Consolidated Financial Statements

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Splitit Payments Ltd

As of June 30, 2019

Contents

Deloitte.

Report on Review of Interim Consolidated Financial Statements of

SPLITIT PAYMENTS LTD.

Introduction

We have reviewed the accompanying balance sheet of **Splitit Payments Ltd.** and its subsidiaries, (hereafter: "the Company") as of June 30, 2019 and the related consolidated statements of income, changes in shareholders' equity and consolidated statements of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRS). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information of the Company does not present fairly, in all material respects, the consolidated financial position as at June 30, 2019, and of its consolidated financial performance and its consolidated cash flows for the six-month period then ended in accordance with IFRS.

Brightman Almagor Zohar & Co.

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Tel Aviv, Israel
August 30, 2019

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SPLITIT PAYMENTS LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In U.S. dollars)

	June 30, 2019 Unaudited	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	23,702,601	309,590
Restricted cash	218,391	26,698
Trade receivables	1,548,460	1,614,369
Other current assets	881,182	1,401,791
	26,350,634	**3,352,448**
Non-current assets		
Long term deposit	12,585	3,635
Fixed assets, net	172,087	82,568
Right of use asset under lease	300,203	-
	484,875	**86,203**
Total assets	**26,835,509**	**3,438,651**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Trade payables	591,582	1,589,609
Short term loan	-	148,164
Short term convertible loans	-	12,786,669
Operating lease liability	136,728	-
Other current liabilities	801,904	2,028,737
	1,530,214	**16,553,179**
Non-current liabilities		
Operating lease liability	182,876	-
	182,876	**-**
Commitments and contingent liabilities		
Shareholders' equity (deficiency)		
Ordinary shares	839,076	163
Preferred A shares	-	221
Additional paid-in capital	43,839,798	2,598,605
Accumulated deficit	(19,556,455)	(15,713,517)
Total shareholder's equity (deficiency)	**25,122,419**	**(13,114,528)**
Total liabilities and shareholders' equity (deficiency)	**26,835,509**	**3,438,651**

The financial statements were approved by the board of directors of the company on August 28, 2019.

The accompanying notes are an integral part of the financial statements.

SPLITIT PAYMENTS LTD.

CONSOLIDATED STATEMENTS OF INCOME

(In U.S. dollars)

	For the six months ended June 30, 2019	2018
	Unaudited	
Revenues	798,257	272,310
Cost of revenue	(76,876)	(144,983)
Gross profit	**721,381**	**127,327**
Research and development expenses	(1,017,495)	(482,447)
Sales and marketing expenses	(1,839,592)	(451,238)
General and administrative expenses	(1,933,816)	(699,664)
Operating expenses	**(4,790,903)**	**(1,633,349)**
Net loss before financing expenses, net	(4,069,522)	(1,506,022)
Finance income	233,451	267,440
Loss before income taxes	(3,836,071)	(1,238,582)
Income taxes	(6,867)	(1,210)
Net Loss	**(3,842,938)**	**(1,239,792)**
Loss per share:		
Basic and diluted	**(0.016)**	**(16.8)**

The accompanying notes are an integral part of the financial statements.

SPLITIT PAYMENTS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (DEFICIENCY)

(In U.S. dollars)

	Share capital	Preferred A shares	Additional paid-in capital	Accumulated deficit	Total
Balance - January 1, 2019	163	221	2,598,605	(15,713,517)	(13,114,528)
Issuance of shares, net (see note 4)	544,051	(221)	26,579,571	-	27,123,401
Conversion of convertible loans to shares	246,296	-	12,540,373	-	12,786,669
Issue of shares from warrants	43,791	-	1,456,209	-	1,500,000
Exercise of options	4,775	-	-	-	4,775
Shared based payments	-	-	665,040	-	665,040
Net loss for the period	-	-	-	(3,842,938)	(3,842,938)
Balance June 30, 2019 (Unaudited)	**839,076**	**-**	**43,839,798**	**(19,556,455)**	**25,122,419**

	Share capital	Preferred A shares	Additional paid-in capital	Accumulated deficit	Total
Balance - January 1, 2018	157	221	2,219,684	(11,070,542)	(8,850,480)
Share based payments			257,692	-	257,692
Net loss for the period	-	-	-	(1,239,792)	(1,239,792)
Balance June 30, 2018 (Unaudited)	**157**	**221**	**2,477,376**	**(12,310,334)**	**(9,832,580)**

SPLITIT PAYMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In U.S. dollars)

	For the six months ended June 30,	
	2019	2018
	Unaudited	
Cash flows - operating activities		
Loss for the period according to the Statement of Profit and Loss	(3,842,938)	(1,239,792)
Adjustments to reconcile cash flows provided by operating activities (Appendix A)	(1,375,180)	169,216
Net cash used in operating activities	**(5,218,118)**	**(1,070,576)**
Cash flows - investing activities		
Long term deposit	(8,950)	-
Purchase of fixed assets	(100,836)	(5,343)
Net cash provided by (used in) investing activities	**(109,786)**	**(5,343)**
Cash flows - financing activities		
Restricted cash	(191,693)	25,200
Net Proceeds from issuance of shares (see note 4)	27,123,401	-
Proceeds from Issue of shares of warrants	1,500,000	-
Operating lease liability payments	(66,344)	
Proceeds from convertible loan	-	750,000
Net cash provided by financing activities	**28,365,364**	**775,200**
Increase (decrease) in cash and cash equivalents	23,037,460	(300,719)
Exchange differences on balances of cash and cash equivalents	355,551	-
Balance of cash and cash equivalents at the beginning of the period	**309,590**	**515,724**
Balance of cash and cash equivalents at the end of the period	**23,702,601**	**215,005**

SPLITIT PAYMENTS LTD.

APPENDICES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(In U.S. dollars)

APPENDIX A

Adjustments to reconcile cash flows provided by operating activities:

	For the six months ended June 30,	
	2019	2018
	Unaudited	
Income and expenses not involving cash flow:		
Share based payments	665,040	257,692
Convertible loan revaluation	-	(268,788)
Depreciation	80,624	4,356
Finance income, net	(339,113)	-
Short term loan	-	(5,515)
Changes in asset and liability items, net:		
Decrease (increase) in trade receivables	65,909	(590,358)
Decrease (increase) in other current assets	377,220	(256,610)
Increase (decrease) in trade payable	(998,027)	396,677
Increase (decrease) in other current liabilities	(1,226,833)	631,762
	(1,375,180)	**169,216**

NOTE 1 DESCRIPTION OF BUSINESS AND GENERAL

A. Description of business:

Splitit Payments Ltd. ("the Company") previously Pay It Simple Ltd. was incorporated in Israel on October 6, 2008.

The Company is developing an online web and point of sale payment and checkout solution, enabling purchasing while improving cash flow and significantly lowering credit financing costs, for any consumer or business credit card holder. The Company's solution is a payment service, introducing an intuitive, general purpose, credit card purchasing method, offering attractive credit and financing capabilities.

On January 29, 2019, the Company consummated an initial public offering (IPO) at Australia Stock Exchange, ASX Limited (ASX). For more information see note 4.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of preparation:

The unaudited condensed consolidated interim financial statements of the Company are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been condensed or omitted. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018 and accompanying notes, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Company's accounting policies.

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

B. Impact of the adoption of new accounting standards:

1. IFRS 9: Financial Instruments:

As of January 1, 2018, the Company has adopted IFRS 9, "Financial Instruments", which introduces, among other things, a new model for classification of financial assets and a new impairment model for financial assets measured at amortized cost based on an expected credit loss model, which currently applies to the Company's trade receivables.

The Company's financial instruments assets comprised of trade and other receivables that are held for collection. Before adoption of IFRS 9 these assets were classified as loans and receivables carried at amortized cost. The adoption of IFRS 9 did not change the measurement attribute of such assets as the new model of IFRS 9 requires assets that are solely payment of principal and interest and that are held for collection to be carried at amortized cost as well. As the Company holds no securities the adoption had no effect of the classification of the Company's financial instruments assets.

Other than the Convertible Loans Agreements ("CLA") all other financial liabilities are payables and upon adoption of IFRS 9 will continue to be carried at amortized cost. The CLAs will continue to be carried at fair value but expected to be converted to shares upon completion of the IPO.

The Company also considered the effect of the new impairment model. As further discussed in note 2K of the annual financial statements, the Company has very little credit risk. This is the case as the Company recognizes revenue after the collection of its upfront fees (under the Funded Model) or recognize fees on a monthly basis (under the basic model) which exposes it to a maximum of monthly fee payment per merchant. The adoption of IFRS 9 did not have material effect on the Company's financial position and operations.

2. IFRS 15: Revenue from Contracts with Customers:

As of January 1, 2018 the Company adopted IFRS 15, "Revenue from Contracts with Customers", which establishes a five step model where consideration received or expected to be received is recognized as revenue when contractual performance obligations are satisfied by transferring control of the relevant goods or services to the customer.

The adoption of IFRS 15 did not have a significant impact on the timing of the Company's revenue recognition nor on the Company's equity, as revenues are recognized upon the rendering of services to merchants, over the period contracted. Under IFRS 15 such services will be recognized over time which is similar to the recognition prior to adoption.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. IFRS 16: "Leases":

As of January 1, 2019, the Company adopted IFRS 16 – "Leases, the new accounting standard for leases". The new standard replace IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

The new standard requires lessees to apply a single, on-balance sheet accounting model to all its leases, unless a lessee elects the recognition exemptions for short-term leases and/or leases of low-value assets. A lessee must recognize a right-of-use asset representing its right to use the underlying asset and a lease obligation representing its obligation to make lease payments.

The lease liability will be calculated based on the minimum future lease payments under the lease contract, discounted at the incremental borrowing rate, which is calculated per class of leased assets and per country in which the relevant asset is operating. Additionally, the incremental borrowing rate will be the rate at which the interest charges relating to the lease liability are calculated.

The Company applied the standard based on the modified retrospective transition approach. The implementation of IFRS 16 did not have a material impact on the Company's financial positions and operations.

Set forth below are the principal expected effects as of the date of first-time application, as estimated by Group's management:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(a) Principal effects on the Company's statement of financial position as of January 1, 2019:

The leased asset	Right of use asset	Lease liability
	USD in thousands	
Leased premises	369	369

The discount rates used in the aforementioned calculations are based on the lessee's incremental borrowing rate which varies according to the lease's amount and average duration and the nature of the leased asset. The discount rate range between 3.5% to 4.5%.

(b) Principal effects on the Company's statement of profit or loss as of January 1, 2019:

The leased asset	Decrease in lease expenses pursuant to IAS 17	Increase in depreciation expenses pursuant to IFRS 16	Total decrease in income from operating activities	Increase in finance expenses pursuant to IFRS 16	Decrease in tax expenses pursuant to IFRS 16	Total decrease in income for the year
			USD in thousands			
Leased premises	134	138	(4)	12	-	16

(In U.S. dollars)

NOTE 3 FAIR VALUE

Fair value hierarchy:

The table below presents an analysis of the financial instruments measured at fair value, using a valuation method:

The different levels were defined as follows:

(1) Level 1: Quoted prices (unadjusted) in an active market for identical instruments.
(2) Level 2: Data observed directly or indirectly that are not included in Level 1 above.
(3) Level 3: Data not based on observable market data.

	For the six months ended June 30,	For the year ended December 31,
	2019	2018
	Level 3	
Balance as of December 31, 2018	**12,786,669**	**8,478,388**
Amounts received during the year	-	3,250,196
Changes in fair value	-	1,058,085
Conversion of convertible loans to shares	(12,786,669)	-
Balance as of June 30, 2019	**-**	**12,786,669**

Consistent with the annual financial statements, the fair value of the loans included in the level 3 categories above has been determined using Monte Carlo simulation model. The inputs to the model include expected volatility, expected dividends, expected term and the risk free rate of interest. Monte Carlo simulations and the parameters were used to determine the ordinary share price to which it is expected to be converted.

NOTE 4 EVENTS DURING THE REPORTING PERIOD

A. On January 29, 2019, the Company consummated an initial public offering (IPO) on the Australian Securities Exchange, ASX Limited (ASX), by the issuance of 60,000,000 shares at an issuance price of AUD$0.20 per share raising a total amount of approximately USD$8.6 million (AUD$12 million). The related issuance expenses amount to a total of USD$1.3 million.

B. In May 2019, the Company raised a total amount of approximately USD$20.7 million (AUD$30.3 million) by the issuance of 37,500,000 shares at an issue price of AUD$0.80 per share, and a share purchase plan under which 377,500 new shares were issued at the same price. The related issuance expenses amount to a total of USD$1.1 million.