



# **READCLOUD LIMITED**

**ABN 44 136 815 891**

## **APPENDIX 4E PRELIMINARY FINAL REPORT 30 JUNE 2020**

## 1. Company details

Name of entity:	ReadCloud Limited
ABN:	44 136 815 891
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

## 2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	55.1% to	7,456,231
Loss from ordinary activities after tax attributable to the Owners of ReadCloud Limited	down	39.8% to	(981,984)
Loss for the year attributable to the Owners of ReadCloud Limited	down	39.8% to	(981,984)

### Dividends

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

### Comments

The loss for the Company after providing for income tax amounted to \$981,984 (30 June 2019: \$1,630,423). Underlying earnings before interest taxation, depreciation and amortisation ('Underlying EBITDA') was a loss of \$161,141 (30 June 2019: loss of \$421,960). This is reconciled to the statutory loss as follows:

	Consolidated	
	30 June 2020	30 June 2019
	\$	\$
Reported (statutory) net loss after tax	(981,984)	(1,630,423)
Add back: Depreciation and amortisation	702,262	416,624
Share based payments	130,392	471,365
Fair value movement on contingent consideration	-	405,000
Transaction costs incurred on business acquisition (expensed) and one-off ASX fees	27,751	40,520
Net interest (revenue) / expense	5,764	(37,296)
Income tax expense / (benefit)	(45,326)	(87,750)
Underlying EBITDA*	<u>(161,141)</u>	<u>(421,960)</u>

For further details on the results, refer to the Review of Operations within the Directors' Report.

\* EBITDA and Underlying EBITDA are non-statutory financial measures which are not prescribed by Australian Accounting Standards (AAS). They represent the profit under AAS adjusted for Interest, Tax, Depreciation and Amortisation and certain other specified items. The Directors consider that EBITDA and underlying EBITDA reflect core earnings of the entity consistent with internal reporting.

## 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>3.12</u>	<u>1.17</u>

#### 4. Control gained over entities

Not applicable.

#### 5. Loss of control over entities

Not applicable.

#### 6. Dividends

##### *Current period*

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

##### *Previous period*

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

#### 7. Dividend reinvestment plans

Not applicable.

#### 8. Details of associates and joint venture entities

Not applicable.

#### 9. Foreign entities

##### *Details of origin of accounting standards used in compiling the report:*

Not applicable.

#### 10. Audit qualification or review

##### *Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

#### 11. Attachments

##### *Details of attachments (if any):*

The Annual Report of ReadCloud Limited for the year ended 30 June 2020 is attached.

#### 12. Signed



Signed \_\_\_\_\_

Date: 27 August 2020

Paul Collins  
Chairman

# **ReadCloud Limited**

**ABN 44 136 815 891**

**Annual Report - 30 June 2020**

Corporate directory	2
Directors' report	3
Auditor's independence declaration	21
Consolidated statement of profit or loss and other comprehensive income	22
Consolidated statement of financial position	23
Consolidated statement of changes in equity	24
Consolidated statement of cash flows	25
Notes to the consolidated financial statements	26
Directors' declaration	54
Independent auditor's report to the members of ReadCloud Limited	55
Shareholder information	59

Directors	Mr Paul Collins (Non-Executive Chairman) Mr Guy Mendelson (Non-Executive Director) Mr Lars Lindstrom (Managing Director and Chief Executive Officer) Mr Darren Hunter (Executive Director and Chief Information Officer)
Company secretary	Ms Melanie Leydin
Registered office	284 Bay Street Brighton VIC 3185 Phone: +61 3 9078 4833
Principal place of business	284 Bay Street Brighton VIC 3186 Phone: +61 3 9078 4833
Share register	Boardroom Limited Level 12, 225 George Street Sydney NSW 2000 Phone: 1300 737 760; +61 2 9290 9600
Auditor	PKF Melbourne Audit & Assurance Pty Ltd Level 12, 440 Collins Street Melbourne VIC 3000
Stock exchange listing	ReadCloud Limited shares are listed on the Australian Securities Exchange (ASX code: RCL)
Website	<a href="http://www.readcloud.com">www.readcloud.com</a>
Corporate Governance Statement	Refer to the Company's Corporate Governance statement at: <a href="http://www.readcloud.com/investors#corporate-governance">www.readcloud.com/investors#corporate-governance</a>

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'ReadCloud' or the 'Group') consisting of ReadCloud Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

## Directors

The following persons were Directors of ReadCloud Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Paul Collins - Non-Executive Chairman  
Mr Guy Mendelson - Non-Executive Director  
Mr Lars Lindstrom - Managing Director and Chief Executive Officer  
Mr Darren Hunter - Executive Director and Chief Information Officer

## Principal activities

ReadCloud is a leading provider of software solutions, including eBooks, to schools within Australia. ReadCloud's proprietary eBook reader delivers digital content to students and teachers with extensive functionality, including the ability to make commentary in, and import third party content into eBooks.

Students and teachers can share notes, questions, videos and weblinks directly inside the eBooks turning the eBook into a place for discussion, collaboration and social learning, substantially improving learning outcomes. ReadCloud sources content for its solutions from multiple publishers so that together with its reseller channel partners, ReadCloud is able to deliver the Australian school curriculum in digital form in all States, on one platform.

ReadCloud also provides digital Vocational Education and Training ("VET") course materials and services to schools through its subsidiary Australian Institute of Education and Training Unit Trust ("AIET"), which offers over 40 VET courses and Auspicing services to schools across Australia.

## Dividends

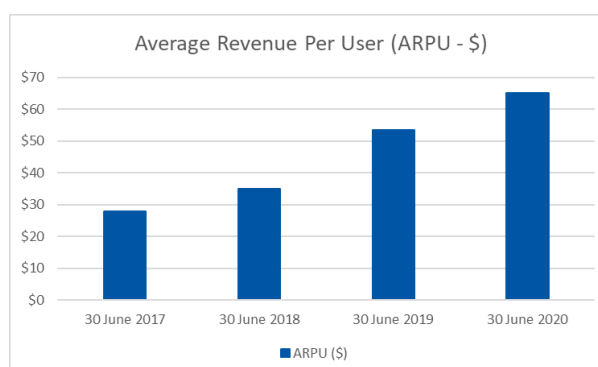
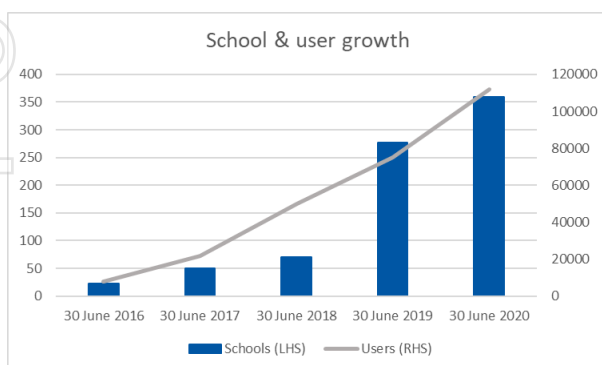
There were no dividends paid, recommended or declared during the current or previous financial year.

## Review of operations

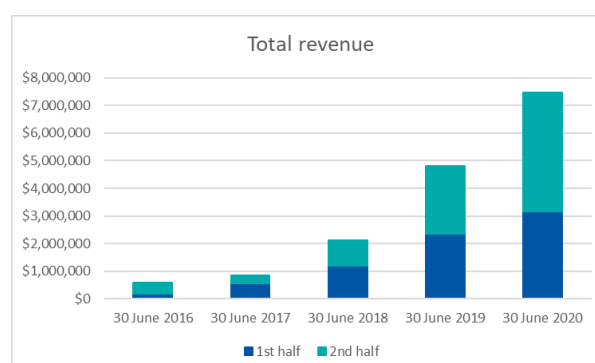
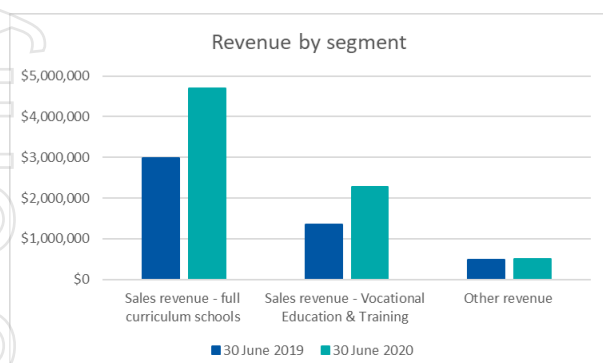
### Revenue

The Directors are pleased to report that for FY20 ReadCloud achieved 55% revenue growth to \$7.46 million (FY19: \$4.81 million), driven by:

- a 30% increase in the number of school customers to 360 secondary schools located throughout Australia (FY19: 277);
- a 40% increase in the number of ReadCloud platform users to 112,000 users (FY19: 80,000); and
- an increase in average revenue per user from \$55 in FY19 to \$65 in FY20 (excluding schools at 30 June 2020 that were using but not paying for the ReadCloud software in FY20 but have entered into multi-year contracts where the software is paid for in 2021 and onwards).



Strong growth was achieved across both of the Group's key operating segments.



The full curriculum schools segment (servicing direct and reseller school customers) achieved sales revenue growth of 58% over FY19, driven by both new school wins and “organic” sales growth within existing direct customer schools. Notable new school wins in FY20 included:

- three of the largest State High schools in Brisbane (each with over 2,000 students, including the largest State High School in Queensland with over 3,000 students);
- a large independent Anglican School in New South Wales; and
- two prestigious Grammar schools in Melbourne that used the ReadCloud eLearning platform in conjunction with ReadCloud partner OfficeMax for physical books in the 2020 school year.

FY20 Revenue from these new school customers was in line with expectations. Direct sales efforts for the 2020 school year were deliberately focused on targeting larger schools as reference customers and for operational efficiencies (the on-boarding process for a school with larger user numbers is not dissimilar to that for a smaller school in terms of set-up and eBook provisioning). Pleasingly, on a “like-for-like” basis, revenue from direct full-curriculum school customers that were customers in 2019 grew by 22% in FY20 (over FY19) as use of the ReadCloud platform was expanded within those schools.

The VET business also achieved strong sales growth in FY20 (up 61% on FY19), driven by:

- new school wins in Victoria, South Australia and Western Australia. A number of new customer schools that had commenced VET subjects under the auspices of competitor Registered Training Organisations (“RTO’s”) at the beginning of 2019 came across to AIET to complete the delivery of these subjects from Term 3 2019; and
- an increase in average revenue per VET course student as a result of the adoption of a new pricing structure for AIET’s services for the 2020 school year.

In late 2019 AIET licenced and commenced implementation of leading specialist RTO software aXcelerate. Used by over 700 RTO’s nationally, the aXcelerate software encompasses school compliance monitoring, student enrolments, student management and finance in one system. The implementation was a significant undertaking that resulted in additional employment costs (largely casual employees assisting with data migration from legacy systems). This investment is already bearing fruit with more efficient (streamlined) operational processes and enhanced school compliance monitoring.



### Underlying EBITDA

ReadCloud recorded an Underlying EBITDA\* loss for FY20 of \$161,141 (FY19 Underlying EBITDA loss \$421,960), which is reconciled to the statutory loss as detailed below. This reconciliation adds back the effect of certain non-operating and non-recurring items which would not ordinarily relate to the Group's underlying performance. Underlying EBITDA for the second half of the financial year was \$533,173 (positive) versus an Underlying EBITDA loss for the first half of the financial year of \$694,314, reflecting the normally strong bias of revenue from reseller full curriculum schools and VET auspicing services towards the second half of each financial year.

	Consolidated	
	30 June 2020	30 June 2019
	\$	\$
Sales & fee revenue	6,956,136	4,316,479
Other revenue	500,096	492,089
<b>Total revenue</b>	<b>7,456,231</b>	<b>4,808,568</b>
Less operating expenses:		
Advertising and marketing	(115,831)	(112,711)
Employment expenses	(2,628,224)	(1,889,309)
Legal & compliance	(143,465)	(114,439)
Professional services expenses	(301,014)	(165,005)
Publisher and bookseller fees expense	(3,891,795)	(2,329,507)
Telephone, internet & data hosting	(80,811)	(47,019)
Travel expenses	(136,713)	(192,917)
Other expenses	(315,720)	(342,087)
Finance costs	(9,563)	(238)
Add net interest expense / (revenue)	5,764	(37,296)
<b>Underlying EBITDA*</b>	<b>(161,141)</b>	<b>(421,960)</b>
Less: Depreciation and amortisation	(702,262)	(416,624)
Share based payments	(130,392)	(471,365)
Fair value movement on contingent consideration	-	(405,000)
Transaction costs incurred on business acquisition (expensed) and one-off ASX fees	(27,751)	(40,520)
Net interest (expense) / revenue	(5,764)	37,296
Income tax expense / (benefit)	45,326	87,750
<b>Reported (statutory) net loss after tax</b>	<b>(981,984)</b>	<b>(1,630,423)</b>

\* EBITDA and underlying EBITDA are non-statutory financial measures which are not prescribed by Australian Accounting Standards (AAS). They represent the profit under AAS adjusted for Interest, Tax, Depreciation and Amortisation and certain other specified items. The Directors consider that EBITDA and underlying EBITDA reflect core earnings of the entity consistent with internal reporting.

Significant expenses included in the statutory net loss after tax for FY20 are discussed below.

#### Publisher and bookseller expenses

FY20 Publisher and bookseller expenses were \$3.89 million (FY19: \$2.32 million), with the increase from FY19 broadly a result of sales growth (the FY20 expense amounted to 56% of FY20 Sales & fee revenue, versus 54% for FY19). Gross margins on eBook sales to direct full-curriculum and reseller schools were almost identical to FY19. Expenditure on externally sourced VET course materials supplied to VET school customers was higher in FY20 than in the prior comparable period, mainly as a result of a broader scope of VET courses offered to VET school customers.

#### Employment expenses

FY20 Employment expenses increased by circa \$0.74 million to \$2.63 million (FY19: \$1.89 million) as a result of:

- the hiring of additional software development, sales and operational support staff;

- a full year's employment costs in FY20 for employees who joined the Group upon the acquisition of AIET on 31 October 2018 (versus 8 months of costs for these employees in FY19); and
- the employment of additional (mainly casual) staff to assist with the implementation (and related data migration) of the aXcelerate software platform for the VET business.

At 30 June 2020 the Group had 24 full-time equivalent employees (30 June 2019: 20 full-time equivalent employees).

#### *Legal & compliance*

FY20 Legal & compliance expenses of \$0.14 million (FY19: \$0.11 million) comprise legal fees, ASX and ASIC fees, RTO licence fees and the cost of external RTO compliance consultants.

#### *Professional services expenses*

FY20 Professional services expenses were \$0.30 million (FY19: \$0.17 million), with the main components including audit fees, share registry costs, company secretarial fees, contract bookkeeping costs and tax consulting fees.

#### *Depreciation and amortisation expense*

FY20 depreciation and amortization expenses were \$0.70 million (FY19: \$0.4 million), with the increase from FY19 due to more capitalised development costs from previous years commenced amortising during FY20 and adoption of new Accounting Standard AASB 16 Leases from 1 July 2019, which resulted the recognition of "right-of-use assets" equal to \$426,398 on the Group's balance sheet and depreciation of these assets during the year of \$136,255.

#### *Funding / Cash flow*

As at 30 June 2020 the Group had a strong balance sheet with cash at bank of \$3.39 million (30 June 2019: \$3.07 million) and zero debt. Net cash used in operating activities for FY20 was \$0.31 million (FY19: \$0.44 million), which approximated Underlying EBITDA reasonably closely (with the difference mainly explained by higher receivable and lower payable balances at 30 June 2020).

#### *Platform update*

Significant development of the ReadCloud platform was undertaken during FY20, including the development of new features and automation of back-end processes to improve scalability and reduce the time to on-board new schools. New platform features, either in development or released to customers, during FY20 include:

- ReadCloud's new Media Overlay feature, which enables publishers to embed videos, audio podcasts, rich text editing and images into their eBooks. This Media Overlay capability has broad application in the VET market and has assisted in attracting new publishers in the sector to the ReadCloud platform. The Media Overlay feature is also available for Teachers and Trainers to enhance students' learning experience whether in VET education or full curriculum schools;
- text to speech, enabling teachers and students to select text in an eBook and have it read or translated for them in any language;
- real-time social annotations, enabling annotations and comments added to an eBook by a teacher or student to be shared with the class cohort on a real-time basis;
- advanced reading analytics that provide a class teacher with insights (in the form of "heat-maps") into which pages of an eBook students are spending the most time on; and
- a new eBook quoting and ordering system developed to streamline the production and processing of sales quotes to school customers.

These new features and continuing development of the ReadCloud platform provide the Group with a significant competitive advantage.

### **Impact of COVID-19**

The COVID-19 pandemic had minimal impact on ReadCloud's operations in FY20, as the Company is fully capable of operating in a remote capacity whilst supporting current and new customers and continuing our exciting product development. The on-boarding of full-curriculum schools for the 2020 school year, including eBook purchases, was completed successfully prior to the outbreak of COVID-19 in Australia. Whilst student enrolments in VET courses provided by AIET continued well into Term 2, the ability of the ReadCloud platform to digitally deliver VET course materials to students and teachers combined with an end-to-end online compliance monitoring, student enrolment and student management hub (powered by the aXcelerate software) enabled VET-school customers to continue to deliver VET courses even after schools went to remote learning.

The COVID-19 pandemic has in fact heightened awareness of and interest in the ReadCloud platform from both potential new customers and reseller partners. The platform is designed to enable teachers and students to access all of their in-classroom content (eBooks, shared notes, videos, images and more) in one application, whether they're on-campus or studying remotely, with the ability to collaborate and socialise learning within the platform. Leveraging our expertise, in late March 2020 ReadCloud published a white paper entitled "A Pathway Towards Home Schooling" in conjunction with the Australian Secondary Principals Association. The white paper identifies and addresses the various factors that schools should consider in order to effectively establish, run and maintain remote learning, and can be found on the Company's website [www.readcloud.com](http://www.readcloud.com).

### **Outlook**

The Directors believe the Group is well-placed for strong growth in FY21 via:

- new customer (school) acquisitions across the full-curriculum and VET school segments;
- organic growth within existing school customers, driven by expanded usage of the ReadCloud platform and AIET's auspicing services within existing school customers; and
- cross-selling of ReadCloud's VET course offering to ReadCloud full-curriculum schools and vice-versa.

Whilst the selling season for the 2021 school year would not ordinarily commence until well into the September quarter, leading up to 30 June 2020 ReadCloud signed up 10 new full-curriculum schools for the remainder of the 2020 school year and for 2021. These new direct full-curriculum school customers provide a good headstart on budgeted revenue growth for FY21. The direct sales pipeline has significantly expanded in recent months, driven by the COVID-19 pandemic and the resultant need for schools to have a remote learning solution. The ReadCloud sales team is working to convert this pipeline in the coming months. Whilst State border closures have hindered some in-person sales contact, the recent new school wins have proven our ability to sell the ReadCloud platform via video conferencing.

During the June quarter ReadCloud signed up 2 new reseller partners, Western Australia-based Ziggies Educational Supplies which currently supplies booklisting services to over 300 Western Australian schools, and Victorian-based Lilydale Books which currently supplies booklisting services to circa 30 Victorian schools. ReadCloud's sales team is now actively working with these new partners to jointly promote the ReadCloud eReading solution to both existing and potential new school customers of these resellers. Discussions with other potential new resellers are continuing in the current quarter.

Whilst the sales cycle for VET-in-schools does not ordinarily commence until late in the school year for the following school year, the AIET sales team has already signed up several new schools for delivery of VET courses in 2021, including existing ReadCloud full-curriculum customers. In addition, the vast majority of VET courses provided by AIET are run over 2 years, resulting in a large proportion of revenue being "locked in" for 2021.

The Directors expect to be in a position to provide an update on the sales outlook for the 2021 school year at the Company's Annual General Meeting in November 2020.

### **Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group during the financial year.

### Matters subsequent to the end of the financial year

Since 30 June 2020:

- 1,223,134 ASX-listed options exercisable at \$0.30 per share have been exercised, raising proceeds of \$366,940; and
- the Company has granted 100,000 options exercisable at \$0.28 each and expiring on 2 July 2023 to employees pursuant to the Group's Employee Share and Option Scheme.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

### Likely developments and expected results of operations

The Group's likely developments and expected results of operations are as follows:

- continue in the provision of eBook solutions to secondary schools across Australia;
- continue to source content so that, with its reseller partners and publisher agreements, the Company is able to deliver the Australian secondary school curriculum in digital form in all States;
- carry on providing Vocational Education and Training courses and services to enable secondary schools across Australia to offer their students nationally accredited VET qualifications; and
- continue to pursue partnerships with educational content publishers looking for a secure digital delivery solution.

### Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

## Information on Directors

Name:	Paul Collins
Title:	Chairman
Qualifications:	BSc Applied Science (Computer Science), GAICD
Experience and expertise:	Paul commenced his career with IBM in 1982. After 3 years he started his own consulting business working in a state government agency and large corporations primarily in software development and implementation roles. This included 7 years at IOOF in the Development Manager's role. Over the last 20 years, Paul has been extensively involved in the start-up and subsequent ASX listing of 2 successful FinTech companies. A co-founder of IWL in 1997, Paul was an Executive Director of the company from its inception, through its listing in 1999 before leaving in 2004. Later in 2004, Paul was a co-founder and Executive Director of Managed Accounts Ltd which listed on the ASX in 2014 (ASX:MGP). Paul chaired the Audit and the Risk and Compliance Committees of MGP from 2009 until 2016.
Other current directorships:	Integrated Payment Technologies Ltd (ASX:IP1) Non-Executive Director since October 2018
Former directorships (last 3 years):	None
Interests in shares:	1,060,411 fully paid ordinary shares
Interests in options:	125,000 options
Name:	Guy Mendelson
Title:	Non-Executive Director
Qualifications:	B. Bus
Experience and expertise:	Guy has a strong working knowledge of ReadCloud and its management having been a member of the ReadCloud Advisory Board for three years prior to the Company's IPO in February 2018. Guy's previous Board experience includes being a BPAY Board Director for four years and a Brotherhood of St Laurence Audit and Risk Committee member for the past 8 years. Guy has extensive strategic and commercial experience at an executive level with 20 years' experience working for ANZ Bank running various businesses. He is currently Managing Director, Business Owners Portfolio within ANZ responsible for the growth and profitability of this business segment.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	1,435,318 fully paid ordinary shares
Name:	Lars Lindstrom
Title:	Managing Director and Chief Executive Officer
Qualifications:	Masters in Business Administration & Corporate Law
Experience and expertise:	Lars co-founded ReadCloud in 2009 and has extensive tech startup experience. Previously a Partner in LundXY Global Ventures (the first investor in Skype) and the CFO/Co-Founder of Nyhedsavisen which within one year became the most read newspaper in Denmark publishing over 500,000 copies daily. Lars spent his first 10 years working in investment banking/M&A working for Deutsche Bank and Rothschild in Melbourne.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	8,534,128 fully paid ordinary shares

Name: Darren Hunter  
Title: Executive Director and Chief Information Officer  
Experience and expertise: Darren commenced his career in IT in 1984. Following a number of varied and senior roles he cofounded IWL, a financial planning and online stockbroking software provider in 1997. IWL was listed on the ASX in 1999 and provided Westpac and National Australia Bank with their online broking capabilities. Darren's role was that of CIO and group strategy. IWL grew into an ASX 300 company with over 500 employees and was eventually acquired by CBA for \$373 million. He commenced with ReadCloud in 2015 in the role of Chief Information Officer.

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: 7,009,880 fully paid ordinary shares  
Interests in options: 75,000 options

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

### Company secretary

Ms Melanie Leydin, BBus (Acc. Corp Law) CA FGIA

Melanie Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Institute of Chartered Accountants, Fellow of the Governance Institute of Australia and is a Registered Company Auditor. She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of Leydin Freyer. The practice provides outsourced company secretarial and accounting services to public and private companies across a host of industries including but not limited to the Resources, technology, bioscience, biotechnology and health sectors.

Melanie has over 25 years' experience in the accounting profession and over 15 years as a Company Secretary. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of companies and shareholder relations.

### Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Full Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Attended	Held	Attended	Held	Attended	Held
Paul Collins	10	10	4	4	2	2
Guy Mendelson	9	10	4	4	2	2
Lars Lindstrom	10	10	-	-	-	-
Darren Hunter	10	10	4	4	2	2



### Remuneration report (audited)

The remuneration report details the key management personnel ("KMP") remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all directors. The KMP of the Group during the year ended 30 June 2020 consisted of the following Directors and executives:

- Paul Collins - Non-Executive Chairman
- Mr Guy Mendelson - Non-Executive Director
- Lars Lindstrom - Managing Director and Chief Executive Officer
- Mr Darren Hunter - Executive Director and Chief Information Officer
- Mr Luke Murphy - Chief Financial Officer
- Mr Joshua Fisher - Chief Product Officer

The experience and expertise of each of the Directors and the Company Secretary are contained earlier in the Director's report and for other KMP is described below.

Name:	Luke Murphy
Title:	Chief Financial Officer
Qualifications:	B.Comm, CA ANZ, AGIA, ICSA
Experience and expertise:	Luke is a Chartered Accountant (previously with KPMG and Deloitte) and Chartered Company Secretary with over 20 years' equity capital markets experience advising companies on capital raising, mergers and acquisitions and investor relations, complemented by experience as Chief Financial Officer of rapidly growing technology companies.

Name:	Joshua Fisher
Title:	Chief Product Officer
Qualifications:	MBA (Executive), AGSM
Experience and expertise:	Josh is a marketing practitioner with over fifteen years' experience spanning both the client and agency side (B2B and B2C), together with SME experience, having successfully run an innovative Australian cosmetic company – Rationale Skincare. Josh's experience spans education, financial services, FMCG and consumer goods.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

References to performance rights and options issued to KMP in this remuneration report are to securities issued by the Company that convert into fully-paid ordinary shares in the Company.

### **Principles used to determine the nature and amount of remuneration**

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Remuneration is competitive to allow the Company to attract and retain the best talent
- Drivers and outcomes of remuneration align with shareholder outcomes
- Remuneration outcomes are closely aligned with performance of the Group
- Remuneration structure is simple and transparent

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

#### *Non-executive directors' remuneration*

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

Non-executive directors may receive equity-based incentives, such as options and/or performance rights, where it is determined that this is an appropriate means of incentivising those directors by aligning their interests with the interests of shareholders.

#### *Executive remuneration*

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has the following components:

- base pay and non-monetary benefits
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.



The long-term incentives ('LTI') include long service leave, performance rights and options. Details of performance rights and options issued to KMP as part of their remuneration are set out below.

*Group performance and link to remuneration*

Remuneration for certain individuals is directly linked to the performance of the Group, by way of the issue of performance rights and options, details of which are as follows. Each performance right will convert to one fully paid ordinary share in the Company following achievement of the relevant performance condition. Each option will convert into one fully paid ordinary share in the Company following both the achievement of the relevant vesting condition (being continued employment until the relevant vesting date) and payment of the relevant exercise price. Refer to the section "Additional Information" below for details of the earnings and total shareholders return for the period since ASX listing.

The Nomination and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance-based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

**Details of remuneration**

Details of the remuneration of key management personnel of the Group are set out in the following tables.

	<u>Short-term benefits</u>			<u>Post-employment benefits</u>	<u>Long-term benefits</u>	<u>Share-based payments</u>	
	Cash salary and fees \$	Annual leave accrued \$	Non-monetary \$	Super-annuation \$	Long service Leave \$	Equity-settled \$	Total \$
<b>2020</b>							
<i>Non-Executive Directors:</i>							
Paul Collins	40,000	-	-	3,800	-	-	43,800
Guy Mendelson	30,000	-	-	-	-	-	30,000
<i>Executive Directors:</i>							
Lars Lindstrom	237,443	3,255	-	22,557	2,983	-	266,238
Darren Hunter	237,443	15,619	-	22,557	2,983	-	278,602
<i>Other Key Management Personnel:</i>							
Luke Murphy	146,119	4,652	-	13,881	833	61,710	227,195
Joshua Fisher	179,604	3,489	-	17,062	2,357	-	202,512
	<u>870,609</u>	<u>27,015</u>	<u>-</u>	<u>79,857</u>	<u>9,156</u>	<u>61,710</u>	<u>1,048,347</u>

	<u>Short-term benefits</u>			<u>Post-employment benefits</u>	<u>Long-term benefits</u>	<u>Share-based payments</u>	
	Cash salary and fees \$	Annual leave accrued \$	Non-monetary \$	Super-annuation \$	Long service Leave \$	Equity-settled \$	Total \$
<b>2019</b>							
<i>Non-Executive Directors:</i>							
Paul Collins	40,000	-	-	3,800	-	16,050	59,850
Guy Mendelson	30,000	-	-	-	-	-	30,000
<i>Executive Directors:</i>							
Lars Lindstrom	228,310	4,683	-	21,689	1,153	88,276	344,111
Darren Hunter	228,310	(5,854)	-	21,689	1,153	88,276	333,574
<i>Other Key Management Personnel:</i>							
Luke Murphy*	100,806	5,384	-	9,577	121	65,745	181,633
Joshua Fisher	164,384	5,058	-	15,616	810	48,150	234,018
	791,810	9,271	-	72,371	3,237	306,497	1,183,186

\* Luke Murphy was appointed as Chief Financial Officer on 20 August 2018

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	<u>Fixed remuneration</u>		<u>At risk - STI</u>		<u>At risk - LTI</u>	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Paul Collins	100%	73%	-	-	-	27%
Guy Mendelson	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Lars Lindstrom	100%	74%	-	-	-	26%
Darren Hunter	100%	74%	-	-	-	26%
<i>Other Key Management Personnel:</i>						
Luke Murphy	73%	64%	-	-	27%	36%
Joshua Fisher	100%	79%	-	-	-	21%

### Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements. Details of these agreements are as follows:

Name: Paul Collins  
Title: Chairman  
Term of agreement: No fixed term.  
Details: Annual fee of \$40,000 plus statutory superannuation.

Name: Guy Mendelson  
Title: Non-Executive Director  
Term of agreement: No fixed term.  
Details: Annual fee of \$30,000 including Committee chair fees.

Name:	Lars Lindstrom
Title:	Managing Director and Chief Executive Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving 3 months' notice.
Details:	Base salary of \$260,000 per annum, inclusive of superannuation.
Name:	Darren Hunter
Title:	Executive Director and Chief Information Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving 3 months' notice.
Details:	Base salary of \$260,000 per annum, inclusive of superannuation.
Name:	Luke Murphy
Title:	Chief Financial Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving two months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving two months' notice.
Details:	Base salary of \$160,000 per annum, inclusive of superannuation. The employee has also been issued options by the Company, details of which are disclosed elsewhere in this remuneration report.
Name:	Joshua Fisher
Title:	Chief Product Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving three months' notice.
Details:	Base salary of \$200,000 per annum, inclusive of superannuation (effective 1 November 2019).

KMP have no entitlement to termination payments in the event of removal for misconduct.

### **Share-based compensation**

#### *Issue of shares*

There were no shares issued to Directors and other KMP as part of compensation during the year ended 30 June 2020.

#### *Options issued during the year*

In July 2019 the Company issued 150,000 options over ordinary shares in the Company to Luke Murphy that vest subject to continued employment as follows:

- 75,000 vesting on 12 July 2020; and
- 75,000 vesting on 12 July 2021.

Each option is exercisable at \$0.34 per share and expires on 12 July 2022. The fair value of these options as at their grant date was \$0.141 per option.

There were no other options over ordinary shares granted to or vested by Directors and other KMP as part of compensation during the year ended 30 June 2020.

Details of options issued as part of compensation during the year ended 30 June 2020 and prior years and held by Directors and other KMP as at the date of this report are as follows:

Class	KMP Holders	Vesting conditions
Options over ordinary shares, exercisable at \$0.41 per share and expiring on 17 July 2022	Luke Murphy – 360,000	66.7% of these Options have vested  33.3% of these Options vest upon continued employment until 17 July 2021
Options over ordinary shares, exercisable at \$0.34 per share and expiring on 12 July 2022	Luke Murphy – 150,000	50% of these Options have vested  50% of these Options vest upon continued employment until 12 July 2021
Options over ordinary shares, exercisable at \$0.20 per share and expiring on 7 February 2022	Luke Murphy – 75,000	These Options vest upon continued employment until 7 February 2021

*Options vested or lapsed during the year*

During the year, the following options vested to KMP (no options held by KMP lapsed during the year):

Class	KMP Holder
Options over ordinary shares, exercisable at \$0.41 per share and expiring on 17 July 2022	Luke Murphy – 120,000

*Performance rights issued during the year*

There were no performance rights issued to Directors and other KMP as part of compensation during the year ended 30 June 2020.

*Performance rights vested or lapsed during the year*

Details of performance rights held by Directors and KMP on 1 July 2019 were as follows:

Name	Number of rights granted	Grant date	Performance right type/Vesting conditions	Expiry date	Fair value per right at grant date
Lars Lindstrom	687,500	09 November 2017	Class A Tranche 2 (i)	31 December 2019	\$0.0640
Darren Hunter	687,500	09 November 2017	Class A Tranche 2 (i)	31 December 2019	\$0.0640
Joshua Fisher	375,000	09 November 2017	Class A Tranche 2 (i)	31 December 2019	\$0.0640
Paul Collins	125,000	09 November 2017	Class A Tranche 2 (i)	31 December 2019	\$0.0640
Lars Lindstrom	687,500	09 November 2017	Class B Tranche 2 (ii)	Refer (iv) below	\$0.0270
Darren Hunter	687,500	09 November 2017	Class B Tranche 2 (ii)	Refer (iv) below	\$0.0270
Joshua Fisher	375,000	09 November 2017	Class B Tranche 2 (ii)	Refer (iv) below	\$0.0270
Paul Collins	125,000	09 November 2017	Class B Tranche 2 (ii)	Refer (iv) below	\$0.0270
Lars Lindstrom	687,500	09 November 2017	Class C Tranche 2 (iii)	Refer (iv) below	\$0.0130
Darren Hunter	687,500	09 November 2017	Class C Tranche 2 (iii)	Refer (iv) below	\$0.0130
Joshua Fisher	375,000	09 November 2017	Class C Tranche 2 (iii)	Refer (iv) below	\$0.0130
Paul Collins	125,000	09 November 2017	Class C Tranche 2 (iii)	Refer (iv) below	\$0.0130

- (i) Class A Tranche 2 Rights convert to Shares if the Group has in excess of 100,000 Users by 31 December 2019
- (ii) Class B Tranche 2 Rights convert to Shares if the Group achieves revenue of \$7.5 million or greater for FY19
- (iii) Class C Tranche 2 Rights convert to Shares if the Group achieves EBITDA of \$2 million or greater for FY19
- (iv) Expiry date is 10 Business Days after release of FY19 financial statements

All of the above performance rights lapsed during the year ended 30 June 2020. There were no other performance rights granted to or vested by Directors and other KMP as part of compensation during the year ended 30 June 2020.

### Additional information

The earnings of the Group for the three years to 30 June 2020 are summarised below:

	2020 \$	2019 \$	2018 \$
Sales revenue	6,956,136	4,316,479	1,756,527
Underlying EBITDA	(161,141)	(421,960)	(931,685)
Loss after income tax	(981,984)	(1,630,423)	(1,152,779)

The factors that are considered to affect total shareholder return ('TSR') are summarised below:

	2020	2019	2018
Share price at financial year end (\$)	0.28	0.32	0.44

### Additional disclosures relating to key management personnel

#### Shareholding

The number of shares in the Company held during the financial year by each Director and other KMP, including their personally related parties, is set out below:

	Balance at the start of the year	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>				
Paul Collins	1,060,411	-	-	1,060,411
Guy Mendelson	1,435,318	-	-	1,435,318
Lars Lindstrom	8,534,128	-	-	8,534,128
Darren Hunter	7,009,880	-	-	7,009,880
Luke Murphy	50,000	-	-	50,000
Joshua Fisher	4,874,721	138,889	-	5,013,610
	22,964,458	138,889	-	23,103,347

#### Option holding

The number of options over ordinary shares in the Company held during the financial year by each Director and other KMP, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Acquired	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>						
Paul Collins	125,000	-	-	-	-	125,000
Darren Hunter	75,000	-	-	-	-	75,000
Luke Murphy	360,000	150,000	75,000	-	-	585,000
	560,000	360,000	75,000	-	-	785,000

	Unvested	Vested and exercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Paul Collins	-	125,000	125,000
Darren Hunter	-	75,000	75,000
Luke Murphy	465,000	120,000	585,000
	<u>465,000</u>	<u>320,000</u>	<u>785,000</u>

#### *Performance rights holding*

The number of performance rights over ordinary shares in the Company held during the financial year by each Director and other KMP, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Lapsed	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Paul Collins	375,000	-	-	(375,000)	-
Lars Lindstrom	2,062,500	-	-	(2,062,500)	-
Darren Hunter	2,062,500	-	-	(2,062,500)	-
Josh Fisher	1,125,000	-	-	(1,125,000)	-
	<u>5,625,000</u>	<u>-</u>	<u>-</u>	<u>(5,625,000)</u>	<u>-</u>

#### *Loans*

The Group has not made, guaranteed or secured, directly or indirectly, any loans in respect of KMP (or their close family members or controlled entities).

***This concludes the remuneration report, which has been audited.***

#### **Shares under option**

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
02 February 2018	30 November 2020	\$0.300	15,443,529
02 February 2018	30 November 2020	\$0.300	3,333,332
13 March 2018	07 February 2021	\$0.200	375,000
13 March 2018	07 February 2022	\$0.200	75,000
28 May 2018	07 May 2022	\$0.330	300,000
21 September 2018	17 July 2022	\$0.410	360,000
9 January 2019	14 December 2021	\$0.350	240,000
12 July 2019	12 July 2022	\$0.340	450,000
13 July 2020	2 July 2023	\$0.280	100,000
			<u>20,676,861</u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

#### **Shares under performance rights**

At the date of this report there are no unissued ordinary shares of the Company under performance rights. No ordinary shares of the Company were issued on the exercise of performance rights during the year ended 30 June 2020 or since this date.

### Shares issued on the exercise of options

During the year ended 30 June 2020 150,000 ordinary shares of the Company were issued on the exercise of options. Since 30 June 2020 until the date of this report 1,223,134 shares of the Company have been issued on the exercise of options.

### Indemnity and insurance of officers

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

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### Indemnity and insurance of auditor

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

### Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

### Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 19 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 19 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

### Officers of the Group who are former partners of PKF Melbourne Audit & Assurance Pty Ltd

There are no officers of the Group who are former partners of PKF Melbourne Audit & Assurance Pty Ltd.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

### Auditor

PKF Melbourne Audit & Assurance Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



---

Paul Collins  
Chairman

27 August 2020



**Auditor's Independence Declaration to the Directors of ReadCloud Limited**

In relation to our audit of the financial report of ReadCloud Limited for the year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.



PKF  
Melbourne, 27 August 2020



Steven Bradby  
Partner

**ReadCloud Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**30 June 2020**



	Note	Consolidated 2020	Consolidated 2019
		\$	\$
<b>Revenue</b>			
Sales revenue	5	6,956,136	4,316,479
Other income	5	500,095	492,089
<b>Total revenue</b>		7,456,231	4,808,568
<b>Expenses</b>			
Advertising and marketing		(115,831)	(112,711)
Depreciation and amortisation expense	6	(702,262)	(416,624)
Employment expenses	6	(2,628,224)	(1,889,309)
Fair value movement on contingent consideration		-	(405,000)
Legal & compliance		(171,215)	(152,059)
Professional services expenses		(301,014)	(167,905)
Publisher and bookseller fees expense		(3,891,795)	(2,329,507)
Share-based payments	6	(130,392)	(471,365)
Telephone, internet & data hosting		(80,811)	(47,019)
Travel expenses		(136,713)	(192,917)
Other expenses		(315,721)	(342,087)
Finance costs		(9,563)	(238)
<b>Loss before income tax expense/(benefit)</b>		(1,027,310)	(1,718,173)
Income tax expense/(benefit)	7	(45,326)	(87,750)
<b>Loss after income tax expense/(benefit) for the year attributable to the Owners of ReadCloud Limited</b>		(981,984)	(1,630,423)
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the Owners of ReadCloud Limited</b>		<u>(981,984)</u>	<u>(1,630,423)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings / (loss) per share	25	(1.01)	(1.87)
Diluted earnings / (loss) per share	25	(1.01)	(1.87)

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes. Comparatives have not been restated for the introduction of AASB 16 Leases.*

	Note	Consolidated 2020	Consolidated 2019
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,387,609	3,067,599
Trade and other receivables	8	597,366	470,165
Prepayments		55,946	75,119
Total current assets		<u>4,040,921</u>	<u>3,612,883</u>
<b>Non-current assets</b>			
Property, plant and equipment		111,385	59,756
Intangible assets	9	4,450,488	4,296,301
Right-of-use assets	10	290,143	-
Total non-current assets		<u>4,852,016</u>	<u>4,356,057</u>
<b>Total assets</b>		<u>8,892,937</u>	<u>7,968,940</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	11	389,416	508,712
Employee benefits	12	149,263	108,024
Contract liabilities	13	207,308	164,120
Contingent consideration		-	1,800,000
Lease Liabilities	10	164,064	-
Total current liabilities		<u>910,051</u>	<u>2,580,856</u>
<b>Non-current liabilities</b>			
Employee benefits		30,731	10,408
Deferred tax liability	7	-	45,326
Lease liabilities	10	152,823	-
Total non-current liabilities		<u>183,554</u>	<u>55,734</u>
<b>Total liabilities</b>		<u>1,093,605</u>	<u>2,636,590</u>
<b>Net assets</b>		<u>7,799,332</u>	<u>5,332,350</u>
<b>Equity</b>			
Contributed equity	14	11,385,848	8,067,274
Reserves	15	407,513	407,002
Accumulated losses		(3,994,029)	(3,141,926)
<b>Total equity</b>		<u>7,799,332</u>	<u>5,332,350</u>

The above statement of financial position should be read in conjunction with the accompanying notes. Comparatives have not been restated for the introduction of AASB 16 Leases.

	Issued capital \$	Share based payments Reserve \$	Retained Profits Restated \$	Non-controlling interest \$	Total equity \$
<b>Consolidated</b>					
Balance at 1 July 2018	7,257,899	299,005	(1,550,496)	-	6,006,408
Loss after income tax expense/(benefit) for the year (restated)	-	-	(1,630,423)	-	(1,630,423)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	(1,630,423)	-	(1,630,423)
<i>Transactions with Owners in their capacity as Owners:</i>					
Issue of shares as consideration for acquisition (note 14)	485,000	-	-	-	485,000
Share-based payments (note 26)	-	471,365	-	-	471,365
Exercise of performance rights	324,375	(324,375)	-	-	-
Lapse of performance rights	-	(38,993)	38,993	-	-
Balance at 30 June 2019	8,067,274	407,002	(3,141,926)	-	5,332,350
<b>Consolidated</b>					
Balance at 1 July 2019	8,067,274	407,002	(3,141,926)	-	5,332,350
Loss after income tax expense/(benefit) for the year	-	-	(981,984)	-	(981,984)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	(981,984)	-	(981,984)
<i>Transactions with Owners in their capacity as Owners:</i>					
Contributions of equity (net of transaction costs)	1,878,574	-	-	-	1,878,574
Issue of shares as consideration for acquisition (note 14)	1,440,000	-	-	-	1,440,000
Share-based payments (note 26)	-	130,392	-	-	130,392
Exercise of performance rights	-	-	-	-	-
Lapse of performance rights	-	(129,881)	129,881	-	-
Balance at 30 June 2020	11,385,848	407,513	(3,994,029)	-	7,799,332

The above statement of changes in equity should be read in conjunction with the accompanying notes. Comparatives have not been restated for the introduction of AASB 16 Leases.

	Note	Consolidated 2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		6,898,163	4,538,336
Payments to suppliers (inclusive of GST)		(7,702,751)	(5,363,134)
Research and development tax incentive refund		393,123	351,725
Interest income		3,799	37,534
Other Government grant income		100,000	-
Net cash used in operating activities	24	(307,666)	(435,539)
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired		(360,000)	(396,893)
Payments for property, plant and equipment		(95,530)	(10,513)
Payments for software development	9	(676,295)	(682,786)
Net cash used in investing activities		(1,131,825)	(1,090,192)
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities		(109,510)	-
Interest paid on lease liabilities		(9,563)	-
Proceeds from issue of shares	14	2,030,000	-
Share issue transaction costs		(151,426)	-
Repayment of borrowings		-	-
Net cash from financing activities		1,759,501	-
Net increase/(decrease) in cash and cash equivalents		320,010	(1,525,731)
Cash and cash equivalents at the beginning of the financial year		3,067,599	4,593,330
Cash and cash equivalents at the end of the financial year		<u>3,387,609</u>	<u>3,067,599</u>

*The above statement of cash flows should be read in conjunction with the accompanying notes. Comparatives have not been restated for the introduction of AASB 16 Leases.*

## Note 1. General information

The financial statements cover the consolidated entity (referred to as the "Group"), consisting of ReadCloud Limited (the "Company" or "parent entity") and the entities it controlled at the end of, or during the year ended 30 June 2020. The financial statements are presented in Australian dollars, which is ReadCloud Limited's functional and presentation currency. ReadCloud Limited is a listed public company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 27 August 2020. The Directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

### Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

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

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

#### *AASB 16 Leases*

The Group has adopted this new standard from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Upon adoption of the standard the Group, as lessee, is required to recognise its leases in the statement of financial position. The only exceptions are short-term (less than 12 months) leases and leases of low-value assets. The lease liability is measured as the present value of the unavoidable future lease payments to be made over the lease term (refer Note 10 Leases). The Group has elected to adopt the modified retrospective approach (with the application of practical expedients), which equates the 'right-of-use' asset (ROUA) with the value of the lease liability, therefore there is no requirement to restate either retained earnings or prior period comparatives

The expensing of lease payments evenly over the lease period has been replaced with (i) a depreciation charge against the leased ROUA; and (ii) an interest expense on the recognised lease liability. Within the statement of cash flows, lease payments are no longer recognised as operating cash flows, but as financing cash flows, with the principal and interest components separately identified.

On adoption, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.13%.

## Note 2. Significant accounting policies (continued)

### *Determination of lease liabilities and ROUA*

In calculating the value of each lease liability, future lease payments include known fixed percentage increases but exclude variable consumer price index (CPI) increases, as estimations of future increases are prohibited by the standard (CPI lease payment increases are taken into account via a re-measurement of the lease liability as and when the increase occurs). The net present value of the unavoidable future lease payments are discounted using the Group's incremental borrowing rate, as none of the leases have an implicit interest rate.

An ROUA is recognised at the commencement date of a lease. The ROUA is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset. The ROUA is depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter.

The impact of the adoption of AASB 16 Leases on the financial performance and position of the Group has been as follows:

- Recognition of ROUA and lease liabilities in equal amount of \$426,398;
- Recognition during the year of \$136,255 depreciation of the ROUA and \$9,563 in interest on leases, reversing \$119,073 in lease rental expenses. The net impact on profit or loss before income tax has been to increase the loss by \$26,745;
- The year-end balances of the ROUA and lease liabilities were \$290,143 and \$316,887 respectively; and
- There has been no net impact on the consolidated statement of cash flows.

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 22.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ReadCloud Limited ('Company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the period then ended. ReadCloud Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

### **Business combinations**

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.



## Note 2. Significant accounting policies (continued)

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Where the Company loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Company recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation commences from the time the asset is available for its intended use.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives of 2-4 years.



## Note 2. Significant accounting policies (continued)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date to ensure it is not in excess of the asset's recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted in determining recoverable amounts.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. Where relevant, current assessment incorporated a consideration of uncertainties associated with COVID-19. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### *Capitalised software development costs*

The Group capitalises software development costs associated with the ReadCloud platform in accordance with the accounting policy described in Note 9. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a key commercial milestone enabling the project to proceed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project and the expected period of benefits.

### *Share-based payments*

The grant date fair value of share-based payments is recognised as an expense with a corresponding increase in equity, over the period that the recipients unconditionally become entitled to the awards. The Group follows the guidelines of AASB 2 Share-based payment and takes into account all performance conditions in estimating the probability and expected timing of achieving these performance conditions. Accordingly, the expense recognised over the vesting period may vary based upon information available and estimates made at each reporting period, until the expiry of the vesting period.

### *Estimation of useful lives of assets*

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### *Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

#### *Income tax*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### Note 4. Operating segments

#### *Identification of reportable operating segments*

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. Operating segments represent the information reported to the chief operating decision makers (CODM), being the executive management team, for the purposes of resource allocation and assessment of segment performance.

The Group's reportable segments under AASB 8 are as follows:

- the provision of eBook solutions to secondary schools across Australia; and
- the provision of Vocational Education and Training courses and services.

Consistent with information presented for internal management reporting purposes, segment performance is measured by underlying EBITDA contribution, where underlying EBITDA (a non-statutory financial measure not prescribed by Australian Accounting Standards – "AAS") represents the profit under AAS adjusted for Interest, Tax, Depreciation and Amortisation and certain other specified items.

The information reported to the CODM is on a monthly basis.

**Note 4. Operating segments (continued)**

**Consolidated – 30 June 2020**

	eBook solutions	Vocational Education and Training	Unallocated public company costs	Total
	\$	\$	\$	\$
Sales revenue	4,690,321	2,265,815	-	6,956,136
Other income	444,320	55,775	-	500,095
Total revenue	5,134,641	2,321,590	-	7,456,231
Underlying EBITDA	(319,971)	402,616	(243,786)	(161,141)
Depreciation and amortisation	(581,970)	(120,292)	-	(702,262)
Share based payments	(116,859)	(13,533)	-	(130,392)
Transaction costs incurred on business acquisition (expensed) and one-off ASX fees	(27,751)	-	-	(27,751)
Net interest revenue / (expense)	(2,113)	(3,651)	-	(5,764)
Income tax benefit / (expense)	45,326	-	-	45,326
Reported (statutory) net loss after tax	(1,003,338)	265,140	(243,786)	(981,984)
Total segment assets	6,018,988	2,873,949		8,892,937
Total segment liabilities	(802,195)	(291,410)		(1,093,605)

**Consolidated – 30 June 2019**

	eBook solutions	Vocational Education and Training	Unallocated public company costs	Total
	\$	\$	\$	\$
Sales revenue	2,976,602	1,339,878	-	4,316,479
Other income	468,911	23,178	-	492,089
Total revenue	3,445,513	1,363,056	-	4,808,568
Underlying EBITDA	(761,334)	563,542	(224,167)	(421,960)
Depreciation and amortisation	(386,976)	(29,648)	-	(416,624)
Share based payments	(447,387)	(23,978)	-	(471,365)
Fair value movement on contingent consideration	(405,000)	-	-	(405,000)
Transaction costs incurred on business acquisition (expensed)	(40,520)	-	-	(40,520)
Net interest revenue	37,534	(238)	-	37,296
Income tax benefit / (expense)	87,750	-	-	87,750
Reported (statutory) net loss after tax	(1,915,933)	509,678	(224,167)	(1,630,423)

**Major customers**

During the year ended 30 June 2020 approximately 20% (2019: 28%) of the Group's external revenue was derived from sales to one reseller. The underlying customers on whose behalf this reseller transacts comprise approximately 60 schools. Approximately 6% (2019: 6%) of the Group's external revenue was derived from sales to one direct school customer.

## Note 5. Revenue

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<i>Sales revenue</i>		
eBook Sales	4,289,991	2,766,660
Licence Fee	403,780	284,597
Auspicing fees	2,217,973	1,118,245
Sales & fees - other	44,392	146,977
	<u>6,956,136</u>	<u>4,316,479</u>
<i>Other income</i>		
Government grants - R&D	390,019	417,915
Interest revenue calculated using the effective interest method	3,799	37,534
Other revenue	106,277	36,640
	<u>500,095</u>	<u>492,089</u>
Revenue	<u>7,456,231</u>	<u>4,808,568</u>

The Group's total sales revenue is recognised according to the following timing:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Goods transferred at a point in time	4,334,383	2,913,637
Services transferred over time	2,621,753	1,402,842
Revenue	<u>6,956,136</u>	<u>4,316,479</u>

### Accounting policy for revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised with reference to the completion by the Group of specific performance obligations of contracts with customers, as described below.

### Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Revenue is recognised to depict the transfer of eBooks and licencing services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. All contracts (either written, verbal or implied) are identified, together with the separate performance obligations within

## Note 5. Revenue (continued)

the contract and the transaction price is determined. Adjustments are made for the time value of money excluding credit risk and the transaction price is allocated to the separate performance obligations on a basis of relative stand-alone selling price of each distinct service/good. The estimation approach is taken if no distinct observable prices exists and revenue is recognised when each performance obligation is satisfied.

Credit risk is presented separately as an expense, rather than adjusted to revenue. For goods, the performance obligation is satisfied when the customer takes control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, the Group selects an appropriate measure of progress to determine how much revenue is recognised as the performance obligation is satisfied. Contracts with customers are presented in the Group's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment.

### *Interest*

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument.

### *eBook sales revenue*

Revenue from eBook sales is recognised at the time of the eBook purchase.

### *Software licence fee revenue*

The Group receives revenue for acquisition and use of software applications associated with eBook sales. The software revenue is recognised at the time of sale and the maintenance component is recognised as revenue over the period of the licence.

### *Auspicing fees*

The Group receives revenue for the provision of auspicing services to secondary schools that enables these schools to offer their students nationally accredited Vocational Education and Training courses under the auspices of Australian Institute of Education and Training's Registered Training Organisation ("RTO") licence. The fees for those services that relate to the pre-approval of a school to operate under the RTO licence and the provision of course materials are recognised at the time of sale, whilst fees for those components that relate to the maintenance of software services, ongoing compliance monitoring and the issuing of certificates to students are recognised at the end of the relevant contract.

### *Government grants*

Grants received on the condition that specified services are delivered, or conditions are fulfilled, are initially recognised as a liability, and revenue is recognised as services are performed or conditions fulfilled. The Research and Development Tax Incentive is recognised as a government grant as described in Note 7, Income tax.

### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

The timing of revenue recognition for the Group's key revenue streams as they relate to specific performance obligations are outlined in the table below:

**Note 5. Revenue (continued)**

Revenue stream	Revenue recognition pattern
<b>Software license fees</b>	
Performance obligation 1 - Accessibility and usage of ReadCloud's software	Point in time (upon a customer purchasing software)
Performance obligation 2 - Maintenance/support	Over time, which usually relates to a school year
<b>eBooks sales</b>	Point in time (upon a customer purchasing an eBook)
<b>Auspicing fees</b>	
Performance obligation 1 – the pre-approval of a school to offer a nationally-recognised VET qualification under the auspices of AIET's RTO licence and set-up of a school, classes and students to enable VET course delivery	Point in time (upon customer entering into a contract)
Performance obligation 2 - ongoing service / maintenance and compliance monitoring	Over time, which usually relates to a school year
Performance obligation 3 – issue of certificates to students	Over time, which usually relates to the school year

## Note 6. Expenses

	Consolidated 2020 \$	2019 \$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	33,412	19,592
Leasehold improvements	10,487	1,742
Right of use assets	136,255	-
	<u>180,154</u>	<u>21,334</u>
<i>Amortisation</i>		
Software development	486,916	371,829
Registered Training Organisation licence	7,692	5,128
Intellectual property in Vocational Education & Training course materials	27,500	18,333
	<u>522,108</u>	<u>395,290</u>
Total depreciation and amortisation	<u>702,262</u>	<u>416,624</u>
Defined contribution superannuation expense	<u>275,709</u>	<u>208,793</u>
Share-based payments expense	<u>130,392</u>	<u>471,365</u>
Employee benefits expense excluding superannuation	<u>2,352,515</u>	<u>1,680,516</u>

## Note 7. Income tax expense/(benefit)

	Consolidated 2020 \$	2019 \$
Income tax expense / (benefit)	(45,326)	(87,750)
Deferred tax liability	-	45,326
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax expense/(benefit)	<u>(1,027,310)</u>	<u>(1,718,173)</u>
Tax at the statutory tax rate of 27.5%	(282,510)	(472,498)
Non-assessable R&D tax incentive	(107,255)	(114,927)
Non-deductible R&D expenditure subject to incentive	60,582	60,760
Share based payments	35,858	129,625
Other net non-deductible expenditure	135,918	122,934
Recognition of and movement in temporary differences	(12,594)	186,356
Unrecognised income tax losses carried forward	<u>124,675</u>	<u>-</u>
Income tax expense / (benefit)	<u><u>(45,326)</u></u>	<u><u>(87,750)</u></u>



## Note 7. Income tax expense/(benefit) (continued)

	Consolidated	
	2020	2019
	\$	\$
Deferred tax liability comprises temporary differences attributable to:		
Provisions, accruals and other amounts not yet deductible	(198,606)	(154,757)
Capitalised software costs deducted	602,309	550,229
Unused income tax losses	(403,703)	(350,146)
Total deferred tax liability	-	45,326
Deferred tax assets not recognised	124,675	-

The above deferred tax asset (potential tax benefit) has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

### Accounting policy for income tax

The income tax expense/(benefit) for the period is the tax payable on the current period's taxable income based on the current income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

- Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.
- Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.
- Current and deferred tax balances relating to amounts recognised directly in other comprehensive income and equity are also recognised directly in other comprehensive income and equity, respectively.
- The Research and Development Tax Offset is recognised as a government grant in profit before tax to match the expense/(benefit) with the costs for which it is intended to compensate. It is recognised in the period when there is a reasonable expectation that the Group will be able to realise the expense/(benefit).
- The carrying value of recognised deferred tax assets is reviewed at each reporting date.

## Note 8. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Trade receivables	177,097	69,659
Deposits	30,250	7,383
R&D tax incentive receivable	390,019	393,123
	420,269	400,506
	597,366	470,165

Refer to note 17 for further information on financial instruments.



## Note 8. Current assets - trade and other receivables (continued)

### *Allowance for expected credit losses*

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

The Group has no receivables which are considered impaired. The ageing of receivables are as follows:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
0 to 3 months	131,230	67,617
3 to 6 months	45,867	2,042
	<u>177,097</u>	<u>69,659</u>

### *Accounting policy for trade and other receivables*

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

The recoverability of trade receivables is reviewed on an ongoing basis. Amounts which are determined not to be recoverable are written off by reducing the carrying amount to its recoverable amount, and the difference is charged to the statement of profit or loss in that period.

A provision for impairment of trade receivables is recognised where there is objective evidence that the Group is unable to collect part or all of the amounts due. Factors such as previous trading relationship, financial position, and probability of recoverability are considered when determining the extent the debtor is impaired.

### *Accounting policy for goods and services tax*

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

## Note 9. Non-current assets - intangibles

	Consolidated 2020 \$	2019 \$
Goodwill - at cost	2,213,929	2,213,929
Software - at cost	3,559,782	2,883,487
Less: Accumulated amortisation	(1,369,569)	(882,653)
	2,190,213	2,000,834
Registered Training Organisation Licence	50,000	50,000
Less: Accumulated amortisation	(12,821)	(5,128)
	37,179	44,872
Intellectual property in Vocational Education & Training course materials	55,000	55,000
Less: Accumulated amortisation	(45,833)	(18,333)
	9,167	36,667
	<u>4,450,488</u>	<u>4,296,301</u>

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Software at cost \$	Goodwill \$	Registered Training Organisation licence \$	Intellectual property in course materials \$	Total \$
Balance at 1 July 2018	1,689,877	-	-	-	1,689,877
Additions	682,786	-	-	-	682,786
Additions through business combinations	-	2,213,929	50,000	55,000	2,318,929
Amortisation expense	(371,829)	-	(5,128)	(18,333)	(395,290)
Balance at 30 June 2019	2,000,834	2,213,929	44,872	36,667	4,296,301
Additions	676,295	-	-	-	676,295
Amortisation expense	(486,916)	-	(7,692)	(27,500)	(522,108)
Balance at 30 June 2020	<u>2,190,213</u>	<u>2,213,929</u>	<u>37,179</u>	<u>9,167</u>	<u>4,450,488</u>

### Accounting policy for Goodwill

Goodwill arises on the acquisition of a business. It is recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired at date of acquisition.

Goodwill is not amortised. Instead, it is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition.

## Note 9. Non-current assets – intangibles (continued)

### *Accounting policy for internally developed software*

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years. Internally generated intangibles, excluding internally developed software, are not capitalised and the related expenditure is reflected in the statement of profit or loss in the period in which the expenditure is incurred.

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Expenditure so capitalised is amortised when the asset is available for use over the period of expected benefit from the related project. The useful life of the capitalised development costs is estimated to be 5 years.

### *Impairment of non-financial assets*

Non-financial assets other than goodwill are reviewed 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 carrying amount exceeds its recoverable amount.

The Group assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Goodwill has been allocated to the Vocational Education and Training segment cash-generating unit (CGU). The recoverable amount of the CGU is determined based on a value-in-use model. The model uses a discount rate of 11% (FY19: 11%), based on the weighted average cost of capital adjusted to reflect an estimate of specific risks assumed in the cash flow projections. Those projections are based on the financial budget for the 12 months immediately following the reporting date, cash flows beyond 12 months extrapolated through a 4-year outlook utilising annual growth rates based on current and forecast trading conditions and the growth objectives of business plans, and a terminal value growth rate of 2.5% (FY19: 2.5%).

The Board has reviewed and is comfortable with the significant assumptions determined by Management and utilised in the value-in-use calculations. Upon applying the test to purchased goodwill, it is concluded that no impairment has occurred. Considering the early stage of the Group's business and operating cash outflows during the year, Management applied the value-in-use model to assess the recoverable amount of all intangibles on a Group-wide basis, again concluding that the carrying value of goodwill and other intangibles does not exceed their value-in-use, and no impairment charge is required.

Sensitivity analysis on the key assumptions employed in the value-in-use calculations has been performed by Management. The sensitivities applied were decreasing sales and associated cost of goods sold by 20% throughout the model period (whilst holding operating costs stable), increasing the weighted average cost of capital by 9 percentage points (to 20%) and reducing the terminal value growth to nil. This has concluded that any reasonable possible change in valuation parameters would not cause the carrying amount of the CGU to exceed its recoverable amount.

## Note 10. Leases

### A. Expenses

Expenses from transactions not recognised as leases:

**Consolidated**  
**30 June 2020**  
**\$**

Rental expense relating to leases of low-value assets

21,932

### B. Cash flows

**Consolidated**  
**30 June 2020**  
**\$**

Total cash outflow for leases:

Brighton office lease

45,833

Brunswick office lease

31,263

Photocopying equipment

41,977

119,073

### C. Right-of-use assets

	<b>Property</b>	<b>Photocopying</b>	<b>Total</b>
	<b>\$</b>	<b>Equipment</b>	<b>\$</b>
		<b>\$</b>	
Right-of-use assets	355,405	70,993	426,398
Less: Accumulated depreciation	(95,688)	(40,567)	(136,255)
Net book amount at 30 June 2020	259,717	30,426	290,143

#### Reconciliation

Opening balance at 1 July 2019 (upon adoption of AASB16 Leases)

60,151

70,993

131,144

Additions (new leases)

295,254

-

295,254

Depreciation charge

(95,688)

(40,567)

(136,255)

Balance at 30 June 2020

259,717

30,426

290,143

## Note 10. Leases (continued)

### D. Lease liabilities

#### Consolidated 30 June 2020

	\$
Current	164,064
Non-current	152,823
Total at 30 June 2020	<u>316,887</u>

Refer to note 17 for further information on financial instruments.

#### Reconciliation of opening balance:

Non-cancellable lease commitments at 30 June 2019	142,420
Reduction to reflect commitment disclosed for short term leases at 30 June 2019	(6,402)
Reduction from discounting future, undiscounted lease payments to their net present value at the Group's incremental borrowing rate	(4,874)

Lease liability as at 1 July 2019	<u>131,144</u>
-----------------------------------	----------------

### Additional information

#### Accounting policies relative to leases

##### Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

##### Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

For the purpose of calculating unavoidable future lease payments, only the current term of each property lease has been considered because all property locations reflect office locations with no installed critical infrastructure which are therefore viewed as readily replaceable. In addition, the Group does not expect to continue the lease arrangement for equipment past the maturity of the current lease.

#### Note 10. Leases (continued)

The Group has adopted the practical expedient available within AASB 16 to not recognise low value assets within the above lease calculations. These assets relate to telephony equipment and are expensed when costs are incurred.

Weighted average lease term

The average unavoidable property lease term, weighted by the outstanding lease liability as 30 June 2020, is 2.23 years.

The Group (via the acquisition of Australian Institute of Education and Training) has leased equipment with 0.72 years remaining on the lease term as at 30 June 2020. There is no residual payment at the end of the lease term.

#### Note 11. Current liabilities - trade and other payables

	Consolidated	
	2020	2019
	\$	\$
Trade payables	240,847	108,401
Accrued expenses	37,777	31,516
GST payable / (receivable)	(40,378)	21,445
Other payables	151,170	347,350
	<u>389,416</u>	<u>508,712</u>

Refer to note 17 for further information on financial instruments.

##### *Accounting policy for trade and other payables*

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

#### Note 12. Current liabilities - employee benefits

	Consolidated	
	2020	2019
	\$	\$
Annual leave	<u>149,263</u>	<u>108,024</u>

##### *Accounting policy for employee benefits*

##### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

##### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**Note 13. Current liabilities – Contract liabilities**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Unearned revenue - software	23,306	18,270
Unearned revenue - distribution agreement	100,000	100,000
Unearned revenue – auspicing fees	84,002	45,850
	<u>207,308</u>	<u>164,120</u>

*Unearned revenue - distribution agreement*

Under a distribution agreement with an authorised reseller the Group receives minimum guarantee funds from the reseller in advance of it distributing the Group's products to end users in the following calendar year. The minimum guarantee funds are deferred as unearned and accounted as revenue in the next calendar year.

*Unearned revenue – Software licence fees and Auspicing fees*

Refer to note 5 for further information on the timing of revenue recognition in relation to these revenue streams.

#### Note 14. Equity - contributed equity

	2020 Shares	Consolidated 2019 Shares	2020 \$	2019 \$
Ordinary shares - fully paid	98,055,556	88,750,000	11,385,848	8,067,274

#### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	83,750,000		7,257,899
Shares issued upon vesting of performance rights	8 August 2018	1,875,000	\$0.00	183,750
Shares issued upon vesting of performance rights	21 September 2018	1,875,000	\$0.00	140,625
Shares issued as part consideration for acquisition of AIET	23 November 2018	250,000	\$0.34	85,000
Shares issued as part consideration for acquisition of AIET	13 May 2019	1,000,000	\$0.40	400,000
Balance	30 June 2019	88,750,000		8,067,274
Shares issued pursuant to placement	6 August 2019	5,555,556	\$0.36	2,000,000
Share issue transaction costs				(149,504)
Shares issued as final consideration for acquisition of AIET	23 September 2019	3,600,000	\$0.40	1,440,000
Shares issued pursuant to exercise of options	5 June 2020	150,000	\$0.20	30,000
Share issue transaction costs				(1,922)
Balance	30 June 2020	98,055,556		11,385,848

#### Share buy-back

There is no current on-market share buy-back.

#### Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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 Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

#### Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.



## Note 15. Equity – reserves

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Share-based payments reserve	407,513	407,002

### *Share-based payments reserve*

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

### *Movements in reserves*

Movements in each class of reserve during the current and previous financial year are set out below:

	<b>Consolidated</b>	
	<b>Share based payments reserve</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
Balance at 1 July 2018	299,005	299,005
Share based payments	471,365	471,365
Conversion of employee performance rights	(324,375)	(324,375)
Lapse of performance rights	(38,993)	(38,993)
Balance at 30 June 2019	407,002	407,002
Share based payments expense	130,392	130,392
Conversion of employee performance rights	-	-
Lapse of performance rights	(129,881)	(129,881)
Balance at 30 June 2020	407,513	407,513

## Note 16. Equity - dividends

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

## Note 17. Financial instruments

### **Financial risk management objectives**

The Group's activities may expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations. It is, and has been throughout the entire period, the Group's policy that no trading in financial instruments shall be undertaken.

#### Note 17. Financial instruments (continued)

There are no major risks arising from the entity's financial instruments. Minor risks are summarised below. The Board reviews and agrees policies for managing each of these risks.

A summary of the Group's financial assets and liabilities is as follows:

	Consolidated	
	2020	2019
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	3,387,609	3,067,599
Trade and other receivables	567,116	462,782
	<u>3,954,725</u>	<u>3,530,381</u>
<b>Financial liabilities</b>		
Trade and other payables	389,416	508,713
Lease obligations	-	142,420
Cash component of contingent consideration for acquisition	-	360,000
Lease Liabilities	306,887	
	<u>696,303</u>	<u>1,011,133</u>

#### Accounting policy for financial instruments

##### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

##### Trade and other receivables

Trade and other receivables are initially recognised at their face value, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

##### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group which at period-end are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, and accordingly they are measured at their face value.

#### Market risk

##### Foreign currency risk

The Group is not exposed to any significant foreign currency risk.

##### Price risk

The Group is not exposed to any significant price risk.

##### Interest rate risk

The Group is not exposed to any significant interest rate risk.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including, where required, obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered

## Note 17. Financial instruments (continued)

representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

### Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

### Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Consolidated - 2020</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	389,416	-	-	-	389,416
<i>Interest bearing</i>						
Lease liabilities	3.84%	172,778	110,000	36,667	-	319,445
Total non-derivatives		562,194	110,000	36,667	-	708,861
<b>Consolidated - 2019</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	508,712	-	-	-	508,712
Lease obligations	-	80,173	62,247	-	-	142,420
Contingent consideration for acquisition		360,000	-	-	-	360,000
Total non-derivatives		948,885	62,247	-	-	1,011,132

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

### Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 18. Key management personnel disclosures

### Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	897,624	801,081
Post-employment benefits	79,857	72,371
Long-term benefits	9,156	3,237
Share-based payments	61,710	306,497
	<u>1,048,347</u>	<u>1,183,186</u>

## Note 19. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PKF Melbourne Audit & Assurance Pty Ltd, the auditor of the Group:

	Consolidated	
	2020	2019
	\$	\$
<i>Audit services - PKF Melbourne Audit &amp; Assurance Pty Ltd</i>		
Audit or review of the financial statements	<u>60,000</u>	<u>52,700</u>
<i>Non-audit services - PKF Melbourne Corporate Pty Ltd</i>		
Payroll tax and GST advice	<u>-</u>	<u>2,900</u>
	<u>60,000</u>	<u>55,600</u>

## Note 20. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2020 (2019: \$Nil).

## Note 21. Related party transactions

### Parent entity

ReadCloud Limited is the parent entity.

### Key management personnel

Disclosures relating to key management personnel are set out in note 18 and in the remuneration report included in the Directors' report.

### Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

### Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

### Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

## Note 22. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of profit or loss and other comprehensive income

	2020 \$	Parent 2019 \$
Loss after income tax	(1,247,124)	(1,759,079)
Total comprehensive income	(1,247,124)	(1,759,079)

### Statement of financial position

	2020 \$	Parent 2019 \$
Total current assets	3,513,920	3,299,805
Total assets	8,703,988	8,025,049
Total current liabilities	(1,313,556)	(2,860,768)
Total liabilities	(1,488,407)	(2,913,776)
Net assets	7,215,581	5,111,273

### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2020.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

### Interests in subsidiaries

The parent entity, ReadCloud Limited, consolidates the following subsidiaries:

- Australian Institute of Education and Training, 100% controlled

### Note 23. Events after the reporting period

Since 30 June 2020:

- 1,223,134 ASX-listed options exercisable at \$0.30 per share have been exercised, raising proceeds of \$366,940; and
- The Company has granted 100,000 options exercisable at \$0.28 each and expiring on 2 July 2023 to employees pursuant to the Group's Employee Share and Option Scheme.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

### Note 24. Reconciliation of loss after income tax to net cash used in operating activities

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax expense/(benefit) for the year	(981,984)	(1,630,423)
Adjustments for:		
Depreciation and amortisation	702,262	416,624
Share-based payments	130,392	471,365
Interest paid on lease liabilities	9,563	0
Fair value movement on contingent consideration	-	405,000
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(167,385)	129,380
Decrease/(Increase) in prepayments	19,174	(41,248)
Increase/(decrease) in trade and other payables	(79,112)	(218,135)
Increase in employee benefits	61,561	63,134
Increase in unearned revenue	43,188	56,514
(Decrease) in deferred tax liability	(45,326)	(87,750)
Net cash used in operating activities	<u>(307,666)</u>	<u>(435,539)</u>

### Note 25. Earnings per share

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax attributable to the Owners of ReadCloud Limited	<u>(981,984)</u>	<u>(1,630,423)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>96,808,037</u>	<u>87,168,493</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>96,808,037</u>	<u>87,168,493</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings / (loss) per share	(1.01)	(1.87)
Diluted earnings / (loss) per share	(1.01)	(1.87)

## Note 25. Earnings per share (continued)

### Accounting policy for earnings per share

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the Owners of ReadCloud Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

The options and performance rights that have been granted by the Company, as set out below, have not been included in the weighted average number of ordinary shares for the purpose of calculating diluted EPS as they do not meet the requirements for inclusion in AASB 133 "Earnings per Share".

Description	Number on issue
Options issued under the Group's employee share plan (refer Note 26)	1,800,000
Options exercisable at \$0.30 each, expiring 30 November 2020 issued in connection with the Company's initial public offering	19,999,995

## Note 26. Share-based payments

An employee share plan has been established by the Group, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the Company or performance rights over ordinary shares in the Company to certain key management personnel and employees of the Group. The options and performance rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of options granted under the plan:

### 2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ Other	Balance at the end of the year
13/03/2018	07/02/2021	\$0.200	375,000	-	-	-	375,000
13/03/2018	07/02/2022	\$0.200	225,000	-	(150,000)	-	75,000
28/05/2018	27/03/2021	\$0.330	120,000	-	-	(120,000)	-
28/05/2018	7/05/2022	\$0.330	300,000	-	-	-	300,000
21/09/2018	17/07/2022	\$0.410	360,000	-	-	-	360,000
9/01/2019	14/12/2021	\$0.350	360,000	-	-	(120,000)	240,000
12/07/2019	12/07/2022	\$0.340	-	450,000	-	-	450,000
			1,740,000	450,000	(150,000)	(240,000)	1,800,000
Weighted average exercise price			\$0.310	\$0.340	\$0.200	\$0.340	\$0.320

**Note 26. Share-based payments (continued)**

**2019**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ Other	Balance at the end of the year
13/03/2018	07/02/2021	\$0.200	375,000	-	-	-	375,000
13/03/2018	07/02/2022	\$0.200	225,000	-	-	-	225,000
28/05/2018	21/03/2021	\$0.330	240,000	-	-	(240,000)	-
28/05/2018	27/03/2021	\$0.330	120,000	-	-	-	120,000
28/05/2018	07/05/2022	\$0.330	300,000	-	-	-	300,000
21/09/2018	17/07/2022	\$0.410	-	360,000	-	-	360,000
09/01/2019	14/12/2021	\$0.350	-	360,000	-	-	360,000
			1,260,000	720,000	-	(240,000)	1,740,000
Weighted average exercise price			\$0.270	\$0.380	\$0.000	\$0.330	\$0.310

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.67 years (2019: 2.44 years).

Set out below are summaries of performance rights granted under the plan:

**2020**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
09/11/2017	13/09/2019	\$0.000	3,750,000	-	-	(3,750,000)	-
09/11/2017	31/12/2019	\$0.000	1,875,000	-	-	(1,875,000)	-
			5,625,000	-	-	(5,625,000)	-

**2019**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
09/11/2017	14/09/2018	\$0.000	3,750,000	-	(1,875,000)	(1,875,000)	-
09/11/2017	13/09/2019	\$0.000	3,750,000	-	-	-	3,750,000
09/11/2017	31/12/2019	\$0.000	3,750,000	-	(1,875,000)	-	1,875,000
			11,250,000	-	(3,750,000)	(1,875,000)	5,625,000

At the end of the financial year there were no unissued ordinary shares of the Company under performance rights.

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
12/07/2019	12/07/2022	\$0.330	\$0.340	80.54%	-	1.00%	\$0.141

**Accounting policy for share-based payments**

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.



#### Note 26. Share-based payments (continued)

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



---

Paul Collins  
Chairman

27 August 2020

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF READCLOUD LIMITED

### Report on the Financial Report

#### Opinion

We have audited the accompanying financial report of ReadCloud Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2020, and the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the accompanying financial report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key audit matter – Recoverability of goodwill and other intangible assets	How our audit addressed this matter
<p>As disclosed in note 9 of the financial report, the carrying amount of goodwill and related acquired intangibles allocated to the Vocational Education and Training Cash Generating Unit (VET-CGU) is \$2,260,275 (2019: \$2,295,468). Other intangibles comprising internally developed software is carried at \$2,190,213 (2019: \$2,000,834). Relevant accounting policies are also disclosed in Note 9.</p> <p>The carrying value of goodwill and related acquired intangible assets is considered with reference to the Group's analysis of future cash flows using a value-in-use (VIU) model, applied to the VET-CGU.</p> <p>The Group's early stage of maturity anticipates the continuing investment of cash resources to enable cash positive operating activities. Net operating cash outflows during the year are an indicator of impairment of internally developed software, causing the Group to extend its VIU model to consider this asset, which is utilised Group-wide.</p>	<p>Our procedures included, but were not limited to, assessing and challenging:</p> <ul style="list-style-type: none"> <li>the reasonableness of the financial year 2021 budget approved by the Directors, comparing to current actual results, and considering trends, strategies and outlooks;</li> <li>the testing of inputs used in the impairment model, including the approved budget;</li> <li>the determination of the discount rate applied in the impairment model, comparing to available industry data;</li> <li>the short to medium term growth rates applied in the forecast cash flow, considering historical results including the growth achieved from services to new client schools and their student population, and available industry data;</li> <li>the arithmetic accuracy of the impairment model;</li> <li>the appropriateness of CGU determination;</li> </ul>

---

**Key audit matter – Recoverability of goodwill and other intangible assets (continued)**
**How our audit addressed this matter**

The Group's VIU models are internally developed, using a range of internal and external data, and forward-looking assumptions and judgements that may not materialise as expected.

The key assumptions in the VIU model include:

- preparation of forecast cash flows, incorporating forecast growth rates during the forecast period;
- determination of a terminal growth factor; and
- determination of a discount rate.

Our assessment of Management's evaluation of the recoverable amount of intangibles in accordance with the requirements of AASB 136 *Impairment of Assets* is a Key Audit Matter.

- Management's sensitivity analysis around the key drivers of the cash flow projections, to consider the likelihood of such movements occurring sufficient to give rise to impairment; and
- the appropriateness of the disclosures including those relating to sensitivities in assumptions used in note 9.

---

**Key audit matter – Capitalisation of software development costs as intangible assets**
**How our audit addressed this matter**

As disclosed in note 9 of the financial report, the carrying amount of the Group's internally developed software is \$2,190,213 (2019: \$2,000,834). The accounting policy in respect of this asset is also outlined in Note 9.

Judgement is required in determining development expenditures that should be capitalised. Such judgements include consideration of matters such as generation of future economic benefits and distinction between development of new software and maintenance or upgrade of existing software. Capitalised development costs are then amortised over the estimated useful life of the asset, presently judged to be five years.

Capitalised software is considered a Key Audit Matter due to the judgements applied in the amount of expenditure capitalised and the specific criteria that have to be met for capitalisation, in accordance with AASB 138 *Intangible Assets*.

Our procedures included, but were not limited to, the following:

- testing, on a sample basis, of development expenditure incurred during the year for compliance with AASB 138 and the Group's accounting policy;
- assessing evidence of Management's conclusion of the economic feasibility of the products relying on the application of the software, including board approved budgets, historical sales levels and marketing and business development plans;
- assessing the reasonableness of estimated useful life of five years and the calculation of amortisation;
- assessing whether there are any indicators of impairment, such as evidence of adverse market or internal conditions, and product or revenue underperformance;
- assessing and challenging, with reference to Management's recoverability analysis, that the recoverable amount of the asset from its continuing use supports its carrying amount; and
- the appropriateness of related disclosures in Note 9.

---

**Other Information**

Other Information is financial and non-financial information in the annual report of the Group which is provided in addition to the financial report and our Auditor's Report thereon. The Directors are responsible for the Other Information in the annual report.

Our opinion on the financial report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon, with the exception of our opinion on the Remuneration Report.

In connection with our audit of the financial report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information we obtained prior to the date of the Auditor's Report, we are required to report that fact. We have nothing to report in this regard.

**Directors' responsibility for the Financial Report**

The Directors of the Company are responsible for:

- preparing the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's and the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate Group and the Company or to cease operations or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objective is to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error; and
- 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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

**Opinion**

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2020. In our opinion, the Remuneration Report of ReadCloud Limited for the year then ended complies with Section 300A of the *Corporations Act 2001*.

**Responsibilities**

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

The PKF logo consists of the letters 'PKF' in a stylized, handwritten font.

PKF  
Melbourne, 27 August 2020

A handwritten signature in black ink, appearing to read 'Steven Bradby'.

Steven Bradby  
Partner

The shareholder information set out below was applicable as at 13 August 2020.

### Distribution of equity securities

	Number of holders of unquoted employee options	Number of holders of other unquoted options	Number of holders of quoted options	Number of holders of voluntarily escrowed shares	Number of holders of ordinary shares
1 to 1,000	-	-	0	-	29
1,001 to 5,000	-	-	32	-	226
5,001 to 10,000	-	-	21	-	102
10,001 to 100,000	-	-	108	-	261
100,001 and over	9	2	28	1	69
	<u>9</u>	<u>2</u>	<u>189</u>	<u>1</u>	<u>687</u>
Holding less than a marketable parcel	-	-	-	-	41

### Equity security holders

#### Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total quoted shares issued
HSBC Custody Nominees (Australia) Limited	10,155,239	10.29%
Amity Agency Pty Ltd	9,358,243	9.49%
Mr Lars Peder Lindstrom	8,454,128	8.57%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5,260,000	5.33%
UBS Nominees Pty Ltd	4,933,556	5.00%
Mr Nicholas Mardling*	4,850,000	4.92%
Mr Jonathan Brett Isaacs	4,231,667	4.29%
National Nominees Limited	4,157,862	4.21%
Hunmar Holdings Pty Ltd	3,817,786	3.87%
Ms Kimberley Juanita Therese Marshall	3,510,920	3.56%
Sandhurst Trustees Ltd <Cyan C3G Fund A/C>	3,194,444	3.24%
Mr Darren Hunter	2,750,000	2.79%
J P Morgan Nominees Australia Pty Limited	2,136,742	2.17%
Ms Natanya Pesha Fisher	2,026,955	2.05%
Mr Joshua Fisher	1,500,000	1.52%
Mrs Natanya Pesha Fisher & Mr Joshua Luke Fisher <Fisher Super>	1,486,655	1.51%
Mr Guy Samuel Mendelson	1,435,318	1.45%
Mr Raymond Jowett & Ms Claudia Gardiner <Jowett Superfund>	1,034,702	1.05%
Ms Nicole Sharp	968,375	0.98%
Mrs Katrina Claire Andrew & Mr Christian Thomas Andrew <KC & CT Andrew Superfund>	811,843	0.82%
	<u>76,074,435</u>	<u>77.11%</u>

\* These quoted ordinary shares are subject to voluntary escrow with escrow expiry dates shown in the table below:



### Escrow expiry

	Number
12 Month voluntary escrow until 13 September 2020	1,800,000
24 Month voluntary escrow until 23 November 2020	125,000
24 Month voluntary escrow until 13 May 2021	500,000
24 Month voluntary escrow until 13 September 2021	1,800,000
<b>Total</b>	<b>4,225,000</b>

### Options over ordinary shares

	Number held	% of total options issued
HSBC Custody Nominees (Australia) Limited	2,500,000	15.56
UBS Nominees Pty Ltd	2,500,000	15.56
Sandhurst Trustees Ltd <Cyan C3G Fund A/C>	1,000,000	6.22
Australian Executor Trustees Ltd	666,666	4.15
Mr Daniel Alan Brady	564,525	3.51
Custodial Services Limited <Beneficiaries Holdings A/C>	550,000	3.42
Biggins Super Pty Ltd <Biggins S/F A/C>	479,000	2.98
Atlantis MG Pty Ltd <MG Family A/C>	441,666	2.75
Mr Kenneth Biddick & Mrs Catherine Biddick <Conquest Sports PL SFBEN A/C>	375,000	2.33
Mila Investment Co Pty Ltd <Mila Investment A/C>	360,000	2.24
Sandhurst Trustees Ltd <Equity Inv Dragonfly A/C>	326,250	2.03
Retzos Executive Pty Ltd <Retzos Executive S/F A/C>	250,000	1.56
Mrs Sajini Menaka Perera	219,736	1.37
Mackay Group Pty Ltd <The Mackay Family A/C>	209,916	1.31
Sam Gouloupoulos Pty Ltd <S Gouloupoulos F/Super A/C>	208,333	1.30
Mr Timothy Grantham Simpson Hosking	200,217	1.25
Dr Ida Constable <Investment A/C>	195,000	1.21
Mr Shehan Cecil Goonesekera	181,909	1.13
GT Capital Pty Ltd <Greenwood Super A/C>	175,000	1.09
Hopscotch Pty Ltd <Hopscotch Super Fund A/C>	150,000	0.93
	<b>11,553,218</b>	<b>71.90</b>

### Unquoted equity securities

	Number on issue	Number of holders
Options exercisable at \$0.30 and expiring on 30 November 2020	3,333,332	2
Employee options with various exercise prices and expiry dates	1,900,000	9

The following persons hold 20% or more of unquoted equity securities:

Name	Class	Number held
UBS Securities Australia Limited	Options escrowed for 24 months until 7 February 2020	1,666,666
HSBC Custody Nominees (Australia) Limited	Options escrowed for 24 months until 7 February 2020	1,666,666



### Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Thorney Technologies Ltd	10,509,589	10.65%
TIGA Trading Pty Ltd	10,509,589	10.65%
Amity Agency	9,358,243	9.49%
Lars Lindstrom	8,534,128	8.65%
Darren Hunter	7,009,880	7.11%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5,260,000	5.33%
D & J Pollaers Holdings Pty Limited (Pollaers Family Trust)	5,193,750	5.26%
Joshua Fisher	5,013,610	5.08%

### Voting rights

The voting rights attached to ordinary shares are set out below:

#### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

### Annual General Meeting

ReadCloud Limited advises that its Annual General Meeting will be held on or about 10 November 2020. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon despatch. The Closing date for receipt of nomination for the position of Director is 22 September 2020. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on 22 September 2020 at the Company's Registered Office. The Company notes that the deadline for nominations for the position of Director is separate to voting on Director elections. Details of the Directors to be elected will be provided in the Company's Notice of Annual General Meeting in due course.