract Builder. This will be free to all platform users, which rewards our payroll customers for using the platform and increases the value of our core offering. The application will exist on the same framework as the Federated Farmers Contract Builder, but constructed from content supplied by the Ministry of Business, Innovation and Employment.

Like the Federated Farmers Contract Builder, this tool will offer a customisable employment agreement, but with all-purpose clauses and government-vetted standards of compliance. This application is also, of course, integrated with payroll, allowing the import of a new hire and all their associated employment conditions, ready for payday.

SaaS Reporting

The business results reported below provides an overview of the performance of the business in a format that we believe is useful for readers to assess the performance of PaySauce as a SaaS business.

Non-Generally Accepted Accounting Principles (Non-GAAP) measures have been included, and should not be viewed in isolation, nor considered as substitutes for measures reported in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

For further explanations of the Non-GAAP measures see page 12.

	Six months to 30 Sept 2019	Six months to 30 Sept 2018
Processing Fees	$507,295	$227,847
IRD Subsidy	$102,237	$75,809
Interest Received	$128,362	$54,532
Recurring Revenue	**$737,894**	**$358,188**
Cost to Serve	($315,509)	($139,632)
Gross Margin	**$422,385**	**$218,556**
Gross Margin %	57%	61%
Other Revenue	$161,896	$75,000
Total Other Revenue	**$161,896**	**$75,000**
Customer Acquisition	($326,711)	($142,108)
Research & Development	($109,717)	($62,000)
General & Administration	($845,923)	($200,007)
Other Expenses	($9,354)	($2,335,606)
EBITDA	**($707,423)**	**($2,446,165)**
	(96%)	**(683%)**
Depreciation & Amortisation	($71,207)	($67,040)
Interest Expense	($83,398)	($1,446)
Income Tax	$0	$0
Net Loss for the period	**($862,028)**	**($2,514,651)**

**Costs relating to the reverse acquisition, employee bonus share issues were excluded from the EBITDA calculation presented in our 2019 annual report. The comparative 2018 period and current 2019 period now includes these costs under 'Other Expenses' in the EBITDA calculation presented above. This change in presentation has been made in order to provide a full view of the impact on and reconciliation back to GAAP reported Net Loss for the period.*

	Six months to 30 Sept 2019	Six months to 30 Sept 2018
Customers at start of period	1,384	746
Customers at end of period	2,248	1,054
Customer Growth %	62%	41%
ARR at start of period	$1,038,317	$498,067
ARR at end of period	**$1,602,872**	$777,937
ARR Growth %	54%	56%
Churn % (monthly average)	1.3%	2.0%
ARPU at end of period	$59	$62
CAC (per addition) for the period	($319)	($339)
Customer LTV	$2,563	$1,836
Total Customer LTV at end of period	$5,762,406	$1,934,738
LTV : CAC Ratio	8 : 1	5.4 : 1

Explanations page 12.

The above categories are explained below

Processing Fees : This category represents the revenue generated from customers who are using the PaySauce payroll product, paying processing fees each pay run, based on a flat rate plus a variable amount based on the number of payslips in that pay run. There are no significant estimates or uncertainty surrounding the flat and variable components of processing fees. Revenue is recognised when the service is supplied.

IRD Subsidy : This category represents the revenue generated from the subsidy provided by Inland Revenue for payroll intermediaries. The subsidy provides revenue based on the number of payslips processed by PaySauce each month.

It should be noted that a threshold was placed on the subsidy from 1 April 2019, and now only applies to payslips of those customers who have processed less than $50,000 of PAYE and ESCT for the preceding financial year. The subsidy will be completely removed from 1 April 2020. Further information on this can be found on the Inland Revenue website.

Interest Received : This category represents the interest received from our interest-bearing trust account and term deposits held in escrow for our Payroll customers. As customers pay their PAYE through to us each pay run, we hold these funds and generate interest on the balance before the payment is due to Inland Revenue. As interest received on these funds grows directly in relation to our customers, we consider this an additional stream of recurring revenue.

Cost to Serve : The category includes those costs which are related to serving our customers through the use of our software products, and the availability of our customer support team. Costs included are those such as hosting expenses for our software in the cloud, maintenance of our software products, and customer support.

Other Revenue : This category includes revenue that is not recurring revenue and is not part of our regular business operating activities with customers. Revenue included is that which relates to sponsorship from ASB Bank, and fair value revaluation gains.

Customer Acquisition : This category includes those costs which are related to acquiring new customers. Costs included are those such as sales and marketing, implementation and onboarding of customers to our system, and discounts. These costs are expensed as incurred as they do not relate to any specific customer or contract for services.

Research & Development : This category includes those costs which are related to researching and developing new solutions and solving problems for our existing and future customers. Costs included are those associated with product development that do not meet criteria for capitalisation, the majority of which are developers' salaries.

It should be noted that measuring these costs between years is not an accurate reflection of the actual spending on research and development for PaySauce. This is due to the timing and way in which some of these costs are capitalised and projects are completed. The reader should also consider the amount of intangible assets recognised during the financial year. Further detail on this can be found in the notes to the financial statements.

General & Administration : This category captures all of the other elements of running the business. Costs included are those such as office running costs, finance and administration, legal expenses, and other overhead costs.

Other Expenses : This category captures other expenses such as costs relating to the reverse listing process, and bonus shares issued to employees.

EBITDA : EBITDA (earnings before interest, tax, depreciation and amortisation) is calculated by adding back depreciation, amortisation, interest expenditure, and income tax expense to the amounts reported in the NZ IFRS-based financial statements. PaySauce believes that EBITDA provides useful insights to measure the performance of PaySauce as a SaaS business.

SaaS Metrics & Definitions

These SaaS metrics are prepared and defined to provide readers with useful information about the performance of PaySauce as a SaaS business.

Non-Generally Accepted Accounting Principles (Non-GAAP) measures have been included, and should not be viewed in isolation, nor considered as substitutes for measures reported in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

Recurring Revenue : Recurring revenue is revenue that is expected to continue into the future.

For PaySauce, it is that which is directly linked to the number of pays that our customers run on the PaySauce payroll product. There are currently three sources of recurring revenue, those being processing fees, subsidy, and interest received.

There is a direct correlation between the number of customers processing payroll with PaySauce, and the amounts of revenue derived from these streams (allowing some variation due to elements such as interest rates and number of payslips per customer per pay run). There is no significant estimate or judgement applied by management when recognising revenue arising from these streams.

MRR : Monthly recurring revenue is the total recurring revenue for the month.

ARR : Annual recurring revenue is the monthly recurring revenue, multiplied by 12.

Gross Margin : The gross margin, when discussed as a SaaS term, is the recurring revenue of the business, less the cost to serve customers. This is often then expressed as a percentage, where the gross margin is divided by the recurring revenue.

Churn (monthly) : Churn is expressed as a percentage and is calculated as the number of cancellations each month divided by the total number of customers at the end of that month.

ARPU : Average revenue per user is total recurring revenue, divided by the total customers processing payroll.

CAC (per addition) : Customer acquisition cost (per addition) is the total cost of acquiring customers for the period, divided by the number of new customers processing payroll that were acquired during the period.

LTV : Lifetime value is the estimated value of a customer over its lifetime with PaySauce. This is calculated by taking the ARPU multiplied by the gross margin %, then divided by the churn %.

Total Customer LTV : Total customer lifetime value is the lifetime value multiplied by the total customers.

LTV:CAC Ratio : This ratio reflects the return on investment for customer acquisition. It is calculated by dividing the customer acquisition cost (per addition) by the lifetime value of a customer.

The nitty gritty

Interim Condensed Consolidated Financial Statements

For the six months ended 30 September 2019

Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 September 2019

	Notes	30 Sept 2019 Unaudited $	30 Sept 2018 Unaudited $
Revenue			
Revenue from sponsorship		-	75,000
Processing fees		507,295	227,847
Subsidy revenue		102,237	75,809
Interest		128,362	54,532
Operating revenue	**14**	**737,894**	**433,188**
Other gains / (losses) - net	**15**	161,896	-
Expenses			
Depreciation and amortisation	**8,9**	(71,207)	(67,040)
Hosting expenses		(28,213)	(14,169)
Employee expenses	**16**	(706,831)	(278,541)
Employee bonuses		-	(1,554,082)
Other expenses	**17**	(862,815)	(251,039)
Finance costs	**17**	(83,398)	(1,446)
Listing costs		(9,354)	(781,522)
Total expenses		**(1,761,818)**	**(2,947,839)**
Net loss before income tax		**(862,028)**	**(2,514,651)**
Tax benefit / (expense)		-	-
Net loss for the period		**(862,028)**	**(2,514,651)**
Other comprehensive income		-	-
Total comprehensive loss for the period		**(862,028)**	**(2,514,651)**

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

Interim Condensed Consolidated Statement of Financial Position

As at 30 September 2019

	Notes	30 Sept 2019 Unaudited $	31 Mar 2019 Audited $
Current assets			
Cash and cash equivalents		11,481,556	6,313,146
Trade and other receivables	**10**	811,798	145,548
Other current assets		92,913	75,000
Prepayments and other short-term assets		113,814	120,452
Total current assets		**12,500,081**	**6,654,146**
Non-current assets			
Property, plant and equipment	**8**	425,885	76,620
Intangible assets	**9**	412,350	296,629
Total non-current assets		**838,235**	**373,249**
Total assets		**13,338,316**	**7,027,395**
Current liabilities			
Trade and other payables	**11**	550,541	547,632
Funds held due to customers		11,480,705	6,273,862
Employee benefits		83,036	58,792
Other liabilities		70,377	81,580
Current lease liabilities		25,476	-
Interest bearing liabilities		81,618	11,668
Total current liabilities		**12,291,753**	**6,973,534**

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

Interim Condensed Consolidated Statement of Financial Position (cont.)

As at 30 September 2019

	Notes	30 Sept 2019 Unaudited $	31 Mar 2019 Audited $
Non-current liabilities			
Non-interest bearing liabilities		728,821	699,916
Non-current lease liabilities		317,071	-
Interest bearing liabilities		8,505	14,688
Interest bearing liabilities - convertible note	7	1,514,937	
Total non-current liabilities		**2,569,334**	**714,604**
Total liabilities		**14,861,087**	**7,688,138**
Net assets		**(1,522,771)**	**(660,743)**
Equity			
Share capital	12	5,508,339	5,508,339
Accumulated losses		(7,031,110)	(6,169,082)
Equity attributable to the owners of the Company		**(1,522,771)**	**(660,743)**

For and on behalf of the Board, who authorised the issue of these interim condensed consolidated financial statements on 28 November 2019:

28 November 2019

Asantha Wijeyeratne — Date
Chief Executive Officer

28 November 2019

Mandy Simpson — Date
Chair of Audit & Risk Committee

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

Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 September 2019

	Notes	Attributable to equity holders of the Company: Contributed Equity $	Accumulated Losses $	Total Equity $
Unaudited				
Balance as at 1 April 2019		**5,508,339**	**(6,169,082)**	**(660,743)**
Comprehensive loss				
Net loss for the period		-	(862,028)	(862,028)
Other comprehensive income		-	-	-
Total comprehensive loss		**-**	**(862,028)**	**(862,028)**
Balance as at 30 September 2019		**5,508,339**	**(7,031,110)**	**(1,522,771)**
Unaudited				
Balance as at 1 April 2018		**1,999,977**	**(1,792,582)**	**207,395**
Comprehensive loss				
Net loss for the period		-	(2,514,651)	(2,514,651)
Other comprehensive income		-	-	-
Total comprehensive loss		**-**	**(2,514,651)**	**(2,514,651)**
Transactions with owners				
Issue of ordinary shares	12	1,145,000	-	1,145,000
Share based payment	12	2,054,084	-	2,054,084
Total transactions with owners		**3,199,084**	**-**	**3,199,084**
Balance as at 30 September 2018		**5,199,061**	**(4,307,233)**	**891,828**

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

Interim Condensed Consolidated Statement of Cash Flows

for the six months ended 30 September 2019

	Notes	30 Sept 2019 Unaudited $	30 Sept 2018 Unaudited $
Cash flows from / (used in) operating activities			
Receipts from customers		670,282	268,053
Increase in funds held for customers		5,206,843	1,129,287
Interest received		97,256	51,947
Payments to suppliers and employees		(1,561,923)	(604,373)
Taxes paid		11,794	(14,492)
Interest paid on lease liability		(21,678)	-
Interest paid		(3,894)	(1,446)
Net cash from operating activities	**22**	**4,398,680**	**828,976**
Cash flows from / (used in) investing activities			
Purchases of property, plant and equipment		(43,526)	(4,699)
Purchases of intangible assets		(146,187)	(136,586)
Net cash (used in) investing activities		**(189,713)**	**(141,285)**
Cash flows from / (used in) financing activities			
Net proceeds from issue of shares and convertible notes		773,000	528,841
Loan advances		199,510	(173,260)
Repayments of principal portion of lease liability		(7,322)	-
Repayments of other borrowings		(5,745)	(5,351)
Net cash from financing activities		**959,443**	**350,230**
Net increase in cash and cash equivalents		**5,168,410**	**1,037,921**
Cash and cash equivalents at the beginning of the period		6,313,146	3,614,619
Cash and cash equivalents at end of the period		**11,481,556**	**4,652,540**

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

Notes to the Interim Condensed Consolidated Financial Statements

for the six months ended 30 September 2019

1. General information

PaySauce Limited (the "Company" or "PaySauce"), is a limited liability company, domiciled and incorporated in New Zealand and registered under the Companies Act 1993.

These interim condensed consolidated financial statements presented are for PaySauce Limited, together with its subsidiaries (the "Group") for the six months ended 30 September 2019. The financial statements were authorised for issue in accordance with a resolution of the Directors on 28 November 2019 and are unaudited.

The Group's principal activity is to provide payroll processing solutions to employers in New Zealand.

PaySauce is a for-profit entity listed on the New Zealand Stock Exchange ("NZX").

2. Basis of preparation

These unaudited interim condensed consolidated financial statements for the Group for the six months ended 30 September 2019 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and comply with the requirements of the New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* ("NZ IAS 34"), on the assumption that the Group is a going concern, and should be read in conjunction with the audited consolidated financial statements for the Group as at and for the year ended 31 March 2019.

All significant accounting policies have been applied on a basis consistent with those used in the audited consolidated financial statements for the Group for the year ended 31 March 2019 other than as disclosed in Note 3 below.

Where presentation has changed in the current period, comparative amounts have been restated to align with the current year's presentation.

There are no seasonality or cyclicality influences on the results of the Group.

These unaudited interim condensed consolidated financial statements are presented in New Zealand Dollars (NZD).

3. Changes in accounting policies and disclosures

Apart from the changes noted below, the unaudited interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in the audited consolidated financial statements for the Group for the year ended 31 March 2019.

a. New standards and interpretations adopted in the current period

NZ IFRS 16: *Leases* - impact of adoption

NZ IFRS 16: *Leases* replaces NZ IAS 17: *Leases*, and is effective for annual reporting periods beginning on or after 1 January 2019. PaySauce has adopted NZ IFRS 16 using the modified retrospective transition approach. Comparative figures for the year ended 31 March 2019 are not restated, but instead continue to reflect the accounting policies under NZ IAS 17: *Leases*. Impacts of the transition are detailed further in note 6 below. PaySauce has elected to use the Modified Retrospective Approach (simplified transition approach) in adopting NZ IFRS 16. The lease assets comprise of the head office property lease.

PaySauce has elected not to reassess whether a contract is, or contains a lease, at the date of initial application. Instead, for contracts entered into before the transition date PaySauce relied upon its assessment made applying NZ IAS 17 and NZ IFRIC 4.

PaySauce has used the practical expedient of relying on hindsight for determining the lease term of the property lease.

PaySauce has elected to measure the right-to-use asset recognised on adoption for the property lease equal to the value of the lease liability calculated on 1 April 2019 (see note 8). No restatement of equity is required as a result.

PaySauce has used the practical expedient of relying on previous assessments of whether leases are onerous.

PaySauce has also elected not to recognise right-of-use assets and lease liabilities for short term leases (lease term less than 12 months) or leases of low-value assets under NZ IFRS 16.

4. Additional Accounting Policies

a. Revenue

There are no significant estimates or judgements surrounding recognition of revenue. Revenue substantially arises from processing fees which includes both fixed and variable components which are known as revenue is recognised at the point in time the service is provided.

b. Leases

The Group leases an office premises and various pieces of equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. These lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and;
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Right-of-use assets are measured at cost, comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

c. Convertible Note

Convertible loan notes which will or might be settled other than the exchange of a fixed amount of cash or another financial asset for a fixed number of shares are classified as liabilities.

The conversion feature of the convertible notes is classified as a derivative financial instrument. If the economic characteristics of the derivative are not closely related to the host debt it is separated and accounted for separately as a financial instrument at fair value through profit and loss.

The fair value of the convertible note as a whole is assumed to be equal to the transaction price. The fair value of the derivative is determined first. The initial carrying amount of the host debt is the residual amount after separating the embedded derivative.

5. Use of critical accounting estimates and judgements

The preparation of the interim condensed consolidated financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these judgements, estimates and assumptions. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation and judgement in these condensed consolidated financial statements for the six months ended 30 September 2019 are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 March 2019, additional disclosures are as follows:

NZ IFRS 16: Leases - Lease Liabilities, Right-of-use Assets

In determining the discount rate to measure the present value of the lease payments remaining, PaySauce has used the incremental borrowing rate of the Group. Management has assessed that as PaySauce is a growing SaaS business, and reliant on funding given it is not yet cashflow positive, funding is more expensive due to the credit risk of a business of this nature. The incremental borrowing rate applied to the lease liabilities on 1 April 2019 was estimated at 15% by management.

Management has assessed the likelihood of exercising renewal options, determining that it is likely the property lease will be renewed for both rights of renewal, extending the lease term from 4 to 8 years.

Fair Value of Coulthard Barnes (PaySauce) Limited Lending

Coulthard Barnes (PaySauce) Limited provided further interest free, non-current lending during the period of $130,000. The total lending to date has been revalued to a fair value of $728,821. The fair value has been determined by a net present value calculation. This is based on management judgement that no principal payments are expected until at least 18 months after balance date, estimated by management. This resulted in a gain to the Group of $143,983 with future recognition of financing costs over the term of the loan. The discount rate applied to the net present value calculation is based on PaySauce's incremental borrowing rate, estimated at 15% by management. A 1% decrease in this rate would have an impact of $11,492 on the fair value revaluation of the lending.

Convertible Note - Public Trust Class 10 Nominees Limited

The conversion feature of the convertible notes is classified as a derivative financial instrument. The economic characteristics of the derivative are not closely related to the host debt so it has been separated and accounted for separately as a financial instrument at fair value through profit and loss.

The fair value of the convertible note as a whole is assumed to be equal to the transaction price. The fair value of the derivative is determined first. The initial carrying amount of the host debt is the residual amount after separating the embedded derivative.

Although the note is expected to convert to equity on or before the conversion date, management has determined that the convertible note is deemed to be a financial liability due to the following:

- The interest rate at which interest is accrued on the notes for conversion depends on whether growth targets are met or not (see note 7). Therefore, the number of shares to be issued will vary depending on the performance of the business and the "fixed for fixed" requirement has not been met as a result.
- If PaySauce is in an event of default, then the holder has the ability to declare the note immediately due and payable. Therefore, the requirement of having no contractual obligation to deliver cash to the holder of the instruments has not been met.

Management has determined that the conversion feature represents a non-option derivative and is therefore separated from the host debt on the basis of its stated and implied terms in order to result in it having a fair value of nil on initial recognition.

6. Adjustments recognised on adoption of NZ IFRS 16

On adoption of NZ IFRS 16, PaySauce recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17. These liabilities were measured at present value of the remaining lease payments, discounted using PaySauce's incremental borrowing rate as of 1 April 2019. The incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 15%. PaySauce held no finance leases at 31 March 2019.

The key impacts for the Group as at 1 April 2019 were:

- Additional right of use asset relating to the property lease, recognised on transition at $349,870.
- Additional lease liability relating to the property lease, recognised on transition at $349,870.

The key impacts for the Group for the six month period ended 30 September 2019 were:

- Increased net loss by $14,545 as the interest and depreciation calculated under NZ IFRS 16 were greater than the operating lease payments under NZ IAS 16.
- A closing right of use asset relating to the property lease, recognised on transition of $328,003.
- A closing lease liability relating to the property lease, recognised on transition of $342,547.

A reconciliation of operating lease commitments at 31 March 2019 to the lease liability recognised at 1 April 2019 is shown below:

	Unaudited
	$
Operating lease commitments disclosed at 31 March 2019	307,660
Discounted using the lessee's incremental borrowing rate at the date of initial application	(195,130)
Different treatment of extensions and incentives	280,000
Different treatment of lease commitments disclosed as inclusive of GST	(39,750)
Different treatment of low value leases	(2,910)
Lease liabilities recognised as at 1 April 2019	**349,870**
Classified as:	
Current lease liabilities	17,478
Non-current lease liabilities	332,392
Lease liabilities recognised as at 1 April 2019	**349,870**

7. Convertible note

During the period, PaySauce entered into a Convertible Note Subscription Deed with Public Trust Class 10 Nominees Limited (custodian to the clients of Cleary Wealth Management Limited, the arranger of the deal).

PaySauce issued $773,000 of convertible notes during the six-month period ended 30 September 2019. The remaining $727,000 was requested before, but not received prior to 30 September 2019, and is represented as a receivable balance on the statement of financial position as a result. The fair value of this receivable is approximately equal to its face value.

Key terms of the convertible notes

- On 30 June 2021 the notes will convert into ordinary shares of the parent, unless both the holder and issuer agree to extend the conversion date to 30 June 2023, or either the holder or issuer elects to convert the notes at an earlier date.
- The number of ordinary shares issued for each note is calculated as the net amount outstanding for the notes divided by the conversion price of $0.515.
- The notes bear interest at 11% per annum, or if PaySauce does not meet its growth target for that financial year, 13.5% per annum. The interest is capitalised to the net amount outstanding of the note before it is converted. If conversion occurs prior to 30 June 2021, or 30 June 2023 if the scheduled maturity date is extended, then the interest accrued on each note will be increased to the amount that would have accrued if the conversion was occurring on the scheduled maturity date.
- If PaySauce is in an event of default, then the holder has the ability to declare the note immediately due and payable.

The convertible notes are presented in the balance sheet as follows:

	30 Sept 2019 Unaudited
	$
Face value of convertible notes issued	773,000
Face value of convertible notes requested but not yet issued	727,000
Less value of conversion feature	-
Interest expense	14,937
Financial liability	**1,514,937**

8. Property, plant and equipment

Unaudited	Right-of-use Asset (Property)	Office Equipment	Leasehold Improvements	Computer Equipment	Vehicle	Total
	$	$	$	$	$	$
Six months ended 30 September 2019						
Opening net book value	**-**	**24,048**	**3,390**	**29,777**	**19,405**	**76,620**
Additions	349,870	12,948	5,970	24,608	-	393,396
Disposals	-	-	(3,390)	-	-	(3,390)
Depreciation	(21,867)	(3,366)	(249)	(7,982)	(7,277)	(40,741)
Closing net book value	**328,003**	**33,630**	**5,721**	**46,403**	**12,128**	**425,885**
As at 30 September 2019						
Cost	349,870	48,861	5,970	67,207	48,513	520,421
Accumulated depreciation	(21,867)	(15,231)	(249)	(20,804)	(36,385)	(94,536)
Net book value	**328,003**	**33,630**	**5,721**	**46,403**	**12,128**	**425,885**

9. Intangible assets

Unaudited	Website	Development in progress	Computer Software	Total
Six months ended 30 September 2019	**$**	**$**	**$**	**$**
Opening net book value	**-**	**157,596**	**139,033**	**296,629**
Additions	-	70,619	75,568	146,187
Development costs recognised as an asset	-	(68,221)	68,221	-
Amortisation	-	-	(30,466)	(30,466)
Closing net book value	**-**	**159,994**	**252,356**	**412,350**
As at 30 September 2019				
Cost	26,955	159,994	552,276	739,225
Accumulated amortisation	(26,955)	-	(299,920)	(326,875)
Net book value	**-**	**159,994**	**252,356**	**412,350**

10. Trade and other receivables

	30 Sept 2019	31 Mar 2019
	Unaudited	**Audited**
	$	**$**
Trade receivables	62,179	42,983
Public Trust Class 10 Nominees Limited - Convertible Notes	727,000	-
GST receivable	22,619	102,565
	811,798	**145,548**

11. Trade and other payables

	30 Sept 2019	31 Mar 2019
	Unaudited	Audited
	$	$
Trade payables	512,356	487,095
Accruals	35,829	57,000
Other creditors	2,356	3,537
	550,541	**547,632**

12. Share capital

Date	Details	Notes	Number of Shares	$
Unaudited				
1 April 2018	**Opening Balance**		**66,892,914**	**1,999,977**
	Ordinary share issue		16,987,994	1,145,000
	Share based payment		7,143,567	500,000
	Share based payment		22,329,661	1,554,084
30 September 2018	**Closing Balance**		**113,354,135**	**5,119,061**

Unaudited			
1 April 2019	**Opening Balance**	**116,870,875**	**5,508,339**
30 September 2019	**Closing Balance**	**116,870,875**	**5,508,339**

PaySauce undertook a share consolidation on Friday 12th July 2019, at a 50 : 1 ratio. Shareholders received one PYS ordinary share for every 50 PYS ordinary shares held at the time of consolidation.

Where the share issue was prior to the share consolidation, the 50 : 1 ratio has been used to calculate the equivalent number of PaySauce Limited shares that would have been issued. This has also been applied to the comparative figures for the six month period ended 30 September 2018.

All ordinary shares do not have a par value. They have equal voting rights and share equally in dividends and surplus on liquidation.

No dividends were declared or paid during the reporting period (2018: None).

13. Earnings / (loss) per share

Basic earnings per share is calculated by dividing the profit / (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the period. An adjustment to take into account the convertible notes issued is made to the weighted average number of shares used in the calculation of the diluted earnings per share at 30 September 2019.

	30 Sept 2019	30 Sept 2018
	Unaudited	Unaudited
Basic earnings per share		
Loss for the period	(862,028)	(2,514,651)
Weighted average number of ordinary shares for basic earnings per share	116,870,875	79,079,464
Basic loss per share (cents)	**(0.74)**	**(3.18)**
Diluted earnings per share		
Loss for the period	(862,028)	(2,514,651)
Plus interest saving from convertible notes	14,937	-
Net loss used in calculating earnings per share (dollars)	(847,091)	(2,514,651)
Weighted average number of ordinary shares for diluted earnings per share	117,517,021	79,079,464
Diluted loss per share (cents)	**(0.72)**	**(3.18)**
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	116,870,875	78,713,929
Adjustments for calculation of diluted earnings per share		
Convertible notes	646,146	-
Weighted number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per shares	117,517,021	78,713,929

14. Revenue

	30 Sept 2019 Unaudited $	30 Sept 2018 Unaudited $
Revenue from contracts with customers	507,295	302,847
Revenue from other sources	230,599	130,341
Operating revenue	**737,894**	**433,188**

15. Other gains / (losses) - net

	30 Sept 2019 Unaudited $	30 Sept 2018 Unaudited $
Fair value gain on revaluation of related party loan	143,983	-
Fair value gain on revaluation of convertible note conversion feature	17,913	-
Total other gains / (losses) - net	**161,896**	**-**

16. Employee expenses

	30 Sept 2019 Unaudited $	30 Sept 2018 Unaudited $
Salaries	(687,821)	(276,128)
Staff medical insurance	(5,409)	(2,413)
Fringe benefit tax	(13,601)	-
Total employee expenses	**(706,831)**	**(278,541)**

17. Other expenses

	30 Sept 2019 Unaudited $	30 Sept 2018 Unaudited $
Administration and Management Services	(373,603)	(64,103)
Advertising, PR and Marketing	(129,641)	(77,870)
Legal, Consulting and Accounting	(151,408)	(1,921)
Office Running and Rent	(28,995)	(29,607)
Other Overheads	(101,680)	(38,985)
Travel	(77,488)	(38,553)
Total other expenses	**(862,815)**	**(251,039)**

Interest paid	(3,894)	(1,446)
Finance Cost - Interest on Convertible Note	(14,938)	-
Finance Cost - Interest on Lease	(21,678)	-
Finance Cost - Interest on Coulthard Barnes Lending	(42,888)	-
Total finance costs	**(83,398)**	**(1,446)**

18. Related party transactions

Related Party	Relationship
Cloud Investments Limited	Entity controlled by Director
Coulthard Barnes (PaySauce) Limited	Entity controlled by Director
Woodward Partners Limited	Entity controlled by Director
Catalyst.Net Limited	Partial common ownership
Catalyst Cloud Limited	Partial common ownership
Marsland Consulting Limited	Partial common ownership
Mandy Simpson	Director

a. Key management personnel compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly and include the Directors, the Chief Executive Officer and senior managers.

	30 Sept 2019	30 Sept 2018
	Unaudited	Unaudited
	$	$
Directors' fees	30,000	-
Short term employee benefits	150,000	90,000
Share based payments	-	1,554,082
Total key management personnel compensation	**180,000**	**1,644,082**

b. Related party transactions

	30 Sept 2019	30 Sept 2018
	Unaudited	Unaudited
Related party transactions	$	$
Purchases from Coulthard Barnes (PaySauce) Limited *Advisory services*	-	434,783
Purchases from Woodward Partners Limited *Director fees*	15,000	-
Purchases from Catalyst.Net Limited *Consulting services*	9,600	12,800
Purchases from Catalyst Cloud Limited *Cloud hosting services*	28,213	14,169
Purchases from Marsland Consulting Limited *Consulting services*	33,044	30,766
Purchases from Mandy Simpson *Director fees*	15,000	-
Total related party transactions	**100,857**	**492,518**

c. Related party payables

	30 Sept 2019	31 Mar 2019
	Unaudited	Audited
Related party payables	$	$
Catalyst.Net Limited	-	3,680
Catalyst Cloud Limited	6,076	4,433
Coulthard Barnes (PaySauce) Limited	922,840	792,840
Mandy Simpson	2,875	2,875
Marsland Consulting Limited	3,466	11,892
Woodward Partners Limited	2,875	2,875
Total related party payables	**938,132**	**818,595**

19. Taxation

The Group currently holds tax losses of $3,800,250, available to carry forward, but not recognised in the financial statements. These are subject to shareholder continuity being maintained.

20. Going concern

The interim condensed consolidated financial statements have been prepared on a going concern basis.

These interim condensed consolidated financial statements have been prepared on the assumption that the Group raises sufficient additional share capital and operating income increases sufficiently to enable the Group to continue its business operations. The Board considers the Group will be able to meet its commitments as they fall due based upon management forecasts and ongoing financial support that is being provided from certain shareholders.

The Group's ability to generate sufficient cashflows from operations and raise additional capital to satisfy its funding and other obligations for a period of at least 12 months following the issuance of these financial statements creates a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

If the Group was unable to raise additional capital, adjustments may have to be made to reflect the fact that assets and liabilities may need to be realised at amounts other than those at which they are currently recorded in the condensed consolidated statement of financial position.

21. Contingencies

As at 30 September 2019 the Group had no material contingent liabilities or assets (2018: $nil)

22. Reconciliation of net loss after tax to net cash flows from operations

	30 Sept 2019 Unaudited $	30 Sept 2018 Unaudited $
Net Loss for the period	(862,028)	(2,514,651)
Add back / (deduct) non-cash items:		
Depreciation & amortisation	71,207	67,041
Share based payments	-	1,554,082
Listing costs - reverse acquisition	-	500,000
Other gains	(119,008)	-
Loss on disposal of fixed assets	3,389	-
Capitalised interest	14,938	-
	(891,502)	**(393,528)**
Movement in working capital:		
(Increase)/decrease in Trade and other receivables	41,438	(52,680)
(Increase)/decrease in Prepayments and other assets	25,951	2,691
Increase/(decrease) in Funds held due to customers	5,206,843	1,129,287
Increase/(decrease) in Trade and other payables	2,909	214,059
Increase/(decrease) in Employee benefits	24,244	6,655
Increase/(decrease) in Other liabilities	(11,203)	(2,508)
Increase/(decrease) in Sponsorship revenue in advance	-	(75,000)
Net cash inflow from operating activities	**4,398,680**	**828,976**

23. Segment reporting

The Group is organised into one reportable operating segment only, being payroll solutions to New Zealand business. The Group's product and service offering is that of cloud payroll services. The chief operating decision maker has been identified as the Board of Directors, as it makes all key strategic resource allocation decisions (such as those concerning acquisition, divestment and significant capital expenditure).

24. Events occurring after the reporting period

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

Company Directory

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Gavin Thompson
Asantha Wijeyeratne
Amanda Rhean Simpson
Nicholas Romilly Lewis

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Auditor:

Grant Thornton

Stock Exchange:

NZX

Share Registrar:

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NZ Company Number:

1719868

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9429034458099

PaySauce