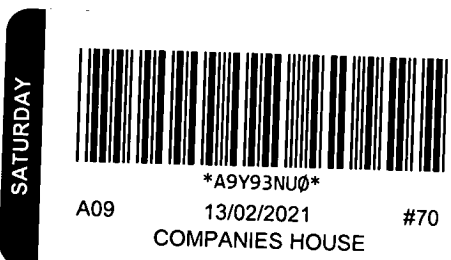


Financial Statements

emerchantpay Limited

For the year ended 31 August 2020

Registered number: 05153270



Company Information

Directors	S R Dickson J Reynisson A R Goslar
Company secretary	A C Robinson
Registered number	05153270
Registered office	29 Howard Street North Shields Tyne & Wear England NE30 1AR
Independent auditors	Grant Thornton UK LLP Chartered Accountants and Statutory Auditor 30 Finsbury Square London EC2A 1AG

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emerchantpay Limited
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emerchantpay Limited

STRATEGIC REPORT

Principal Activity

The Group was formed in 2004 and the principal activity of the Group continues to be the provision of payment services to merchants including the provision of payment gateways and approval technology enabling merchants to accept payments by debit and credit cards and a large variety of other payment methods. The Group continues to expand its international capabilities through the addition of new payment solutions, both to pay in and pay out. The delivery of a number of these has been delayed by factors outside the control of the Group including local restrictions and financial impacts to providers of Covid 19.

The Group leverages services and products provided by other companies within the wider emergantpay Group Limited group of companies, this includes operational support from the Group's operations company, emergantpay OOD in Sofia, Bulgaria and sales, marketing and financial control from emergantpay UK Services Limited in the UK.

Brexit has been a hard Brexit for financial services with passporting rights ending and further announcements on the sector due in the coming months. The Directors of the wider emergantpay Group Limited have entered into an agreement to purchase an e-money authorised Lithuanian company and are awaiting approval from the Bank of Lithuania. In the meantime, it has been agreed to novate the EEA card acquiring portfolio to the Lithuanian company under an outsourcing agreement, which has been approved by the Bank of Lithuania. Therefore from 1st January 2021 the EEA card acquiring portfolio will be reported through Lithuania.

The company being acquired by the wider emergantpay Group in Lithuania provides banking services through the issuing of IBANs. This is seen as being complementary to the existing emergantpay business lines and this will be grown through emergantpay introductions. Appropriate agreements including outsourcing agreements will be entered into and the Lithuania team will be grown to support the increased business volumes and to ensure that proper control and decision making remains in Lithuania.

Market focus

While continuing to build volumes and numbers of merchant through ongoing sources there has also been a reshaping of the internal sales teams with a focus on developing a retail solution, initially for the UK but to be rolled out across Europe. Although still in its infancy this developing solution has the potential to bring large number of medium sized retail merchant in the coming years, in all geographies.

The direct distribution network has been expanded with sales teams being established in the Netherlands and Germany focussing on attracting local merchants in the Benelux countries and German speaking countries respectively.

We have continued to develop payment solution globally with particular focus on India, LATAM, and S.E. Asia with negotiations ongoing in a number of other countries. The focus is on enabling local payments in to international merchants and where required local payouts back to customers. Solutions have been launched in India while in LATAM we have seen a slow-down in progress due to the effects of Covid 19 on our partners.

Following their launch at the end of last year the eWallet and prepaid card have continued to undergo considerable development. In the 4th quarter of the financial year we have seen a considerable number of merchant applications for the eWallet and feel that the business is now really launching.

The regulatory environment continues to change both through the impacts of the PSD2 and also the card schemes continually developing the rules. There have additionally been significant challenges because of Covid 19, particularly affecting the deferred delivery merchants, like travel operators who charge consumers well in advance of delivering. The sensitivity around potential or alleged money laundering and/or terrorist financing continues to increase and as a result there has been a tightening of all requirements around the Group's operations. The banking sector, in particular, has become increasingly sensitive with greater focus being paid on the nature of companies that funds are being settled to.

emerchantpay Limited
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STRATEGIC REPORT (continued)

Business activities and performance indicators

The business is currently structured around three profit centres being:

PSP (Payment Services Provider) – providing a large number of international payment solutions to merchants through contracting with a number of card acquiring banks and international alternative payment solutions. The PSP profit centre is operated under the brand name emerchantpay.

Europe Acquirer – the provision of debit and credit card acquiring services in Europe for European merchants. Merchants are sourced through PSPs and ISO's, including the emerchantpay PSP, both for e-commerce and card present. This profit centre is operated under the brand name E-Comprocessing.

eWallet and prepaid card – although launched these products have continued to undergo considerable development during the year and therefore have had very little impact on the results for the year. It is expected to become a significant contributor to profitability in the coming year. This division operates under the brand names eZeeWallet and eZeeCard.

Processing volumes continue to be the key metric by which the Group's performance is monitored, followed by gross profit margin (revenue less direct expenses). These drive the resourcing requirements and therefore the expense base and the ultimate profitability of the Group. Given the disruptions to business during the year the Board are pleased to note that the volumes processed were:

Volume	2020	2019	Increase
	\$000s	\$000s	%
PSP activity	1,121,686	713,111	57.3
Acquiring activity	1,575,160	1,233,001	27.8
E-money activity	242	-	-

	2020	2019
Gross Profit Margin	47.35%	49.62%

In all respects the Board are pleased with the performance in the year which reflects the developments in all areas over the previous year. It believes that with the current product and ongoing developments the Group is in a strong position going forward.

Business review

The strategies being followed and continued investment in time, people and technology over recent years has put the Group in a strong position.

The Group's strategy of adding one major card acquiring partner to its portfolio each year continues. The Group has also continued to deliver merchant portfolios in line with acquirer expectations that offset higher risk and higher margined sectors with lower risk and lower margin sectors, thereby protecting the Groups profitability.

The Directors and Senior Management Team are committed to the ongoing delivery of additional product and solution capabilities.

emerchantpay Limited
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STRATEGIC REPORT (continued)

Review of Trading Results

During the year the emergantpay Group Limited Group of companies completed the regular review of its transfer pricing policy bring it in line with the latest OECD recommendations. The new policy was put in place with effect from 1st September 2019. While revenues increased from \$77.0m for 2019 to \$87.1m in the current year the new transfer pricing policy which determines the Groups operating profit as a percentage of revenue has resulted in a decrease in Profit before Tax for the emergantpay Limited Group which has fallen from \$8.3 million in 2019 to \$5.7 million in 2020 (decrease of 31%)

The Group's balance sheet has continued to strengthen with cash and bank balances of \$25.63 million (2019 \$15.52 million) and total equity of \$51.61 million (2019 \$45.53 million).

As mentioned above the Group's results for the year 2020/21 will be adversely impacted by the likely impacts of Brexit with in excess of 50% of the business having to be transferred to a European licensed entity. However by following it's strategy the Board of Directors are confident that the UK business is in a strong position to continue to grow and develop.

Position of the Group at Year End

Recognising all points noted above the Directors feel that the Group is in a strong position to continue to grow and develop its presence in the UK and internationally. The Directors shall continue to seek to add acquiring banks to the portfolio to ensure that the future growth continues to be supported and the widening of the product range and geographic reach will be pursued.

The Acquiring business of the wider emergantpay Group will continue to grow as the strategy of adding additional PSP's and ISO's to its sourcing portfolio while also ensuring that the processing portfolios remain balanced and there is no single industry dependency. As noted elsewhere, from 1st January 2021 the EEA card acquiring portfolio will not be reported in these financial statements, but will be reported in the financial statements of the wider emergantpay Group.

Principal Risks and Uncertainties

The Group faces many risks with the biggest uncertainty facing the Group the impact of Brexit.

Brexit:

As noted above, the impending acquisition of Lithuania together with the transitional outsourcing arrangements is expected to ensure the continuity of the business in the near future. The future economic impacts of Brexit on the UK and Europe remain unknown. The Directors believe that the diversification through growing business in multiple geographies with multiple solutions will protect the Group from any impacts that may affect the current European business.

emerchantpay Limited
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STRATEGIC REPORT (continued)

Covid19 Risk

This has been the largest challenge to all this year and with the second wave seemingly much stronger than the first wave and Governments needing to keep economies operating as much as possible the challenge is greater. As the first wave took hold emerchantpay enabled all staff to work from home. This capability remains and most staff are working from home. The Sofia office has remained open to support those who cannot work from home and are able to travel in safely. The hygiene regime at the office was increased with increased cleaning and disinfecting and all those attending requested to keep a two meter distance from others. During the summer as the first wave abated and people were starting to return to work, the offices of emerchantpay re-opened and staff were allowed to return to work but only 50% each day to ensure that distancing remained. Cleaning and disinfecting continued.

With the second wave we have again asked staff to work from home, but the offices remain open for those who prefer to work there.

There are some technology risks with people working from home, but these have been addressed and monitoring increased.

From a business perspective the Group has continued to deliver against its strategy although the card present roll out has slowed significantly. New communication methods have been embraced and business has continued to grow. Merchants with extended delivery model, travel, event ticket sales and similar, represent a risk but the teams in emerchantpay have been and are working with them to effect refunds and support re-scheduling thereby minimising exposure for the merchants and also emerchantpay.

Technology Risk

Technology is critical to ensuring the delivery of a market-leading product and service to the Group's merchants. The "payment gateway" is the front-end technology that clients experience. The Group has since 2002 worked with a third-party gateway provider to develop and run a high quality gateway. The emerchantpay Group is the principal user of this gateway and its development has been focussed upon supporting emerchantpay's requirements. Many of the PSP's higher risk merchants and their processing sit on this platform and its ongoing development is key to the Group's success.

In addition to this the Group has developed its own payment gateway which is being used in two instances. It is the front-end for the acquiring business connecting a number of merchants to the processor and the card schemes. The second instance is for the PSP and is becoming the main gateway for the business.

The two gateways have been integrated meaning that the Group is able to more rapidly add additional APM's, add flexibility and so increasing the product offering.

There are a number of core risks that could affect the Group's key technology, namely:

Data Security Risk: the safe transmission and storage of personal and transactional information is key to the success of the business. The Group therefore ensures that all appropriate technology is certified as Payment Card Industry Data Security Standard (PCI DSS) Level 1 and that technology that does not need to be certified as such, but which is customer facing, is maintained and operated in a PCI DSS Level 1 environment.

Cyber Attack: the risk of a DDOS attack is very real these days and the Group has experienced a number of attempts in the last few years as unfortunately commonly experienced by other PSP's and e-commerce merchants. All market facing software has the appropriate DDOS protection.

emerchantpay Limited
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STRATEGIC REPORT (continued)

Regulatory Risk

The international regulatory landscape for the payments industry is constantly changing. It is important that emerchantpay remains fully aware of all proposals and changes in the countries where it operates and adopts changes and requirements promptly. This enables the Group to ensure the continuation of service to its clients.

Merchant Credit Risk

emerchantpay has always taken the credit risk of its merchants from its partner acquiring banks. This exposes the Group to the contractual liability of merchant to deliver the goods and services as advertised and/or refund the associated payment.

To mitigate this exposure emerchantpay employs a number of tools including a significant investment in fraud and risk protection tools, the adoption of rolling credit reserves and the delay in settlement to merchants.

In the accounts for the year there is \$232,657 (2019 \$324,913) for merchant credit write-off.

Settlement Risk

In processing payment transactions emerchantpay is required to remit the proceeds it receives from the schemes to settle the transactions of its merchants. Failure to settle those transactions, either because funds have not been received or emerchantpay's (or its partner banks) systems have failed would expose emerchantpay to breaching its merchant contracts exposing it to legal, financial and reputational consequences.

To mitigate this emerchantpay's designated bank accounts are monitored and reconciled daily ensuring that any rejected or unexpected payments are identified and corrected as soon as possible. The funds received daily are also reconciled to scheme settlement reports to ensure that the appropriate level of funds have been received and that there is sufficient liquidity to allow emerchantpay to meet its obligations to its merchants.

Financial Risk

emerchantpay operates across the globe and as a result is exposed to a number of financial risks including foreign exchange risks and interest rate risks.

Approved by the Board of Directors and signed on behalf of the Board



S R Dickson

Director

Date: 1 February 2021

emerchantpay Limited
Registered number: 05153270

Directors' report

For the year ended 31 August 2020

The directors present their report and the financial statements for the year ended 31 August 2020.

Results and dividends

The profit for the year, after taxation, amounted to \$5,513,643 (2019: \$7,177,806). There were no dividends declared or paid in the year under review (2019: \$NIL).

Directors

The directors who served during the year were:

J Reynisson

S R Dickson

A R Goslar

Future developments

The directors expect the group to continue to develop profitably as the current business lines continue to grow and new lines come on stream.

Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Impact of Covid 19

- The board can report that there has been no discernable negative impact on our business from Covid-19, although we remain very alert to the possibility. With over 90% of our processing volumes being e-commerce we have so far seen a positive impact on our results.
- Our results for the year ended 31 August 2020 show that processing volumes in the first half of the year to the end of February 2020 were \$965.5m whilst the processing volumes in the second half of the year to the end of August 2020 were \$1,731.6m, an increase of 79%.
- Volumes and margins for the current financial year continue to be in line with our expectations, and not withstanding macroeconomic and political uncertainty, we expect to deliver further progress this year.
- All staff members of the Group are enabled to work from home and we are supporting good hygiene and social distancing for all in our offices where appropriate.

Indemnity provision

The ultimate parent company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Auditors

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar whichever is easiest.

emerchantpay Limited
Registered number: 05153270

DIRECTORS REPORT (continued)

Post balance sheet events

The wider emerchantpay Group are addressing the Brexit issue by completing the acquisition of an e-money permissioned entity in Lithuania which is currently awaiting approval from the Bank of Lithuania. In the meantime it has been agreed to novate the EEA card acquiring portfolio to the Lithuanian company under an outsourcing agreement which has been approved by the Bank of Lithuania. Therefore from 1st January 2021 the EEA card acquiring portfolio will be reported through Lithuania. An estimate of the financial effect cannot be made and the Directors consider that this event is a non-adjusting post balance sheet event and accordingly have made no adjustment to these financial statements.

There have been no other significant events affecting the Group since the year end

Directors' Section 172(1) Statement

The Board acknowledges its responsibility under section 172(1) of the Companies Act 2006 and below sets out the key processes and considerations that demonstrate how the Directors promote the success of the Company.

The below statement sets out the requirements of the Act, section 172(1), and note how the Directors discharge their duties.

The Board meets on a regular basis with information circulate in advance to allow the Directors to fully understand the performance and position of the Group, alongside matters arising for decision. Factors (a) to (f) below, are all taken into account during the decision making process.

a) The likely consequences of any decision in the long term

Supporting each decision, the Board review relevant information including financial forecasts, due diligence, as well as non-financial factors and how the decision fits with the strategy of the Group.

The Group has a long term strategic plan, which is a financial plan supported by market and product development plans. Strategy is regularly reviewed by the board and strategic thinking is intrinsic to future decision making processes. Where appropriate, the Board will delegate responsibility to the management team.

b) The interest of the Company's employees

The Directors actively consider the interest of employees in all major decisions. People are regularly discussed at the Board level where attrition rates, reasons for leaving and employee satisfaction are discussed.

The Directors encourage feedback from all levels of the business and take this into account when making decisions.

c) The need to foster the Company's business relationships with suppliers, customers and others

The Directors have identified the stakeholders of the Group and review regularly to ensure adequate communication and engagement is ongoing with each group.

The Group's stated Strategic priority is to become a one-stop shop for payment solutions for merchants and partners alike. Page 1, within the Strategic Report, discusses how the Group continues to develop different markets and products to meet this goal.

We maintain strong working relationships with all our supplies including the card schemes, acquiring banks and ISO's. For key suppliers we perform diligence around their financial stability and viability.

d) The impact of the Company's operations on the community and environment

The Group takes its responsibility within the community and wider environment seriously and acknowledge that more can be done. emerchantpay is a global group and has based itself in strategic locations for the long term.

The company has a relatively low carbon footprint, but acknowledge improvements can always be made and the Directors encourage video calling rather than air travel. The Group also looks to engage with local environmental schemes such as the UK Cycle to Work Scheme.

emerchantpay Limited
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DIRECTORS REPORT (continued)

e) The desirability of the company maintain a reputation for high standards of business conduct

The Directors and the Company are committed to high standards of business conduct and governance.

As the Groups strategic priority is to become a one-stop shop for payment solutions for merchants and partners alike the Directors believe the wider reputation and cultural conduct is a big part of product reputation.

Where there is a need to seek advice on particular issues, the Board will seek advice from its lawyers and nominated advisors to ensure the consideration of business conduct, and its reputation is maintained.

f) The need to act fairly between members of the Group

The Group is 100% owned by the parent emerchantpay Group limited.

Streamlined Energy and Carbon Reporting (SECR):

No energy is used by the emerchantpay Limited Group. All UK offices are held by the wider emerchantpay Group Limited Group of companies which the Group leverages services and products from. This includes operational support from the Group's sales, marketing and financial control from emerchantpay UK Services Limited in the UK.

Going Concern:

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the strategic report on page 2 to 6.

The Group meets its day to day working capital requirements through cash flow from profits which together with existing funds held in corporate accounts with its bankers are sufficient to fund present commitments. Note 27 to the financial statements includes the Group's objectives, policies and processes for managing its exposure to market risk, foreign currency risk, credit risk and liquidity risk. Note 28 includes details of its financial instruments and Note 29 includes the Group's objectives, policies and processes for managing its capital.

The Group's underlying operating business is cash generative. As at the balance sheet date, the Group had cash balances of \$25.6m.

Brexit has been a hard Brexit for financial services with passporting rights ending and further announcements on the sector due in the coming months. The Directors of the wider emerchantpay Group Limited have entered into an agreement to purchase an e-money authorised Lithuanian company and are awaiting approval from the Bank of Lithuania. In the meantime, it has been agreed to novate the EEA card acquiring portfolio to the Lithuanian company under an outsourcing agreement, which has been approved by the Bank of Lithuania. Therefore from 1st January 2021 the EEA card acquiring portfolio will be reported through Lithuania.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. The Group has run an extreme downside scenario of an immediate reduction in sales volume, and therefore revenue, to nil. This is done to identify risks to liquidity. After applying the downside sensitivities, the Directors have not identified any material uncertainties to the group's ability to continue to operate over a period of at least 12 months from the date of approval of the financial statements. Therefore the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

This report was approved by the board and signed on its behalf.

Stephen Dickson

S Dickson

Director

Date: 1 February 2021

emerchantpay Limited
Registered number: 05153270

Directors' responsibility statement

For the year ended 31 August 2020

The directors are responsible for preparing the Strategic Report and Directors' Report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Stephen Dickson

S Dickson

Director

Date: 1 February 2021

emerchantpay Limited
Registered number: 05153270

Independent auditor's report

Independent auditor's report to the members of emerchantpay Limited

Opinion

We have audited the financial statements of emerchantpay Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 August 2020 which comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company balance sheet, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2020 and of the group's profit and the parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with these particular events.

emerchantpay Limited
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Independent auditor's report

(continued)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the group's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the parent company will continue in operation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

emerchantpay Limited
Registered number: 05153270

Independent auditor's report

(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Nicholas Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
1 February 2021

emerchantpay Limited
Registered number: 05153270

Consolidated statement of profit or loss

For the year ended 31 August 2020

	Notes	2020	2019
		\$	\$
Revenue	7	87,120,593	77,003,855
Direct expenses		(45,866,185)	(38,795,517)
Employee benefits expenses	8	(942,592)	(1,233,650)
Amortisation of non-financial assets	9	(8,144)	(23,674)
Other expenses		(34,819,779)	(28,811,579)
Operating profit	9	5,483,893	8,139,435
Finance costs	10	(21,951)	(34,664)
Finance income	10	218,321	191,189
Profit before tax		5,680,263	8,295,960
Tax expense	11	(166,620)	(1,118,154)
Profit for the year		5,513,643	7,177,806

All amounts relate to continuing operations.

The notes on pages 22 to 57 form part of these financial statements.

emerchantpay Limited
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Consolidated statement of Comprehensive Income

For the year ended 31 August 2020

		2020	2019
		\$	\$
Profit for the year		5,513,643	7,177,806
Other Comprehensive Income:			
Items that can be reclassified subsequently to profit or loss			
Fair value through other comprehensive income financial asset gains	13	763,767	883,737
Income tax relating to items that will be reclassified	15	(194,566)	(150,235)
Other comprehensive income for the year, net of tax		569,201	733,502
Total comprehensive income for the year		6,082,844	7,911,308

The notes on pages 22 to 57 form part of these financial statements.

emerchantpay Limited
Registered number: 05153270

Consolidated statement of financial position

As at 31 August 2020

	Notes	2020	2019
		\$	\$
Assets			
Non-current			
Intangible assets	12	14,159	14,344
Other long-term financial assets	13	19,499,608	17,652,964
Other long-term assets	7	26,891	-
Non-current assets		19,540,658	17,667,308
Current			
Inventories	16	295,247	359,765
Trade and other receivables	17	38,686,920	37,242,484
Other short-term financial assets	18	350,000	-
Corporation tax recoverable		942,134	-
Cash and cash equivalents	19	25,625,307	15,521,498
Current assets		65,899,608	53,123,747
Total assets		85,440,266	70,791,055

emerchantpay Limited
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Consolidated statement of financial position (continued)

As at 31 August 2020

	Notes	2020	2019
		\$	\$
Equity and liabilities			
Equity			
Share capital	20	2	2
Retained earnings		48,965,677	43,452,034
Other components of equity		2,643,456	2,074,254
Total equity		51,609,135	45,526,290
Liabilities			
Non-current			
Deferred tax liabilities	15	1,006,441	770,691
Non-current liabilities		1,006,441	770,691
Current			
Pension and other employee obligation	21	176,434	194,466
Trade and other payables	22	32,648,256	24,160,883
Current tax liabilities		-	138,725
Current liabilities		32,824,690	24,494,074
Total liabilities		33,831,131	25,264,765
Total equity and liabilities		85,440,266	70,791,055

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 1 February 2021.

Stephen Dickson
S R Dickson
Director

The notes on pages 22 to 57 form part of these financial statements.

emerchantpay Limited
Registered number: 05153270

Consolidated statement of changes in equity

For the year ended 31 August 2020

	Share capital	Retained earnings	Other components of equity	Total equity
	\$	\$	\$	\$
Balance at 1 September 2018	2	36,274,228	1,340,752	37,614,982
Profit for the year	-	7,177,806	-	7,177,806
Other Comprehensive Income	-	-	733,502	733,502
Balance at 31 August 2019 and 1 September 2019	2	43,452,034	2,074,254	45,526,290
Profit for the year	-	5,513,643	-	5,513,643
Other comprehensive income	-	-	569,202	569,202
Balance at 31 August 2020	2	48,965,677	2,643,456	51,609,135

The notes on pages 22 to 57 form part of these financial statements.

emerchantpay Limited
Registered number: 05153270

Consolidated statement of cash flows

For the year ended 31 August 2020

	Notes	2020	2019
		\$	\$
Operating activities			
Profit before tax		5,680,263	8,295,960
Non-cash flow adjustments	24	(1,132,139)	581,959
Net changes in working capital	24	7,082,981	(4,349,611)
Taxes paid		(1,206,295)	(1,985,945)
Net cash from operating activities		10,424,810	2,542,363
Investing activities			
Purchase of other intangible assets	12	(7,959)	(19,126)
Purchase of other long term financial assets	13	(815,000)	(1,434,407)
Proceeds on maturity of other long-term financial assets	13	550,000	-
Purchase of other short-term financial assets	18	(350,000)	-
Interest received		169,373	143,386
Dividends received	10	28,500	23,888
Net cash used in investing activities		(425,086)	(1,286,259)
Financing activities			
Interest paid	10	(21,951)	(34,664)
Net cash used in financing activities		(21,951)	(34,664)
Net change in cash and cash equivalents		9,977,773	1,221,440
Cash and cash equivalents, beginning of year	19	15,521,498	14,521,687
Exchange differences on cash and cash equivalents		126,036	(221,629)
Cash and cash equivalents, end of year	19	25,625,307	15,521,498

The notes on pages 22 to 57 form part of these financial statements.

emerchantpay Limited
Registered number: 05153270

Company balance sheet

As at 31 August 2020

	Notes	2020	2019
Fixed Assets		\$	\$
Intangible assets	12	14,159	14,344
Investments	14	19,644,666	17,654,327
Other long-term assets	7	26,891	-
		19,685,716	17,668,671
Current assets			
Inventories	16	295,247	359,765
Debtors	17	38,943,385	37,429,597
Other short-term assets	18	350,000	-
Corporation tax recoverable		935,406	-
Cash at Bank		25,174,331	15,200,147
		65,698,369	52,989,509
Creditors: amounts falling due within one year	22	(32,804,784)	(24,467,138)
Net current assets		32,893,583	28,522,371
Total assets less current liabilities		52,579,301	46,191,042
Provision for liabilities	15	(1,006,441)	(770,691)
Net assets		51,572,860	45,420,351
Capital and Reserves			
Called up share capital		2	2
Profit and loss account		48,929,402	43,346,095
Other reserves		2,643,456	2,074,254
Shareholders' funds		51,572,860	45,420,351

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 1 February 2021.

Stephen Dickson

S R Dickson

Director

The notes on pages 22 to 57 form part of these financial statements.

emerchantpay Limited (the 'Company') has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive income in the financial statements. The company profit for the year ended 31 August 2020 is \$5,583,307 (2019: \$7,363,501).

emerchantpay Limited
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Company statement of changes in equity

For the year ended 31 August 2020

	Share capital	Retained earnings	Other components of equity	Total equity
	\$	\$	\$	\$
Balance at 31 August 2018 and 1 September 2018	2	35,982,594	1,340,752	37,323,348
Profit for the year	-	7,363,501	-	7,363,501
Other Comprehensive Income	-	-	733,502	733,502
Balance at 31 August 2019	2	43,346,095	2,074,254	45,420,351
Profit for the year	-	5,583,307	-	5,583,307
Other Comprehensive Income	-	-	569,202	569,202
Balance at 31 August 2020	2	48,929,402	2,643,456	51,572,860

The notes on pages 22 to 57 form part of these financial statements.

emerchantpay Limited
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Notes to the financial Statements

For the year ended 31 August 2020

1 Nature of operations

The principal activities of the Group are the provision of payment services to merchants including a payment gateway and approval technology enabling merchants to accept payments by debit and credit cards and other payment methods and acquiring of MasterCard and Visa transactions.

2 General information and statement of compliance with IFRSs and going concern assumption

emerchantpay Limited, the Group's parent company, is a limited liability company incorporated and domiciled in the United Kingdom. Its registered office and principal place of business is 29 Howard Street, North Shields, Tyne & Wear, NE30 1AR.

The financial statements of the Company and the consolidated financial statements of the Group have been prepared in accordance with IAS 1.51(b) International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and adopted by the EU. The consolidated financial statements for the year ended 31 August 2020 (including comparatives) were approved and authorised for issue by the board of directors on 1 February 2021.

In 2020 the Group has adopted new guidance for the recognition of leases. As no leases are held by the Group no additional accounting entries or disclosure are required.

3 Changes in accounting policies

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

New and revised standards – IFRS in issue but not applied in the current financial statements

All IFRS's issued have been applied by the Company and Group.

4 New and revised standards or Interpretations

4.1 New Standards adopted as at 1 September 2019

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

emerchantpay Limited
Registered number: 05153270

Notes to the financial Statements

For the year ended 31 August 2020

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

No leases are held by the emerchantpay Limited Group. All leases are held by the wider emerchantpay Group Limited Group of companies which the Group leverages services and products from. This includes operational support from the Group's operations company, emerchan tpay OOD in Sofia, Bulgaria and sales, marketing and financial control from emerchantpay UK Services Limited in the UK.

5 Summary of accounting policies

5.1 Overall considerations

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

5.2 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 August 2020. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 August, except emerchantpay Mauritius Limited which has a date of 31 December. All information consolidated is for the 12 months to 31 August. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of Group members have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

5.3 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the strategic report on page 2 to 6.

The Group meets its day to day working capital requirements through cash flow from profits which together with existing funds held in corporate accounts with its bankers are sufficient to fund present commitments. Note 27 to the financial statements includes the Group's objectives, policies and processes for managing its exposure to market risk, foreign currency risk, credit risk and liquidity risk. Note 28 includes details of its financial instruments and Note 29 includes the Group's objectives, policies and processes for managing its capital.

The Group's underlying operating business is cash generative. As at the balance sheet date, the Group had cash balances of \$25.6m.

Notes to the financial Statements

For the year ended 31 August 2020

Brexit has been a hard Brexit for financial services with passporting rights ending and further announcements on the sector due in the coming months. The Directors of the wider emERCHANTPAY Group Limited have entered into an agreement to purchase an e-money authorised Lithuanian company and are awaiting approval from the Bank of Lithuania. In the meantime, it has been agreed to novate the ECA card acquiring portfolio to the Lithuanian company under an outsourcing agreement, which has been approved by the Bank of Lithuania. Therefore from 1st January 2021 the ECA card acquiring portfolio will be reported through Lithuania.

Covid-19 has also had a significant impact on the Group, the details of which are below.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. The Group has run an extreme downside scenario of an immediate reduction in sales volume, and therefore revenue, to nil. This is done to identify risks to liquidity. After applying the downside sensitivities, the Directors have not identified any material uncertainties to the group's ability to continue to operate over a period of at least 12 months from the date of approval of the financial statements. Therefore the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Covid-19

This has been the largest challenge to all this year and with the second wave seemingly much stronger than the first wave and Governments needing to keep economies operating as much as possible the challenge is greater. As the first wave took hold emERCHANTPAY enabled all staff to work from home. This capability remains and most staff are working from home. The Sofia office has remained open to support those who cannot work from home and are able to travel in safety. The hygiene regime at the office was increased with increased cleaning and disinfecting and all those attending requested to keep at distant from others. During the summer as the first wave abated and people were starting to return to work, the offices of emERCHANTPAY re-opened and staff were allowed to return to work but only 50% each day to ensure that distancing remained. Cleaning and disinfecting continued.

With the second wave we have again asked staff to work from home, but the offices remain open for those who prefer to work there.

There are some technology risks with people working from home, but these have been addressed and monitoring increased.

From a business perspective the Group has continued to deliver against its strategy although the card present roll out has slowed significantly. New communication methods have been embraced and business has continued to grow. Merchants with extended delivery model, travel, event ticket sales and similar, represent a risk but the teams in emERCHANTPAY have been and are working with them to effect refunds and support re-scheduling thereby minimising exposure for the merchants and also emERCHANTPAY.

emerchantpay Limited
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Notes to the financial Statements

For the year ended 31 August 2020

5.4 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in US Dollars ("USD") which is also the functional currency of the parent company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

The functional currency of the entities in the Group is USD and has remained unchanged during the reporting period.

Notes to the financial Statements

For the year ended 31 August 2020

5.5 Revenue

Revenue is recognised when a customer obtains control of promised services or goods. The amount of revenue recognised reflects the consideration to which the Group expects to be entitled to receive in exchange for these services. The Group has contractual agreements with its customers that set forth the general terms and conditions of the relationship including the line item pricing, payment terms and contract duration. Revenue is recognised when the obligation under the terms of the Group's contract with its customer is satisfied. Revenue is measured as the amount of consideration the Group expects to receive in exchange for transferring goods or providing services. The Group generates revenues primarily by processing electronic payment transactions.

To determine whether to recognise revenue, the Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied.

The Group sometimes enters into transactions involving a range of the Group's products and services, for example for the delivery of point of sale card terminal hardware, software and related payment services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The Group has four main types of contracts with customers:-

- 1 Contracts with customers to provide Payment Services
- 2 Contracts with customers to provide Acquiring Services
- 3 Contracts with customers to provide Payment Terminals
- 4 Contracts with customers to provide eWallet services

Over 99% of the Group's revenue is derived from the first two types of contracts, so any revenues derived from the third and fourth types of contract are not considered material in determining when revenue should be recognised under IFRS 15.

Notes to the financial Statements

For the year ended 31 August 2020

Contracts with customers to provide Payment Services

Revenue from contracts with customers to provide Payment Services is recognised when the services are provided to the customer at a point in time as the customer simultaneously receives and consumes the benefits of the Group's performance as the Group performs. The service provided is carried out on a continuous basis. The group's performance obligations are a bundle of services which are set out in the contracts with the customer. Revenues are billed to the customer in the month in which the services are performed and transaction price is determined with reference to the schedule of prices set out in the contracts with customers. The significant judgements used in determining revenue are set out in note 5.15. The Group followed the guidance provided in IFRS15 B35-B37, Principal versus agent considerations, which states that the determination of whether a company should recognise revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgement that depends on the facts and the circumstances of the arrangement and that certain factors should be considered in the evaluation. With regards to contracts with customers to provide Payment Services revenue is reported on a net basis as the Group acts as an agent in the transaction.

Contracts with customers to provide Acquiring Services

Revenue from contracts with customers to provide Acquiring Services is recognised when the services are provided to the customer at a point in time as the customer simultaneously receives and consumes the benefits of the Group's performance as the Group performs. The service provided is carried out on a continuous basis. The group's performance obligations are a bundle of services which are set out in the contracts with the customer. Revenues are billed to the customer in the month in which the services are performed and transaction price is determined with reference to the schedule of prices set out in the contracts with customers. The significant judgements used in determining revenue are set out in note 5.15. The Group followed the guidance provided in IFRS15 B35-B37, Principal versus agent considerations, which states that the determination of whether a company should recognise revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgement that depends on the facts and the circumstances of the arrangement and that certain factors should be considered in the evaluation. With regards to contracts with customers to provide Acquiring Services revenue is reported on a gross basis as the Group acts as a principal in the transaction.

Ancillary Revenue

Ancillary Revenue relates to additional fees that are charged to customers when pay-outs are made following a currency conversion. In 2019 these fees were included as 'Other Income'. The presentation has been updated to reflect that these fees arise in the course of the ordinary trading activity of the Group.

The revenue recognition policy is to recognise the fees at the point in time the currency conversion is made.

The 2019 comparative figures have been restated to reflect the change.

Notes to the financial Statements

For the year ended 31 August 2020

5.6 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

5.7 Intangible assets

Recognition of intangible assets

Acquired software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

Subsequent measurement

Intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in Note 5.8 The following useful lives are applied:

- Software: 3-5 years

Assets under construction are amortised from the point at which they are brought into use.

5.8 Impairment testing of intangible assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Intangible assets which are not yet available for use are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets or cash generating units which are being amortised are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Notes to the financial Statements

For the year ended 31 August 2020

5.9 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVTOCI)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash

Notes to the financial Statements

For the year ended 31 August 2020

equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at fair value through other comprehensive income (FVOCI)

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

The category also contains equity investments. The Group accounts for the investments at FVOCI and made the irrevocable election to account for the investment listed equity securities at fair value through other comprehensive income (FVOCI).

Impairment of financial assets

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the requirement includes loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is not dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Notes to the financial Statements

For the year ended 31 August 2020

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 27.4 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include trade and other payables. Financial liabilities are initially measured at fair value and measured subsequently at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Notes to the financial Statements

For the year ended 31 August 2020

5.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

5.11 Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and associates is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

Notes to the financial Statements

For the year ended 31 August 2020

5.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

5.13 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued. Other Components of Equity comprises the gains on revaluation of listed equity investments. Retained earnings includes all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity.

5.14 Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

5.15 Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Capitalisation of internally developed software

Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deductible temporary differences can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Notes to the financial Statements

For the year ended 31 August 2020

Revenue recognition

Commission for the provision of online payment services is calculated as a percentage of or a fixed fee on the value of the transaction the service is provided in respect of. Turnover is recognised at the value of commissions earned for services provided during the year. The directors recognise that they adopt the credit risk around the transactions the Group processes but do not consider that there is any significant impact on their role as agent in the transactions.

Functional currency

The directors believe that due to the nature of the business and given that a significant proportion of the Group and Company's income is derived in US dollars, the functional currency of the Group and Company is US dollars and the financial statements should be presented in US dollars.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Impairment of Intangible assets

Intangible assets include acquired software licenses and assets under construction. These costs are assessed based on management's view of the internal and external development costs relating to time spent on projects that enhance the assets, supporting by internal time recording and considering the requirements of IAS 38 'Intangible assets'. The costs are amortised over the useful life of the asset. The carrying value of acquired software licenses is tested for impairment when there is an indication the assets might be impaired. The carrying value of assets under construction is tested annually for impairment. When carrying out impairment tests these would be based upon future cash flow forecasts and these forecasts would be based upon management judgement. Future events could cause the assumptions to change which could have an adverse effect on the future results of the group. An impairment review of the asset under construction was performed by management through a discounted cash flow covering 5 years, this calculation requires estimated by management including management's expectations of future growth in revenue, profit margins, cash flows and discount rates. It was concluded that no impairment is required.

Notes to the financial Statements

For the year ended 31 August 2020

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 27).

Provisions, contingent assets and contingent liabilities

A deferred tax provision is recognised when it is considered probable that the outcome of a review by a tax authority of an uncertain tax position will result in a reduction in the carrying value of the deferred tax assets. The Group's measurement of provisions is based upon its best estimate of the additional profit that will become subject to tax (see note 15).

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote (see note 30).

Notes to the financial Statements

For the year ended 31 August 2020

6 Interests in subsidiaries

Composition of the Group

Set out below are details of the subsidiaries held by the Group.

Shares held by emerchantpay Limited

Company Name	Country of incorporation and principal place of business	Percentage Shareholding	Principal activity
EMPPay Limited	United Kingdom	100%	Provides payment solutions to small merchants
erchantpay Netherlands BV	Netherlands	100%	Dormant
Bolam Ltd	Kenya	100%	Payment services in local geography
Prime Pay KK	Japan	100%	Payment services in local geography
erchantpay Mauritius Limited	Mauritius	100%	Licensed payment services provider
Net Prime Limited	Hong Kong	100%	Dormant
INSONline Ltd	Hong Kong	100%	Dormant
Emerchantpay do Brazil – Cobrancas LTDA.	Brazil	100%	Payment services in local geography

Shares held by emerchantpay do Brazil – Cobrancas LTDA

Company Name	Country of incorporation and principal place of business	Percentage Shareholding	Principal activity
Empay Mexico S.A. de C.V.	Mexico	100%	Dormant
Emerchantpay SAS	Argentina	100%	Dormant

Notes to the financial Statements

For the year ended 31 August 2020

7 Revenue

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2020	2019
	\$	\$
Goods and services transferred at a point in time	86,998,108	76,874,921
Goods and services transferred over time	122,485	128,934
	87,120,593	77,003,855

The Group's revenue disaggregated by type of revenue recognition is as follows:

	2020	2019
	\$	\$
Revenue from Payment Service Provider services	35,339,630	30,268,906
Revenue from Acquiring bank services	50,193,571	45,858,545
Revenue from Sales of Card Readers	122,485	128,934
Revenue from eWallet	9,450	-
Ancillary revenue	1,455,457	747,470
	87,120,593	77,003,855

The Group has updated the presentation of revenue to include 'Ancillary Revenue' which was previously shown as 'Other Income'. This relates to additional fees that are charged to customers when pay-outs are made following a currency conversion. The 2019 comparative figures have been restated to reflect this.

For Card Readers sold on instalments the amount still due at 31 August has been split between current and non-current assets. The amount due within one year is included in trade and other receivables, the amount due in greater than one year is shown as other long-term assets. See below for the split:

	31 August 2020	31 August 2019
	\$	\$
Current		
Card Readers sold on finance	54,989	-
Non current (Other-long term assets)		
Card Readers sold on finance	26,891	-
Total	81,880	-

Notes to the financial Statements

For the year ended 31 August 2020

8 Employee remuneration

The average monthly number of employees, including the directors, during the year was as follows:

	2020	2019
	No.	No.
	6	6

Directors Remuneration is paid by another group company

All employees are in administration

Expenses recognised for employee benefits are analysed below:

	2020	2019
	\$	\$
Non-executive directors' fees	38,021	39,040
Sums paid to third parties for employee services	904,571	1,194,610
	942,592	1,233,650

There were no pension contributions made in the year to 31 August 2020 (2019: nil).

Notes to the financial Statements

For the year ended 31 August 2020

9 Operating profit

Operating profit is stated after charging:

	2020	2019
	\$	\$
Amortisation of intangible assets	8,144	23,674
Foreign exchange differences	(967,067)	749,605
Auditors remuneration		
- for group audit services	201,106	143,465
- for non-audit services	11,198	7,391

Non audit services relate to the provision of corporate tax compliance and disbursements.

10 Finance costs and finance income

Finance costs for the reporting periods consist of the following:

	2020	2019
	\$	\$
Bank interest	-	2,996
Other interest	21,951	31,668
	21,951	34,664

Finance income for the reporting periods consists of the following:

	2020	2019
	\$	\$
Interest on bank deposits	190,458	174,797
Interest on security deposits	(32,077)	(7,496)
Interest received on Corporation tax	31,440	-
Dividends received	28,500	23,888
	218,321	191,189

Notes to the financial Statements

For the year ended 31 August 2020

11 Tax expense

The major components of tax expense and the reconciliation of the expected tax expense on the domestic effective tax rate of emerchantpay Ltd at 19% (2019: 19%) and the reported tax expense in profit or loss are as follows:

	2020	2019
	\$	\$
Profit before tax	5,680,263	8,295,960
Domestic tax rate for emerchantpay Limited	19%	19%
Expected tax expense	1,079,250	1,576,233
Expenses not deductible for tax purposes	26,039	45,205
Adjustments to tax charge in respect of prior periods	(1,031,934)	-
Remeasurement of deferred tax for changes in tax rates	90,670	-
Group relief claimed	(73,120)	(501,512)
Current tax (prior period) exchange differences arising on movement between opening and closing spot rates	(68,684)	(144)
Current tax (current period) exchange differences arising on movement between opening and closing spot rates	(4,110)	(4,441)
Non-taxable income	(5,525)	(4,538)
Adjustment to brought forward balances	145,116	167,910
Deferred tax not recognised	-	(150,235)
Adjust closing deferred tax to average rate of 19%	-	(90,670)
Adjust opening deferred tax to average rate of 19%	-	73,086
Tax suffered on foreign dividend and interest	8,918	7,260
Actual tax expense	166,620	1,118,154
	\$	\$
Current tax expense		
Current tax on profits for the year	1,031,488	1,118,927
Adjustment in respect of previous year	(906,052)	-
Current tax expense	125,436	1,118,927
Deferred tax expense		
Origination and reversal of temporary differences	41,184	(773)
Deferred tax expense	41,184	(773)
Total tax expense	166,620	1,118,154

Notes to the financial Statements

For the year ended 31 August 2020

12 Intangible assets

	Acquired software licences
Gross carrying amount	\$
At September 2019	94,694
Additions	7,959
At 31 August 2020	102,653
Amortisation and impairment	
At 1 September 2019	80,350
Amortisation	8,144
At 31 August 2020	88,494
Carrying amount	
At 31 August 2020	14,159
At 31 August 2019	14,344

All amortisation and impairment charges are included within amortisation of non-financial assets

	Acquired software licences
	\$
Gross carrying amount	
At September 2018	75,568
Additions	19,126
At 31 August 2019	94,694
Amortisation and impairment	
At 1 September 2018	56,676
Amortisation	23,674
At 31 August 2019	80,350
Carrying amount	
At 31 August 2019	14,344
At 31 August 2018	18,892

All amortisation and impairment charges are included within amortisation and impairment of non-financial assets.

Notes to the financial Statements

For the year ended 31 August 2020

13 Other long-term financial assets

	Listed equity investments	Other Investments	Security deposits	Total
	\$	\$	\$	\$
Cost or valuation				
At 1 September 2019	5,541,226	1,274,865	10,836,873	17,652,964
Additions	-	450,000	365,000	815,000
Matured	-	(550,000)	-	(550,000)
Foreign exchange movement	-	23,966	823,749	847,715
Interest on security deposits	-	-	(29,838)	(29,838)
Revaluation of listed investments	763,767	-	-	763,767
At 31 August 2020	6,304,993	1,198,831	11,995,784	19,499,608
Net book value				
At 31 August 2020	6,304,993	1,198,831	11,995,784	19,499,608
At 31 August 2019	5,541,226	1,274,865	10,836,873	17,652,964

	Listed equity investments	Other Investments	Security deposits	Total
	\$	\$	\$	\$
Cost or valuation				
At 1 September 2018	3,657,489	850,000	11,366,012	15,873,501
Additions	1,000,000	434,407	-	1,434,407
Foreign exchange movement	-	(9,542)	(521,283)	(530,825)
Interest on security deposits	-	-	(7,856)	(7,856)
Revaluation of listed investments	883,737	-	-	883,737
At 31 August 2019	5,541,226	1,274,865	10,836,873	17,652,964
Net book value				
At 31 August 2019	5,541,226	1,274,865	10,836,873	17,652,964
At 31 August 2018	3,657,489	850,000	11,366,012	15,873,501

Notes to the financial Statements

For the year ended 31 August 2020

Other investments represent long-term bank deposits.

The details and carrying amounts of listed and listed equity investments are as follows:-

	2020	2019
	\$	\$
Listed securities	6,304,993	5,541,226
Total listed equity investments at fair value	6,304,993	5,541,226

Listed securities

The Group holds 1,922 Series B Convertible Participating Preferred Stock, par value \$0.0001 per share, in Visa Inc. ("VI"), following the acquisition of Visa Europe Limited ("VE") by VI in 2016.

During the year a gain of \$709,381 (2019: \$838,237) was recognised in other comprehensive income as a result of the change in fair value.

The Group plans to continue to hold its investment in VI.

The Group also holds a portfolio of equity investments which is managed on behalf of the Group by an investment management company. During the year a gain of \$54,386 (2019: \$45,500) was recognised in other comprehensive income as a result of the change in fair value.

Notes to the financial Statements

For the year ended 31 August 2020

14 Company Fixed Asset Investments

	Listed Investments	Investments in subsidiary companies	Other long- term financial assets	Security deposits	Total
	\$	\$	\$	\$	\$
Cost or Valuation					
At 1 September 2019	5,541,226	1,363	1,274,865	10,836,873	17,654,327
Additions	-	156,711	450,000	365,000	971,711
Disposals	-	(13,016)	-	-	(13,016)
Foreign exchange movement	-	-	23,966	823,749	847,715
Negative interest on security deposits	-	-	-	(29,838)	(29,838)
Matured	-	-	(550,000)	-	(550,000)
Revaluation of listed investments	763,767	-	-	-	763,767
At 31 August 2020	6,304,993	145,058	1,198,831	11,995,784	19,644,666
Net book value					
At 31 August 2020	6,304,993	145,058	1,198,831	11,995,784	19,644,666
At 31 August 2019	5,541,226	1,363	1,274,865	10,836,873	17,654,327

15 Deferred tax assets and liabilities

Deferred taxes arising from temporary differences and unused tax losses are summarised as follows:

Group and Company Deferred tax liabilities

Deferred tax liabilities	1 September 2019	Reclassification of opening balances	Recognised in profit or loss	Recognised in other comprehensive income	31 August 2020
	\$	\$	\$	\$	\$
Non-current liabilities /relating to:					
Accelerated capital allowances	2,439	-	251	-	2,690
Short term temporary differences	270,086	150,236	-	194,566	614,888
Capital gains	498,166	(150,236)	40,933	-	388,863
	770,691	-	41,184	194,566	1,006,441

Notes to the financial Statements

For the year ended 31 August 2020

16 Inventories

Inventories consist of the following:

	2020	2019
	\$	\$
Merchandise	295,247	359,765

In the year ended 31 August 2020, a total of \$368,985 (2019: \$57,306) of inventories was included in profit or loss as an expense. This includes an amount of \$307,510 (2019: \$ 22,107) resulting from write-down of inventories

17 Trade and other receivables

Trade and other receivables consist of the following:

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Trade receivables	9,014,739	6,046,352	9,014,739	6,046,110
Financial assets	9,014,739	6,046,352	9,014,739	6,046,110
Amounts owed by related parties	27,669,516	29,728,723	27,938,112	29,924,718
Other debtors	110,427	33,891	120,637	28,287
Deposit paid to VAT Tribunal	1,261,151	873,915	1,261,151	873,915
Prepayments	631,087	559,603	608,747	556,567
Non-financial assets	29,672,181	31,196,132	29,928,647	31,383,487
	38,686,920	37,242,484	38,943,385	37,429,597

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the Group's trade and other receivables have been reviewed for indicators of impairment and none were found to be impaired.

18 Other short-term financial assets

Other short-term financial assets consist of the following:

	2020	2019
	\$	\$
Cash deposits maturing in less than 12 months	350,000	-

Notes to the financial Statements

For the year ended 31 August 2020

19 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2020	2019
	\$	\$
Cash at bank and in hand:		
USD	9,941,965	11,420,574
GBP	1,250,471	816,174
EUR	556,100	819,448
Other currencies	57,239	5,356
Short-term deposits		
USD	13,700,000	2,350,000
EUR	119,532	109,946
	25,625,307	15,521,498

20 Share capital

The share capital of emerchantpay Limited consists only of fully paid ordinary shares with a nominal value of \$2. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of emerchantpay Limited.

	2020	2019
Shares authorised, issued and fully paid:	\$	\$
At beginning and end of year	2	2

21 Pensions and other employee obligations

The liabilities recognised for pensions and other employee remuneration consist of the following amounts:

	2020	2019
Current	\$	\$
Other short-term employee obligations	176,434	194,466

Other short-term employee obligations arise from accrued holiday entitlement at the reporting date together with accrued bonuses and amounts due in respect of social security.

Notes to the financial Statements

For the year ended 31 August 2020

22 Trade and other payables and other employee obligations

Trade and other payables consist of the following:

	Group		Company	
Current	2020	2019	2020	2019
	\$	\$	\$	\$
Trade payables	1,562,420	607,806	1,553,563	592,955
Amounts owed to related parties	449,565	191,498	578,392	359,570
Other Creditors	1,316,763	1,293,068	1,210,087	1,280,293
Accruals and deferred income	29,319,508	22,068,511	29,462,742	22,234,320
	32,648,256	24,160,883	32,804,784	24,467,138

All amounts are short-term. The carrying values of trade payables and accruals and deferred income are considered to be a reasonable approximation of fair value.

23 Financial assets and liabilities

Categories of financial assets and financial liabilities

Note 5.9 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Note	FVTPL	FVTOCI	Amortised Cost	Total
2020		\$	\$	\$	\$
Financial assets					
Security deposits	13	-	-	11,995,784	11,995,784
Other investments	13	-	6,304,993	1,198,831	7,503,824
Other long-term financial assets		-	6,304,993	13,194,615	19,499,608
Short-term financial assets		-	-	350,000	350,000
Trade receivables	17	-	-	9,014,739	9,014,739
Cash and cash equivalents	18	-	-	25,625,307	25,625,307
		-	6,304,993	48,184,661	54,489,654
				Amortised Cost	Total
2020				\$	\$
Financial liabilities					
Trade and other payables	22			32,648,256	32,648,256
				32,648,256	32,648,256

Notes to the financial Statements

For the year ended 31 August 2020

		FVTPL	FVTOCI	Amortised Cost	Total
2019		\$	\$	\$	\$
Financial assets					
Security deposits	13	-	-	10,836,873	10,836,873
Other investments	13	-	5,541,226	1,274,865	6,816,091
Other long-term financial assets					
Trade receivables	17	-	-	6,046,352	6,046,352
Cash and cash equivalents	18	-	-	15,521,498	15,521,498
		-	5,541,226	33,679,588	39,220,814
				Amortised Cost	Total
2019				\$	\$
Financial liabilities					
Trade and other payables	22			24,160,883	24,160,883
				24,160,883	24,160,883

A description of the Group's financial instruments risk, including risk management objectives and policies is given in Note 27.

The methods used to measure financial assets reported at fair value are described in Note 28.

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For the year ended 31 August 2020

24 Non-cash flow adjustments and changes in working capital

The following non-cash flow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cash flow:

Non-cash flow adjustments	2020	2019
	\$	\$
Amortisation of non-financial assets	8,144	23,674
Foreign exchange losses	(126,036)	221,629
Exchange rate movement in Security deposits and investments	(847,715)	530,825
Interest income	(218,321)	(191,189)
Interest expense	21,951	34,664
Interest received on security deposits	29,838	7,856
Revaluation of equity investment portfolio	-	(45,500)
Total adjustments	(1,132,139)	581,959
Net changes in working capital	2020	2019
	\$	\$
Decrease/(Increase) in inventories	64,518	(205,081)
(Increase) in trade and other receivables	(1,450,877)	(11,238,307)
Increase in trade and other payables	8,487,373	7,097,806
(Decrease) in other employee obligations	(18,033)	(4,029)
Total changes in working capital	7,082,981	(4,349,611)

Notes to the financial Statements

For the year ended 31 August 2020

25 Related party transactions

The Group's related parties include its fellow group subsidiaries of the ultimate parent undertaking, emerchantpay Group Limited as described below.

None of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash or by Group set off arrangements.

Name of Fellow subsidiary	Charge in respect of service received	Charge in respect of service received	Outstanding balance	Outstanding balance
	2020	2019	2020	2019
	\$	\$	\$	\$
emerchantpay Group Ltd (UK)	-	2,989,243	9,874,869	3,937,501
emerchantpay UK Services Limited	4,277,193	5,620,283	8,820,584	15,191,682
emerchantpay OOD	30,618,268	18,284,356	(240,380)	2,492,269
emerchantpay International Limited	-	-	1,340,946	1,349,153
emerchantpay Corporation Inc.	-	-	4,142,493	3,755,240
INOnline Limited	-	-	1,363,901	1,640,691
EMPPAY Inc	-	-	8,966	8,141
INOnline PVT India Limited	-	-	412,057	424,603
emerchant Asia Inc.	-	-	25,000	200,000
EzeeWallet Ltd	-	-	2,039	5,258
Bolam Services DWC LLC	-	-	(64,699)	(33,790)
emerchantpay (Hong Kong) Ltd	-	-	139,993	106,223
JLF Enterprises Ltd	-	-	674,614	82,040
Prime Pay Call Centre Services LLC	-	-	342,289	535,921
Prime Pay Isle of Man Ltd	-	-	141,737	-
Bolam Malta Holdings Ltd	-	-	325,145	-
Bolam Malta Ltd	-	-	3,827	-
emerchantpay GmbH	40,314	-	51,055	-
emerchantpay Group Limited (BVI)	-	-	(144,486)	(157,708)

In addition to the above the Group received income in respect of services supplied to emerchantpay OOD totalling \$479,887 (2019 \$ nil).

26 Controlling party

The directors consider that the immediate and ultimate parent undertaking of this group is emerchantpay Group Limited, a company incorporated in United Kingdom, by virtue of its controlling stake over it. The largest and smallest Group of which the company is a member and for which Group financial statements are drawn up is headed by emerchantpay Group Limited. Copies of the financial statements of emerchantpay Group Limited are available from 29 Howard Street, North Shields, Tyne & Wear, NE30 1AR.

The ultimate controlling party is Jonas Reynisson.

Notes to the financial Statements

For the year ended 31 August 2020

27 Financial instruments risk

27.1 Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 23. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

27.2 Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk which results from both its operating and investing activities.

27.3 Foreign currency sensitivity

Most of the Group's transactions are carried out in US Dollars. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in Euros (EUR) and Pounds Sterling (GBP). Further, the Group has bank balances held in EUR, GBP and other currencies. The Group's exposure to foreign currency risk from non-USD cash flows is carefully monitored. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows (due after 6 months). Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into USD at the closing rate:

	EUR	GBP	Other
	\$	\$	\$
At 31 August 2020			
Financial assets	3,624,258	4,308,164	130,511
Financial Liabilities	(2,058,592)	(3,772,476)	(62,066)
Total exposure	1,565,666	535,688	68,446
At 31 August 2019			
Financial assets	3,017,984	2,321,707	247,541
Financial Liabilities	(1,448,202)	(1,591,040)	(19,552)
Total exposure	1,569,782	730,667	227,989

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The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and financial liabilities and the EUR/USD exchange rate and GBP/USD exchange rate 'all other things being equal'. It assumes a 10% change of the USD/EUR exchange rate for the year ended at 31 August 2020 (2019: 5%). A 10% change is considered for the USD/GBP exchange rate (2019: 5%). Both of these percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date.

If the USD had strengthened against the EUR by 10% (2019: 5%) and GBP by 10% (2019: 5%) respectively then this would have had the following impact:

	Profit for the Year			Equity		
	EUR \$	GBP \$	Total \$	EUR \$	GBP \$	Total \$
31 August 2020	(156,567)	(53,569)	(210,136)	(156,567)	(53,569)	(210,136)
31 August 2019	(146,394)	(74,240)	(220,634)	(146,394)	(74,240)	(220,634)

If the USD had weakened against the EUR by 10% (2019: 5%) and GBP by 10% (2019: 5%) respectively then this would have had the following impact:

	Profit for the Year			Equity		
	EUR \$	GBP \$	Total \$	EUR \$	GBP \$	Total \$
31 August 2020	156,567	53,569	210,136	156,567	53,569	210,136
31 August 2019	146,394	74,240	220,634	146,394	74,240	220,634

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

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27.4 Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to credit risk from various financial assets including cash and cash equivalents held at banks. Trade and other receivables and security deposits.

Credit risk management

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 August, as summarised below:

	2020	2019
	\$	\$
Classes of financial assets – carrying amounts:		
Cash and cash equivalents	25,625,307	15,521,498
Trade receivables	9,014,739	6,046,352
Security deposits	11,995,784	10,836,873
Other investments	1,198,831	1,127,865
	47,834,661	33,532,588

The credit risk is managed on a group basis based on the Group's credit risk management policies and procedures.

The Group continuously monitors defaults of customers, merchants and other counterparties, identified either individually or by the Group, and incorporate this information into its credit risk controls. Where available, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all of the above financial assets that are not impaired or past due for each of the 31 August reporting dates under review are of good credit quality.

At 31 August the Group has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The amounts at 31 August, analysed by the length of time past due, are:

	2020	2019
	\$	\$
Not more than 3 months	52,431	115,984
More than 3 months	4,857	182,701
Total	58,288	298,685

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

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The Group has always taken the credit risk of its merchants from its partner acquiring banks. This exposes the Group to the contractual ability of merchant to deliver the goods and services as advertised and/or refund the associated payment.

To mitigate this exposure merchantpay employs a number of tools including a significant investment in fraud and risk protection tools, the adoption of rolling credit reserves and the delay in settlement to merchants.

In the accounts for the year there is \$232,657 (2019: \$324,913) for merchant credit write-off.

The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

27.5 Liquidity risk analysis

Liquidity risk is that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available cash balances to identify any potential shortfalls.

The Group's objective is to maintain cash to meet its liquidity requirements for its day to day activities and to fund on-going investment. This objective was met for the reporting periods.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables (see Note 25) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within two months.

As at 31 August 2020, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	2020 Current	
	Within 6 months	6 to 12 months
	\$	\$
Trade and other payables	32,648,256	-

This compares to the maturity of the Group's non-derivative financial liabilities in the previous reporting periods as follows

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For the year ended 31 August 2020

	2019 Current	
	Within 6 months	6 to 12 months
	\$	
Trade and other payables	24,160,883	-

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

28 Fair value measurement

Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The following table shows the levels within the hierarchy of financial assets measured at fair value on a recurring basis at 31 August 2020 and 31 August 2019. There are no financial liabilities measured at fair value.

31 August 2020	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets				
Listed Securities	6,304,993	-	-	6,304,993
Security Deposits	11,995,784	-	-	11,995,784
Other Investments	1,198,831	-	-	1,198,831
	19,499,608	-	-	19,499,608
Net Fair Value	19,499,608	-	-	19,499,608

31 August 2019	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets				
Listed Securities	5,541,226	-	-	5,541,226
Security Deposits	10,836,783	-	-	10,836,783
Other Investments	1,274,865	-	-	1,274,865
	17,652,874	-	-	17,652,874
Net Fair Value	17,652,874	-	-	17,652,874

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Measurement of fair value of financial instruments

The Group's finance team performs valuations of financial items for financial reporting purposes, including level 3 fair values, in consultation with third party valuation specialists for complex valuations where necessary. Valuation techniques are selected based on the characteristics of each instrument with the overall objective of maximising the use of market-based information and other available financial data. The finance team reports directly to the chief financial officer and to the management board. Valuation processes and fair value changes are discussed among the management board and the valuation team at least every year, in line with the group's reporting dates.

29 Capital management policies and procedures

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern
- to provide an adequate return to shareholders

The Group monitors capital on the basis of the carrying amount of equity, less cash and cash equivalents as presented on the face of the statement of financial position.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. The amounts managed as capital by the Group for the reporting periods under review are summarised as follows:

	2020	2019
	\$	\$
Total equity	51,609,135	45,526,290
Cash and cash equivalents	(25,625,307)	(15,521,498)
Capital	25,984,828	30,004,792
Total equity	51,609,135	45,526,290
Overall financing	51,609,135	45,526,290
Capital-to-overall financing ratio	0.50	0.66

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30 Contingent liability

Total contingent liabilities at 31 August 2020 amounted to \$4.95m (2019: \$3.59m) pertaining to a potential VAT liability for which the criteria for recognising a provision were not met. During the previous year and the current year the Group has paid deposits totalling \$1.26m into the VAT Tribunal to facilitate the progression of the appeal and this amount is disclosed in Trade and other receivables in the financial statements.

31 Post balance sheet events

The wider merchantpay Group are addressing the Brexit issue by completing the acquisition of an e-money permissioned entity in Lithuania which is currently awaiting approval from the Bank of Lithuania. In the meantime it has been agreed to novate the EEA card acquiring portfolio to the Lithuanian company under an outsourcing agreement which has been approved by the Bank of Lithuania. Therefore from 1st January 2021 the EEA card acquiring portfolio will be reported through Lithuania. An estimate of the financial effect cannot be made and the Directors consider that this event is a non-adjusting post balance sheet event and accordingly have made no adjustment to these financial statements.

There have been no other significant events affecting the Group since the year end

32 Authorisation of financial statements

The consolidated financial statements for the year ended 31 August 2020 (including comparatives) were approved by the board of directors on 1 February 2021.

Stephen Dickson

S R Dickson
Director