



Interim Report

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

Financial Year
2022



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Highlights

 **60**

Net Promoter Score

 **11:1**

LTV : CAC Ratio

* excludes customers acquired through SmoothPay acquisition

 **\$330K**

PayNow - Earned Wages Accessed

 **49% YOY**

Annualised Recurring Revenue (ARR)
\$3.23M

 **69% YOY**

Total Customer LTV*

* excludes customers acquired through SmoothPay acquisition

\$16.3M



Acquisition

- American Samoa
- Australia
- Cook Islands
- Fiji
- Kiribati
- Nauru
- New Zealand
- Niue
- Papua New Guinea
- Samoa
- Solomon Islands
- Timor-Leste
- Tonga
- Vanuatu



Chair's Letter

Dear fellow shareholders,

I'm pleased to present to you our Interim Report for FY2022. I appreciate this is an interim report from an interim chair but as you will see, there's nothing interim about how the PaySauce team (whom we call The PayForce) are applying themselves to the opportunities in front of us. The company has continued to double down on strengthening our team, developing our platform, and working hard towards cash-flow positivity over the last six months.

In June we made our first acquisition - of the business and assets of SmoothPay - a well-established New Zealand payroll provider headquartered in Palmerston North. As a result, we added more than 1,300 customers from New Zealand, Australia and several Pacific Island nations. This aligns with our longer term intentions around international expansion despite the challenges of COVID-19.

On behalf of shareholders, the board's focus is to support the team in their efforts to reach cash-flow positivity as soon as possible and I'm pleased to see the business continue to be prudent users of shareholder funds, growing revenues more quickly than costs.

In October we farewelled Nick Lewis, who began with PaySauce as an independent director, then continued as our chair for the last two years. Nick provided strong leadership and enthusiastic support to the team during his tenure; overseeing the acquisition and helping crystallise our product/market fit and chosen markets. We were sad to lose him. I'm actively leading the search for a new chair at present and hope to update shareholders on this search early in the New Year.

In the 10 years I have been involved with SaaS companies, the one theme I have found common to all successful ones is to love your customers but more importantly to love the problems that they face. I have found this to be strongly evident at PaySauce where the team is totally focused on the pain and obstacles their clients face in ensuring that their people are paid in a timely, transparent and flexible manner.

Recent product innovations we've rolled out to our community of users focus on the pain of inflexibility. These include earned wage access, rostering and variable rate quantity factors. There are many more still to come as we evolve from largely being a payroll provider, to delivering a full suite of employment solutions on the PaySauce platform.

My thanks to Asantha and the PayForce for their passion for making people's lives easier which manifests in a great product, a vibrant team and a strong fan following. Thanks also to my fellow directors for their diligence and advice, and to our customers for keeping us honest as we continue to grow. Finally, let me give our thanks to you, our shareholders, for helping us to drive PaySauce into the future.

Sincerely,

Mike O'Donnell
Interim Chair



CEO's Letter

To our shareholders, customers, partners and supporters, there are so many highlights to share with you but in such a short space!

Our acquisition of SmoothPay this year accelerated our growth through the addition of new customers. For me, though, the additional advantage of having one of the country's top payroll developers in our business is just as noteworthy. We've added smarts that only come with years of experience into our development team and we're already seeing the benefits. This further assists in our mission to take out the friction that exists in how employers and employees interact with each other while being compliant with legislation.

Acquisition notwithstanding, our evolution from start-up to scale-up continues at pace. Our customer diversity reflects a broader pool of partners and more holistic marketing investments. We're implementing internal systems to streamline marketing, sales and support that will enable our team to expedite the sales process and increase conversions. We've added team members with experience in scaling businesses, and invested in our current crew to ensure they're equipped with the mindset for growth.

I'd like to acknowledge Nick Lewis's leadership as our Chair until last month; he's been with the PaySauce family for a long time originally as an early investor who then joined the board before finally becoming our chair. His insights on our scale up strategies were invaluable, and his energy at the Board table infectious. I will miss him.

I continue to be in awe of the positive effect of our PayNow feature for employees, even before we accelerate promotion of this across the country next year. By the end of September, working kiwis had

already accessed over \$330,000 of their earned wages before payday, with no fees and no interest. That has since increased to over \$770,000. We offer this service for free because we believe we can contribute to solving the problem of predatory payday lenders in our community. Our estimates indicate that payday lenders would have charged a minimum of \$600,000 in fees, penalties and interest for that same service. We are proud to lead the Earned Wage Access movement in New Zealand. Delivering PayNow without interest or charges is only possible due to the marvellous support of BNZ and their mission to disrupt predatory lending in NZ..

This year continues to test everyone. Families are struggling with lockdowns and anxiety about the ongoing effects of the pandemic. Businesses are grappling with the uncertainties around vaccine mandates, and the supply chain pressures caused by ongoing border controls and Auckland's lockdown. We feel for all those families who are impacted. Around the world, along with dealing with the pandemic, violence in Afghanistan shocked us all and the global sea levels rose to new highs.

All of these events are raising important questions about the role of business in society. What can we do to make a difference? How do we in business demonstrate responsible leadership? How can companies like ours deliver on our commitments to provide value to all stakeholders? How do we support and empower our people - in all our communities - so that they thrive?

These are the questions that would keep me up at night if I wasn't surrounded by a team of people that continue to show tremendous resilience, responsibility and resolve to support one another, our customers and our communities, and in doing so, have served our shareholders well. I'm incredibly proud of them.

With gratitude,

Asantha Wijeyeratne
CEO and Co-Founder

Board



Michael "MOD" O'Donnell

INDEPENDENT NON-EXECUTIVE DIRECTOR, INTERIM CHAIR

Mike "MOD" O'Donnell is a professional director, writer and advisor with a background in fintech, ecommerce, tourism and news media.

MOD is chair of New Zealand's largest craft brewery Garage Project and deputy chair of global online music company Serato. He's also a director of KiwiWealth, Radio New Zealand, Tourism New Zealand, G2G Knowhow, www.realestate.co.nz and The New Zealand Hi-Tech Trust.

MOD is an independent weekly business columnist for Stuff Media and the host of TVNZ series "Start Me Up". He was previously Chief Operating Officer of Trade Me, Chief Operating Officer of vWork and head of wholesale investment at Gareth Morgan Investments.



Asantha Wijeyeratne

CEO AND CO-FOUNDER

Asantha Wijeyeratne has over 20 years' experience of unparalleled focus on helping small businesses navigate the difficult landscape of effective payroll. His formal background in accounting combined with his 'people first' attitude, has seen him successfully build a number of businesses into market leadership positions.

Most notably Asantha was the driving force behind the creation and growth of SmartPayroll/ SmartBooks which he grew to service close to 10,000 SME's in NZ before his exit in December 2013.

Asantha's obsession is the small business sector with a tech/customer service focus. He loves seeing someone turn an idea with determination and passion into a business that supports them, their families and the wider community and gets a lot of enjoyment from making tech work to help business owners rather than hinder them.

In recognition of his contribution to business and the community, he was awarded a Queens Service Medal (QSM) in the New Year's honours list in 2013 and is a finalist in Ernst & Young's 2021 Entrepreneur of the Year.



Jacqueline Cheyne

INDEPENDENT NON-EXECUTIVE DIRECTOR, AUDIT & RISK COMMITTEE CHAIR

Jackie is a professional director with a focus on finance, risk and sustainability. She is currently on the boards of Stride Property Group and NZ Green Investment Finance and is Chair of Snow Sports NZ. Jackie is on the board of the XRB and is chairing the steering group leading the project for the development of climate risk disclosure standards in New Zealand. Jackie is also a member of the FMA's audit oversight committee and MBIE's Risk and Assurance committee.

Jackie was previously an assurance partner at Deloitte for over 12 years and led Deloitte NZ's sustainability service line. Jackie is a Chartered Member of the Institute of Directors and a Fellow of the Institute of Chartered Accountants.



Gavin Thompson

DIRECTOR (NON-INDEPENDENT)

Gavin is a founder and a director of Catalyst IT, New Zealand's largest open-source IT service provider. His background is in software development and delivery, and he has over 30 years' experience in software systems in the manufacturing, engineering, financial, and government sectors. Gavin is also a director on the board of Catalyst Cloud, a company which grew from an infrastructure platform for the Catalyst business, into a provider of cloud services for Aotearoa.

Gavin is passionate about open source and open standards software and systems which allow a collaborative and effective approach to delivering secure, resilient and innovative solutions.



The Year So Far

PaySauce has five core values that support the vision, shape the culture and reflect what matters to the business, our customers and shareholders. The PayForce makes decisions that are a reflection of those values, always directed towards a specific purpose. We're looking at the year so far through the lens of those core values:

Do good and be honest

“We lend a hand and we give a dang.”

PayNow is a unique feature in the PaySauce mobile app that lets employees access the money they've already earned, effectively letting them choose their own payday on demand. Already more than \$770,000 of earned wages have been accessed by employees - without penalties. PayNow without interest or charges is only possible due to the marvelous support of BNZ Community Finance, part of their mission to disrupt predatory lending in New Zealand. We're proud of the pilot so far and are looking forward to a full promotion kicking off before we start our new financial year.

PaySauce provides free payroll to charities all across the country - we now support more than 90 charities, sporting organisations and NFPs to do good in the special ways they do it. There's now over 30 charities represented in our Payroll Giving app too - who receive almost \$7,000 each month from the lovely employees using PaySauce.

Giving a dang extends internally too; this year we've renewed our licence as a living wage employer and implemented systems to ensure our remote and locked-down teams are engaged and supported.

Respect and Include

“We make technology but our biggest focus is on people”

He Tangata, He Tangata, He Tangata. This year, like last year, we're doing everything we can to support our

people - our staff, partners, suppliers and shareholders - as COVID continues to create anxiety. We're particularly acknowledging and sending aroha to those in Auckland - which includes several of our staff - who've done it tougher than most.

Our newly created product management role ensures we put the customer first in our development processes. Investment into efficient internal systems is taking the pressure off our remote teams and our hardworking phone support staff, who're often handling 400+ calls a day.

Knowing the pressure our customers are under inspires us to find ways to make their lives easier - and taking the burden of compliance off their shoulders is a no-brainer. We were proud to hear recently that several of our customers passed an audit by the labour inspector (a hugely stressful experience for any employer), proving we've got their backs with our compliance tools.

Fun and Fresh

“We're serious about what we do - but we don't take ourselves too seriously.”

From the largest group of nominations in its history, PaySauce was honoured to be a finalist in this year's Wellington Gold Awards (again!) and we took our hard working team for a night to celebrate with friends and colleagues. If we had to come second to anyone, we were proud that it was long standing strategic partners, Farm Focus.

The team got out and about in between lockdowns at several events including the iconic Fieldays, where we caught up with customers and gave attendees the scoop on Xero for Farming, our alliance with Xero and Figured. It was an extra special year for us - when we attended back in 2018 we were a teeny new player that no one had heard of. This year we had a whole crew on site, and got to shine in the main pavilion with our big brand peers alongside. We were super proud, and it's all thanks to the support of our customers, partners and investors.



Simple and Smart

“We work really hard to make tricky stuff easy, and we proactively solve real problems.”

Hot off the press is our latest NPS - a healthy score of 60 with 73.94% of those surveyed being promoters. The feedback highlighted the calibre and accessibility of our support team and a real sense of being in safe hands.

“ So easy, no hassle for me and I know it's all legal and done right. ”

We know our biggest competitor remains spreadsheets and paper-based wage books - 'the way we've always done it' - but see more people realising how hard it is to be compliant these days, and that PaySauce is the simple, smart alternative.

Problem solving is at the heart of making tricky stuff easy. Helping staff get access to the wages they've already earned led to the creation of PayNow. Ensuring staff know what shifts they are working led to building the rostering tool into staff's PaySauce mobile app. We're always on the lookout to remove employment friction between employers and their people through leveraging other technical expertise. This helps us have answers for the tricky issues for rural sub-sectors like horticulture and viticulture, which we can now pursue directly and through partnerships.

Resourceful and Results Oriented

“We're motivated by success and we're always working to create the returns to fuel a healthy, sustainable business.”

We remain focused custodians of our shareholders' funds, having improved earnings before tax,

depreciation and amortisation by \$88k YoY. Three key factors contributed to the 53% improvement in processing fees:

- The structural change to pricing to have three monthly subscriptions;
- Accelerated growth of organic customers - 26% increase in customers in the period (FY21 H1: 24%); and
- The acquisition of SmoothPay.

The increased processing fees compensated for the reduced interest income earned (down 26% YoY) in the low interest rate environment. This allowed the Average Revenue per User to remain at \$59 in line with FY21 H1.

The resulting increase in ARR to \$3.2m is a key milestone for us - and the positive trend towards our Premium and Standard plans, along with an increase in average employee numbers indicates our efforts to diversify out from a dairy payroll provider to a fintech for small and medium businesses are working.

Recurring revenue increased 45% year on year, and we continued to invest some of those increased revenues back into the business. Overall expenses increased just 19% with incremental spend weighted heavily towards serving our existing customers (Cost to Serve: up 47% YoY), acquiring new customers (Customer Acquisition: Up 36% YoY) and improving our product (Research and Development: up 35% YoY). Conversely, general and administration costs were curtailed to increase just 2% YoY. We're always looking for ways to do more with less, though; despite adding a little headcount in this period we've increased our revenue per employee by 30%.

All these investments have been made with attention to careful and prudent cash management. This was also key for the acquisition of SmoothPay Limited where the consideration was entirely in PYS shares, equating to a 1% ownership in PaySauce.



Looking Forward

We've executed a price change for our Starter Plan - a plan no longer available to new customers. The increased price better reflects the value these customers receive when compared to our current pricing plans. In addition, the customers we acquired via SmoothPay are gradually being transitioned onto pricing plans that align with our Simple product, beginning in December.

We're working now to commercialise the SmoothPay opportunity by streamlining pricing and packages

across the two product lines - goPayroll and PaySauce. From 1 December, SmoothPay customers will pay the same as PaySauce Simple customers, demonstrating an upgrade path to PaySauce Standard and Premium and ultimately additional fintech solutions for those customers.

We're watching the wires for any legislative changes on the drawing board which, if made legal, could deliver an uplift as a result of features we already have in market.

SaaS Reporting

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

Non-Generally Accepted Accounting Principles (Non-GAAP) measures have been included and should not

be viewed in isolation, nor considered as substitutes for measures reported in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

	Sep 2021 \$000's	Sep 2020 \$000's
Processing Fees	1,339	876
Interest Income	69	94
Recurring Revenue	1,408	970
Cost to Serve	(520)	(354)
Gross Margin	888	616
Gross Margin %	63%	63%
Other Interest Income	4	23
Other Revenue	33	17
Total Other Revenue	37	40
Customer Acquisition	(375)	(277)
Research & Development	(255)	(189)
General & Administration	(1,023)	(1,003)
Interest Expense	(15)	(18)
Earnings Before Tax, Depreciation and Amortisation	(743)	(831)
Earnings Before Tax, Depreciation and Amortisation Margin %	(53%)	(86%)
Depreciation & Amortisation	(203)	(115)
Income Tax	7	-
Net Loss for the period	(939)	(946)

Revenue Metrics

	Sep 2021	Sep 2020	YOY Change
Recurring revenue for the period - Total (\$000's)	1,408	969	45%
ARR at end of period (\$000's)	3,228	2,169	49%
FTE's	31	28	11%
Revenue per FTE (\$000's)	47	36	29%



Customer Metrics*

	Sep 2021	Sep 2020	YOY Change
Active PaySauce customers at end of period	4,244	3,085	38%
Churn % (monthly average) for the period	0.96%	1.19%	(19%)
ARPU (monthly) at end of period (\$)	59	59	0%
CAC (per addition) for the period (\$)	346	354	(2%)
LTV per customer at end of period (\$)	3,834	3,130	22%
Total customer LTV at end of period (\$000's)	16,272	9,656	69%
LTV:CAC Ratio at end of period	11.1	8.8	25%

* these exclude metrics from the acquired SmoothPay business.

The above categories are explained below:

Processing Fees

This category represents the revenue generated from customers who pay a monthly or annual subscription to use our software as a service. There are no significant estimates and revenue is recognised when the software service is supplied.

Interest Income

This category represents the interest earned from funds held on behalf of our payroll customers which are held on deposit. As customers pay their PAYE through to us each pay run, we hold these funds and generate interest on the balance before the payment is due to Inland Revenue. As interest earned on these funds grows directly in relation to our customers, we consider this an additional stream of recurring revenue.

Cost to Serve

The category includes those costs which are related to serving our customers through the use of our software products, and the availability of our customer support team. Costs included are those such as cloud hosting expenses, maintenance of our software products, bank fees charged per customer transaction, and customer support.

Other Revenue

This category includes revenue that is not recurring revenue and includes grants received and other services revenue.

Other Interest Income

This category includes non-recurring interest earned on deposits and investments other than payroll customer funds.

Customer Acquisition

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

Research & Development

This category includes those costs which are related to researching and developing new solutions and solving problems for our existing and future customers. Costs included are predominantly software development salaries.

It should be noted that measuring these costs between years is not an accurate reflection of the actual spending on research and development for PaySauce due to the timing of these costs being capitalised. The reader should also consider the amount of intangible assets recognised during the financial year as detailed in the full financial statements.

General & Administration

This category captures all of the other elements of running the business. Costs included are those such as management remuneration, director fees, office running costs, finance and administration, legal and consulting expenses, and other overhead costs.

Earnings Before Tax, Depreciation and Amortisation

This is calculated by adding back depreciation, amortisation and income tax expense to the amounts reported in the NZ IFRS-based financial statements. PaySauce believes that this measure provides useful insights to measure the performance of PaySauce as a SaaS business.

Earnings Before Tax, Depreciation and Amortisation Margin %

Earnings Before Tax, Depreciation and Amortisation Margin % calculates Earnings Before Tax, Depreciation and Amortisation as a percentage of Recurring Revenue.

SaaS Metrics & Definitions

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

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

Recurring Revenue

Recurring revenue is revenue that is expected to repeat each period into the future.

For PaySauce, this is directly linked to the number of customers and the pays that they run using the PaySauce payroll products. There are currently two sources of recurring revenue - processing fees and interest income.

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

MRR

Monthly recurring revenue is the total recurring revenue for the last calendar month of the reporting period.

ARR

Annual recurring revenue is the monthly recurring revenue (MRR), multiplied by 12.

Gross Margin

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

Churn (monthly)

Churn is expressed as a percentage and is calculated as the number of customers who did not run a pay in the month, but ran at least one pay in the previous month, divided by the total number of customers at the end of the previous month.

ARPU

Average revenue per user (monthly) is the total recurring revenue for the month, divided by the total customers processing payroll that month.

CAC (per addition)

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

LTV

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

Total Customer LTV

Total customer lifetime value is the lifetime value multiplied by the total customers.

LTV : CAC Ratio

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

Revenue per FTE

This metric measures the total revenue generated over the period, divided by the number of full-time equivalent (FTE) employees at PaySauce at the end of the period.



Financials

Interim Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 September 2021

	Notes	Sep 2021 Unaudited \$000's	Sep 2020 Unaudited \$000's
Revenue			
Processing fees		1,339	876
Interest		73	116
Other operating revenue		33	17
Operating revenue	9	1,445	1,009
Expenses			
Depreciation and amortisation	5, 6	(203)	(115)
Employee expenses	10	(1,435)	(1,276)
Other expenses	12	(739)	(546)
Finance costs	13	(14)	(18)
Total expenses		(2,391)	(1,955)
Net loss before income tax		(946)	(946)
Tax benefit		7	-
Net loss for the period		(939)	(946)
Other comprehensive income		-	-
Total comprehensive loss for the period		(939)	(946)
Loss per share			
		Cents	Cents
Basic loss per share	8	(0.71)	(0.70)
Diluted loss per share	8	(0.71)	(0.70)

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

Interim Condensed Consolidated Statement of

Financial Position

as at 30 September 2021

	Notes	Sep 2021 Unaudited \$000's	Mar 2021 Audited \$000's
Assets			
Current assets			
Cash and cash equivalents		21,918	21,756
Deposits		1,675	-
Trade receivables		59	19
Other current assets		75	75
Prepayments and other short-term assets		142	90
Total current assets		23,869	21,940
Non-current assets			
Property, plant and equipment	5	367	401
Intangible assets	6	1,491	905
Total non-current assets		1,858	1,306
Total assets		25,727	23,246
Liabilities			
Current liabilities			
Trade and other payables		381	299
Funds due to customers and IRD		22,758	19,965
Employee benefits		248	201
Other liabilities		199	24
Lease liabilities		44	43
Total current liabilities		23,630	20,532

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

	Notes	Sep 2021 Unaudited \$000's	Mar 2021 Audited \$000's
Non-current liabilities			
Lease liabilities		256	282
Total non-current liabilities		256	282
Total liabilities		23,886	20,814
Net assets		1,841	2,432
Equity			
Share capital	7	13,000	12,652
Accumulated losses		(11,159)	(10,220)
Equity attributable to the owners of the Company		1,841	2,432

For and on behalf of the Board of Directors, who authorised the issue of these Consolidated Financial Statements on 23 November 2021:



Michael O'Donnell

23 November 2021

Interim Chair



Jacqueline Cheyne

23 November 2021

Chair of Audit & Risk Committee

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

Interim Condensed Consolidated Statement of Movements in Equity

for the six months ended 30 September 2021

	Notes	Attributable to equity holders of the Company		
		Share Capital \$000's	Accumulated losses \$000's	Total \$000's
Unaudited				
Balance as at 1 April 2021		12,652	(10,220)	2,432
Comprehensive loss				
Net loss for the period		-	(939)	(939)
Other comprehensive income		-	-	-
Total comprehensive loss		-	(939)	(939)
Transactions with owners				
Issue of ordinary shares as consideration for business combination	7	348	-	348
Total transactions with owners		348	-	348
Balance as at 30 September 2021		13,000	(11,159)	1,841
Unaudited				
Balance as at 1 April 2020		10,774	(8,532)	2,242
Comprehensive loss				
Net loss for the period		-	(946)	(946)
Other comprehensive income		-	-	-
Total comprehensive loss		-	(946)	(946)
Transactions with owners				
Issue of ordinary shares	7	1,704	-	1,704
Total transactions with owners		1,704	-	1,704
Balance as at 30 September 2020		12,478	(9,478)	3,000

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

Interim Condensed Consolidated Statement of Cash Flows

for the six months ended 30 September 2021

	Notes	Sep 2021 Unaudited \$000's	Sep 2020 Unaudited \$000's
Cash flows from / (used in) operating activities			
Receipts from customers		1,237	1,052
Interest received		64	92
Payments to suppliers and employees		(1,995)	(1,766)
Taxes paid		-	(8)
Interest paid on lease liability		(14)	(16)
Interest paid		-	(2)
Net cash used in operating activities before increase in funds due to customers and IRD	18	(708)	(648)
Increase in funds due to customers and IRD	18	2,793	3,508
Net cash from operating activities	16	2,085	2,860
Cash flows used in investing activities			
Purchases of property, plant and equipment		(23)	(21)
Funds on deposit		(1,675)	(2,450)
Intangible assets		(177)	(190)
Other investing activities		(27)	-
Net cash used in investing activities		(1,902)	(2,661)
Cash flows from / (used in) financing activities			
Net proceeds from issue of shares and convertible notes		-	1,704
Repayments of principal portion of lease liability		(20)	(19)
Repayments of other borrowings		-	(15)
Net cash from / (used in) financing activities		(20)	1,670
Net increase in cash and cash equivalents		162	1,869
Cash and cash equivalents at beginning of the period		21,756	13,589
Cash and cash equivalents at end of the period		21,918	15,458

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 September 2021

1. General information

PaySauce Limited (the “Company” or “PaySauce”), is a for-profit limited liability company, domiciled and incorporated in New Zealand and registered under the Companies Act 1993. The company is an FMC Reporting Entity for the purpose of the Financial Markets Conduct Act 1993. PaySauce is listed on the New Zealand Stock Exchange (“NZX”) that trades under the ticker PYS.

The Group provides Software as a Service (SaaS) delivering employment and payment solutions to small and medium-sized businesses. As well as the core payroll solution (with fully automated banking, accounting and pay-day filing) the Group provides digital employment contracts, rosters, timesheets and earned wage access for employees - accessible via smartphone.

The interim condensed consolidated financial statements for the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2021 were authorised in accordance with a resolution of the directors for issue on 23 November 2021 and are unaudited.

2. Basis of preparation

These unaudited interim condensed consolidated financial statements for the Group for the six months ended 30 September 2021 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”) and comply with

the requirements of the New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting (“NZ IAS 34”), on the assumption that the Group is a going concern, and should be read in conjunction with the audited consolidated financial statements for the Group as at and for the year ended 31 March 2021.

The unaudited interim condensed consolidated financial statements have been prepared using the same significant accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in the audited consolidated financial statements for the Group for the year ended 31 March 2021, other than as disclosed in the sections below.

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

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

3. Additional accounting policies

NZ IFRS 15 - SmoothPay Annual Subscription Revenue

Processing Fees - SmoothPay Subscriptions

Revenue from SmoothPay Subscriptions is recognised at a point in time when the performance obligation has been satisfied and is based on the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for providing the service to the customer. There is no significant financing component to the contracts, and payment is due at the point the performance obligation has been met. The performance obligation for SmoothPay Subscriptions is considered to be met when the customer is provided access to use the goPayroll product each month.

4. Use of critical accounting estimates and judgements

The preparation of the interim condensed consolidated financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these judgements, estimates and assumptions.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Significant judgements, estimates, and assumptions made by management in the preparation of these financial statements are outlined below, or within the financial statement notes to which they relate.

COVID-19

Management considers that COVID-19 did not have a significant negative impact on the business operations, financial performance, nor the financial position of the Group for the six months ended 30 September 2021. Management has made this judgement by looking at a range of indicators - and has not seen any material negative impacts on the following key indicators:

- Customer churn
- Customer size
- Registrations and sign-ups for new customers
- Aged receivables
- Losses of major partnerships.

Management continues to assess any impact on the business operations, financial performance, and financial position of the Group. At this stage, management does not consider there to be any significant risk to the Group. The factors which management considered in forming this judgement are as follows:

- PaySauce’s business operations are always ready to operate with minimal interruption upon enactment of our Business Continuity Plan (BCP);

- The PaySauce product is cloud-based, which enables customers to continue to use the service uninterrupted when they enact their BCP;
- PaySauce’s customer base predominantly consists of businesses from New Zealand’s agricultural primary industry, one of the least impacted sectors in New Zealand;
- PaySauce has not seen customers request deferred payment options, partly due to the nature of our billing (at a point in time as the service is provided, automatically deducted), and that the cost is relatively small on a monthly per customer basis compared to other business expenses;
- Payroll is the core of our service provision, and is an essential service for New Zealand businesses.

Going concern

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

The Group made a net loss before tax of \$939,222 for the six months ended 30 September 2021 (2020: \$945,975), had equity at 30 September 2021 of \$1,841,470 (31 March 2021: \$2,432,664) and net current assets/(liabilities) of \$239,935 (31 March 2021: \$1,410,727). The Group does not currently generate sufficient revenues to meet operating costs and the Group does not operate a facility of debt to draw upon.

The Directors consider after making due enquiry and having regard to the circumstances which they consider reasonably likely to affect the Group for the foreseeable future, which is not less than 12 months from the date these financial statements are approved for issue, that the going concern assumption is valid.

The Group’s ability to meet forecasted financial performance will depend on the rate of growth in revenue from customers, primarily through customer acquisitions.

The uncertainty of meeting forecasted financial growth creates a material uncertainty that may cast doubt on PaySauce’s ability to continue as a going concern and

therefore PaySauce may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the uncertainty in meeting forecast growth the Directors are confident that PaySauce remains a going concern.

5. Property, plant and equipment

<i>Unaudited</i>	Right-of-use Asset (Property) \$000's	Office Equipment \$000's	Leasehold Improvements \$000's	Computer Equipment \$000's	Total \$000's
Year ended 30 September 2021					
Opening net book value	303	34	7	57	401
Acquisitions	-	-	-	2	2
Additions	-	5	2	16	23
Disposals	(5)	-	-	-	(5)
Depreciation	(23)	(7)	(1)	(21)	(54)
Closing net book value	273	32	8	54	367
As at 30 September 2021					
Cost	391	75	11	147	624
Accumulated depreciation	(118)	(43)	(3)	(93)	(257)
Net book value	273	32	8	54	367

6. Intangible assets

<i>Unaudited</i>	Development in progress \$000's	Computer Software \$000's	Customer Relationships \$000's	Total \$000's
Year ended 30 September 2021				
Opening net book value	213	692	-	905
Acquisitions	-	205	354	559
Development costs recognised as an asset	100	77	-	177
Development in progress recognised as Software	-	-	-	-
Amortisation	-	(126)	(24)	(150)
Closing net book value	313	848	330	1,491
As at 30 September 2021				
Cost	313	1,459	354	2,126
Accumulated amortisation	-	(611)	(24)	(635)
Net book value	313	848	330	1,491

Key judgements and estimates

Management assessed that there were no indicators of impairment.

Capitalisation of intangible assets

Management considers the time and associated salary cost of development staff to fall under the classification of development expenditure for assessment purposes in accordance with the principles outlined in the intangible assets accounting policy in note 2(h) in the audited consolidated financial statements for the Group for the year ended 31 March 2021. No weighting of overheads is applied in these calculations.

New assets acquired during the period were assessed by management as having useful lives as follows:

- Acquired customer relationships - 5 years.
- Acquired software - 5 years.

Accounting for finite life intangible assets

At each reporting date, the useful lives and residual values of finite life intangible assets are reviewed for indicators of impairment. As at 30 September 2021, the assets were assessed for impairment, taking into account the condition of the assets, expected period of use of the assets by the Group, and expected disposal proceeds from any future sale of the assets.

Development in progress has been tested for impairment by reviewing the nature of the events that originally gave rise to the recognition of the asset, the estimation of future generation of cash flows and any anticipated changes to the business or product circumstances. Management concluded that there was no impairment of this asset as at 30 September 2021.

7. Share capital

Date	Details	Notes	Number of Shares	\$000's
Unaudited				
1 April 2020	Opening Balance		131,341,121	10,774
	Rights issue	i	3,430,245	1,153
	Rights issue	ii	1,647,237	550
30 September 2020	Closing Balance		136,418,603	12,478

Unaudited				
1 April 2021	Opening Balance		137,026,278	12,652
	Issue of ordinary shares - SmoothPay acquisition	iii	1,416,164	348
30 September 2021	Closing Balance		138,442,442	13,000

- i. On 30 April 2020: PaySauce completed the second allotment of shares under its rights issue shortfall. The allotment on 30 April 2020 resulted in 3,430,245 shares being issued at a price of \$0.34 per share, a net raise of \$1.153 million after directly attributable costs.
- ii. On 15 May 2020: PaySauce completed the final allotment of shares under its rights issue shortfall. The allotment on 15 May 2020 resulted in 1,647,237 shares being issued at a price of \$0.34 per share, a net raise of \$0.550 million after directly attributable costs. This completed the fully subscribed rights issue.
- iii. On 31 May 2021: PaySauce acquired the business and assets of SmoothPay Limited. PaySauce issued 1,416,164 ordinary shares as consideration for the purchase, issued at a price of \$0.2648 per share, totalling a purchase price of \$0.375 million. Directly attributable costs totalled \$0.027 million, bringing the net share issue to \$0.348 million.

All ordinary shares have no par value. They have equal voting rights and share equally in dividends and surplus on liquidation.

Dividends

No dividends were declared or paid during the reporting period (Sept 2020: None).

Capital Risk Management

The Group considers its capital to comprise its ordinary share capital, accumulated retained earnings.

When managing capital, management's objective is to achieve optimal long term capital returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

8. Earnings / (loss) per share

	Sep 2021 Unaudited	Sep 2020 Unaudited
Basic earnings per share		
Net loss used in calculating earnings per share (\$000's)	(939)	(946)
Weighted average number of ordinary shares for basic earnings per share	137,970,387	135,451,209
Basic loss per share (cents)	(0.71)	(0.70)

There are no financial instruments on issue that will dilute the basic earnings per share amounts for the six months ended 30 September 2021.

Basic earnings per share is calculated by dividing the profit / (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the period.

9. Operating revenue

	Sep 2021 Unaudited \$000's	Sep 2020 Unaudited \$000's
Revenue from contracts with customers	1,372	876
Revenue from other sources	73	133
Total operating revenue	1,445	1,009

10. Employee expenses

	Sep 2021 Unaudited \$000's	Sep 2020 Unaudited \$000's
Salaries	1,409	1,248
Staff medical insurance	9	7
Fringe benefit tax	17	21
Total employee expenses	1,435	1,276

11. Research & Development expenditure

	Sep 2021	Sep 2020
	<i>Unaudited</i>	<i>Unaudited</i>
	\$000's	\$000's
Research & development costs expensed (included in note 10 - Employee Expenses under Salaries)	255	189
Total research & development expenditure	255	189

12. Other expenses

	Sep 2021	Sep 2020
	<i>Unaudited</i>	<i>Unaudited</i>
	\$000's	\$000's
Administration and Management Services	101	73
Advertising, PR and Marketing	122	60
Audit Fees	30	29
Hosting Expenses	60	40
Legal, Consulting and Accounting	32	35
Office Running and Rent	26	17
Other Overheads	318	277
Travel	50	15
Total other expenses	739	546

13. Finance costs

	Sep 2021	Sep 2020
	<i>Unaudited</i>	<i>Unaudited</i>
	\$000's	\$000's
Interest Paid	-	2
Finance Cost - Interest on Lease	14	16
Total finance costs	14	18

14. Key management personnel and related parties

Key management personnel compensation

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

The table below summarises remuneration paid to key management personnel.

	Sep 2021	Sep 2020
	<i>Unaudited</i>	<i>Unaudited</i>
	\$000's	\$000's
Directors' fees	95	51
Short term employee benefits	392	404
Total key management personnel compensation	487	455

Related party transactions and balances

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of those entities subscribe to services provided by the Group. None of the related party transactions are significant to either party, and are completed on arm's length terms. Outside of these transactions, and the Directors' fees and short term employee benefits noted above, all other related party transactions are outlined below:

	Sep 2021	Sep 2020
	<i>Unaudited</i>	<i>Unaudited</i>
	\$000's	\$000's
Related party transactions during the period		
Consulting services supplied by entities controlled by related parties		
Catalyst.Net Limited	6	-
Cloud hosting services supplied by entities controlled by related parties		
Catalyst Cloud Limited	52	40

Related party balances payable at period end

	Sep 2021 Unaudited \$000's	Mar 2021 Audited \$000's
Directors' Fees	17	3
Cloud Hosting Services	11	6

15. Tax expense

The Group holds tax losses of \$7.291 million as at 31 March 2021, available to carry forward, but not recognised in the interim consolidated financial statements. These are subject to shareholder continuity being maintained.

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

	Sep 2021 Unaudited \$000's	Sep 2020 Unaudited \$000's
Net Loss after taxation	(939)	(946)
Add back non-cash & non-operating items:		
Depreciation & amortisation	203	115
Loss on disposal of fixed assets	-	2
Other non-cash items	(52)	-
	(788)	(829)
Movement in working capital:		
(Increase)/decrease in Trade and other receivables	(40)	127
(Increase)/decrease in Prepayments and other assets	(51)	13
Increase in Funds due to customers and IRD	2,793	3,508
Increase/(decrease) in Trade and other payables	83	(80)
Increase in Employee benefits	47	149
Increase/(decrease) in Other liabilities	41	(28)
Net cash inflow from operating activities	2,085	2,860

17. Segment reporting

The Group is organised into one reportable operating segment only, being SaaS based employment and payment solutions to small and medium-sized New Zealand businesses. As well as the core payroll solution (with fully automated banking, accounting and pay-day filing) the Group provides digital employment contracts, rosters, timesheets and earned wage access for employees - accessible via smartphone. The chief operating decision maker has been identified as the Board of Directors, as it makes all key strategic resource allocation decisions (such as those concerning acquisition, divestment and significant capital expenditure).

The group had a single operating segment as at 30 September 2021. The Group's chief operating decision maker has determined that, based on the information they use for the purposes of allocating resources and assessing performance, the Group itself continues to form a single operating segment after the acquisition of SmoothPay. The segment result is reflected in the financial statements.

18. Funds due to customers and IRD

As a PAYE intermediary, PaySauce collects funds from clients which are payable to both clients' employees (as the employees' net wages and salaries) and the IRD (as the applicable PAYE, student loan and other IRD liabilities). These funds are included in PaySauce's cash and deposit balances and in accordance with section RP6 of the Income Tax Act 2007, PaySauce can earn interest on these funds, but the funds must only be used as follows:

- Payment of net salary or wages to employees of PaySauce's clients.
- Payment of IRD obligations resulting from pays run on PaySauce software to the IRD, including PAYE deductions, student loan deductions, superannuation contributions and any other amount of tax withheld from a payment of salary or wages to IRD.

Under the financial reporting standards movements in these funds do not meet the definition of either investing or financing activities and so must be classified as operating cash flows. However as stated above the use of these funds is restricted and they cannot be used to cover other PaySauce expenses, the company has therefore presented operating cash flows in the Cash Flow Statement as both before and after this movement in funds.

19. Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves recognising at acquisition date the identifiable assets acquired, the liabilities assumed and any non-controlling interest, separate from Goodwill. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value.

The Group acquired the business and assets of SmoothPay Limited on 31 May 2021. SmoothPay provides cloud-based payroll software as a service solutions to New Zealand, Australia and the Pacific Islands. The acquisition was undertaken to align with PaySauce's strategic objective of accelerating customer growth - expanding the group's market share in New Zealand, and now to overseas markets.

The consideration and identifiable net assets in the acquisition are measured at fair value. As the transaction was a purchase of business assets and liabilities rather

than equity, there was no non-controlling interest to consider. The fair value of the purchase consideration of SmoothPay was \$0.375 million. This consisted of PaySauce (NZX:PYS) ordinary shares issued at a value of \$0.375 million. The volume of the 1,416,164 shares issued was based on the 20-day volume weighted average share price of PaySauce preceding the transaction date, \$0.2648 per share. The difference between the fair value of the consideration and the fair value of the net assets acquired was not material, therefore no Goodwill has been recognised.

The acquisition related costs consisted of legal, consulting, and share issue costs totalling \$0.027 million which were offset against the share capital issued, reducing the net increase in share capital to \$0.348 million.

The acquisition accounting has resulted in the following purchase price allocations:

	31 May 2021
	Unaudited
	\$000's
Purchase price allocations	
Tangible assets acquired	2
Liabilities assumed	(186)
Intangible Assets - Software Development	205
Intangible Assets - Customer Relationships	354
Net assets acquired	375
Purchase consideration	
Ordinary shares issued	375
Total consideration transferred	375

This allocation is currently provisional and will be finalised by year end 31 March 2022.

20. Events occurring after the reporting period

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



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