# Sovereign Cloud Holdings Limited

**ABN:** 80 622 728 189

## Consolidated Financial report

For the year ended 30 June 2019

(Reissued)

# REISSUED DIRECTOR'S REPORT

The directors present their report together with the financial report of Sovereign Cloud Holdings Limited (the "Company") and its controlled entity (together the "Group"), for the year ended 30 June 2019 and auditor's report thereon.

The reissued report has been revised as a result of the matter described in Note 27 to the reissued financial statements.

## Directors names

The names of the directors in office at any time during or since the end of the year are:

Cathie Reid AM (Chair)

Phil Dawson (Managing Director)

Ross Walker (Non-Executive Director)

The directors have been in office since the start of the year to the date of this report unless otherwise stated.

## Results

The loss of the group for the year after providing for income tax amounted to $7,350,315 (2018: $7,738,932).

## Review of operations

The Company was incorporated on 8 November 2017 and in December 2017 acquired all the issued capital of Sovereign Cloud Australia Pty Ltd, formerly ADG (Australia) Pty Ltd (“SCA”). At the time SCA investigated the market opportunity to deliver cloud based services to Australian Governments and Critical National Industries. The company was established to provide initial equity funding to build a cloud based platform in Canberra.

During calendar 2018, the group built the initial technology platform which gained independent IRAP accreditation to support Unclassified and Protected data.

By the end of 2018, the company undertook another capital raising to build a second technology platform and provide working capital to fund the go-to-market strategy. In the first half of calendar 2019 the group completed the second platform (Sovereignty Zone 2) and engaged with a number of key channel partners and direct customers for beta testing. Since then, the group has continued to develop a significant customer pipeline as it looks to convert into payloads and annuity type revenue. At the date of this report the company has been awarded some initial contracts either directly with government departments or through major channel partners.

**REISSUED DIRECTOR'S REPORT**

**Significant changes in state of affairs**

Significant changes in the state of affairs of the group during the financial year, were as follows:

- In October 2018, the Company changed from a proprietary company to a public company;
- In October 2018, the Company issued an Information Memorandum to raise equity funds between $10 million and $15 million to scale the existing cloud platform and provide funding for working capital; and
- In December 2018, the Company received share subscriptions for $10.2 million following the issue of the Information Memorandum.
- In March 2019, the Company borrowed approximately $6 million from major IT equipment suppliers to fund the purchase of IT equipment, services and licences, which formed part of the second cloud platform build.

**Principal activities**

The Company's principal activity is to deliver sovereign cloud services to Australian Governments and critical national industries. Since formation the Company has built a cloud based platform, which is accredited to by Government standards to PROTECTED controls or higher. The platform is available to rent computation cycles and data storage to customers on a pay-as-you-go basis, referred to as Infrastructure as a Service (IaaS).

No significant change in the nature of these activities occurred during the year.

**After balance date events**

Except as disclosed in note 24 of the financial report, there are no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations or the state of affairs of the group in future financial years.

**Likely developments**

The likely developments in the operations of the group and the expected results of those operations in subsequent financial years are as follows:

- The Company expects the operations to move from platform development and testing by qualified channel partners to onboarding contracted customers to build the revenue base.
- Like most early stage technology businesses, the Company is dependent on the ability to continue to fund working capital as it grows its revenue base. The directors are confident that future funding will be available through the continued support of its major shareholders and its ability to raise capital.

**Environmental regulation**

The group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

**Dividends paid, recommended and declared**

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

**Information on directors and company secretary**

**Cathie Reid AM** Chair

Qualifications

Cathie is the Co-Founder of Icon Group, a provider of integrated cancer care services with operations in Australia, Singapore, New Zealand and China. She is also the Managing Partner of Australia's Epic Pharmacy Group.

Cathie was the 2015 inductee for the Australian Business Women's Hall of Fame, named in the Top 100 Women of Influence by the AFR in 2013, won the National Telstra Business Women's Award in 2011 and recognised by Monash University with a Distinguished Alumni Award for Professional Achievement in 2012.

**Phil Dawson** Managing Director

Qualifications

Phil was the Co-Founding CEO of UKCloud Limited, a cloud based technology company in the UK and previously a co-founder of a number of technology and mobile start-ups, including MDS Technologies.

He was a Board member of TechUK, and a member of the UK's Information Economy Council and co-author with Professor Nigel Shadbolt, of the UK's Data Capability Strategy.

Phil has an MBA from London Business School and a Chemistry degree from the University of Sussex.

**Ross Walker** Non-Executive Director

Qualifications

Ross is a Chartered Accountant who worked with Arthur Anderson from 1978 to 1985 (including 3 years in the USA) before joining Pitcher Partners Brisbane (formerly Johnston Rorke).

Ross was Managing Partners at Pitcher Partners for 20 years until his retirement from equity in 2017. He was involved in corporate finance, valuations, audit, capital raisings, and mergers and acquisitions.

Ross is also a Non-Executive Director of:
•RPM Global Limited (ASX: RUL); and
•Wagners Holding Company Limited (ASX: WGN).

**Meetings of directors**

| Directors | Directors' meetings | |
|---|---|---|
| | Number eligible to attend | Number attended |
| Cathie Reid AM | 10 | 10 |
| Phil Dawson | 10 | 10 |
| Ross Walker | 10 | 10 |

**Options Held by Directors & Officers**

The number of options over shares in the Company held during the financial year by each Directors, is set out below:

| Name | Balance at the start of the year | Granted as compensation | Foreited, exercised and expired | Balance at the end of the year | Vested and exercisable |
|---|---|---|---|---|---|
| Cathie Reid | - | - | - | - | - |
| Phil Dawson | - | 705,621 | - | 705,621 | 314,355 |
| Ross Walker | - | - | - | - | - |

The number of options granted to the directors and officers since the end of the financial year up to the date of this report were as follows:

| Directors | Options granted |
|---|---|
| Phil Dawson | 350,340 |

**Shares under option**

Unissued ordinary shares of Sovereign Cloud Holdings Limited under option at the date of this report are as follows:

| Date granted | Number of unissued ordinary shares under option | Exercise price | Expiry date |
|---|---|---|---|
| 01/07/2018 | 1,927,243 | \$3.00 | 30/06/2022 |
| 13/08/2019 | 281,748 | \$3.00 | 30/06/2023 |
| 30/09/2020 | 1,102,707 | \$3.00 | 30/06/2024 |

At the date of this report 1,418,317 of the above options have vested. The exercise price of the remaining unvested options reduce to \$0.60 per option if the option holder remains an employee of the Company in accordance with certain vesting dates as follows:

| # Options | Vesting Date |
|---|---|
| 1,064,324 | 1 July 2021 |
| 461,487 | 1 July 2022 |
| 367,570 | 1 July 2023 |

No option holder has any right under the options to participate in any other share issue of the group.

**Shares issued on exercise of options**

125,000 shares were issued since balance date on exercise of options.

## Indemnification 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 personally liable, except where there is a lack of good faith.

During the financial year, the Company paid insurance premiums to insure the Directors and Officers of the Company against certain risks associated with their activities as Officers of the Company. The terms of that policy prohibit disclosure of the nature of the liability covered, the limit of such liability and the premium paid.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

**Auditor's independence declaration**

A copy of the auditor's independence declaration under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Signed in accordance with a resolution of the board of directors.

Director: ______________________

Ross Walker

Dated this 16th day of October 2020

**AUDITOR'S INDEPENDENCE DECLARATION**
**TO THE DIRECTORS OF SOVEREIGN CLOUD HOLDINGS LIMITED**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Bentleys

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas
Director
Brisbane
16 October 2020

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
ABN: 80 622 728 189

## REISSUED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

| | Note | 2019<br>$ | 2018<br>Restated*<br>$ |
|---|---|---|---|
| **Revenue and other income** | | | |
| Revenue from contracts with customers | 3 | 66,364 | - |
| Other revenue | 4 | 55,427 | 11,348 |
| | | 121,791 | 11,348 |
| **Less: expenses** | | | |
| Employee benefits expense | | (3,953,615) | (414,193) |
| Depreciation and amortisation expense | 5 | (477,964) | - |
| Data centre costs | | (557,378) | (114,195) |
| Contractor costs | | (612,903) | (1,316,395) |
| Travel and conferences | | (478,931) | (138,233) |
| IT costs and licence fees | | (418,791) | (2,072) |
| Premises rent | | (190,592) | (26,202) |
| Finance costs | 5 | (68,875) | - |
| Advertising expense | | (17,854) | (17,887) |
| Impairment expense - goodwill | | - | (5,379,970) |
| Acquisition transaction costs | | - | (199,814) |
| Other expenses | | (695,203) | (141,319) |
| | | (7,472,106) | (7,750,280) |
| **Profit / (loss) before income tax expense** | | (7,350,315) | (7,738,932) |
| Income tax expense | 6 | - | - |
| **Profit / (loss) for the year** | | (7,350,315) | (7,738,932) |
| **Other comprehensive income for the year** | | - | - |
| **Total comprehensive income/(loss)** | | (7,350,315) | (7,738,932) |

* Refer note 27 for details of the restatement of comparatives

**SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY**
**ABN: 80 622 728 189**

**REISSUED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2019**

| | Note | 2019<br>$ | 2018<br>Restated*<br>$ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 5,211,242 | 1,438,171 |
| Receivables | 8 | 983,140 | 2,550,089 |
| Other assets | 9 | 317,430 | - |
| **Total current assets** | | 6,511,812 | 3,988,260 |
| **Non-current assets** | | | |
| Receivables | 8 | 259,997 | - |
| Property, plant and equipment | 10 | 8,536,231 | 4,286,314 |
| Intangible assets | 11 | 535,584 | 126,000 |
| Other assets | 9 | 404,179 | 4,800 |
| **Total non-current assets** | | 9,735,991 | 4,417,114 |
| **Total assets** | | 16,247,803 | 8,405,374 |
| **Current liabilities** | | | |
| Payables | 12 | 570,608 | 1,190,526 |
| Borrowings | 13 | 1,997,807 | - |
| Provisions | 14 | 159,238 | 21,741 |
| **Total current liabilities** | | 2,727,653 | 1,212,267 |
| **Non-current liabilities** | | | |
| Borrowings | 13 | 3,302,147 | - |
| **Total non-current liabilities** | | 3,302,147 | - |
| **Total liabilities** | | 6,029,800 | 1,212,267 |
| **Net assets** | | 10,218,003 | 7,193,107 |
| **Equity** | | | |
| Share capital | 15 | 25,064,137 | 14,932,039 |
| Reserves | 16 | 243,113 | - |
| Accumulated losses | 17 | (15,089,247) | (7,738,932) |
| **Total equity** | | 10,218,003 | 7,193,107 |

* Refer note 27 for details of the restatement of comparatives

# REISSUED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2019

| | Contributed equity $ | Reserves $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **Balance as at incorporation** | - | - | - | - |
| Profit for the year as reported in 2018 financial statements | - | - | (2,358,962) | (2,358,962) |
| Prior period restatement (note 27) | - | - | (5,379,970) | (5,379,970) |
| Restated profit for the year | - | - | (7,738,932) | (7,738,932) |
| **Transactions with owners in their capacity as owners:** | | | | |
| Contributions | 14,932,039 | - | - | 14,932,039 |
| **Balance as at 30 June 2018** | 14,932,039 | - | (7,738,932) | 7,193,107 |
| Profit/(loss) for the year | - | - | (7,350,315) | (7,350,315) |
| **Transactions with owners in their capacity as owners:** | | | | |
| Contributions | 10,132,098 | - | - | 10,132,098 |
| Share based payments expensed | - | 243,113 | - | 243,113 |
| **Total transactions with owners in their capacity as owners** | 10,132,098 | 243,113 | - | 10,375,211 |
| **Balance as at 30 June 2019** | 25,064,137 | 243,113 | (15,089,247) | 10,218,003 |

The accompanying notes form part of these financial statements.

## REISSUED CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2019

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Receipts from customers | | 56,579 | - |
| Payments to suppliers and employees | | (7,053,360) | (1,288,175) |
| Interest received | | 55,427 | 11,348 |
| Finance costs | | (68,875) | - |
| **Net cash provided by / (used in) operating activities** | 19(b) | (7,010,229) | (1,276,827) |
| **Cash flow from investing activities** | | | |
| Payments for intangible assets | | (417,474) | (126,000) |
| Payments for property, plant and equipment | | (4,719,991) | (4,286,314) |
| Payment for other non current assets | | - | (4,800) |
| Payments for business combinations, net of cash acquired | | - | (367,927) |
| **Net cash provided by / (used in) investing activities** | | (5,137,465) | (4,785,041) |
| **Cash flow from financing activities** | | | |
| Proceeds from share issue | | 11,989,168 | 7,500,039 |
| Proceeds from borrowings | | 4,558,100 | - |
| Repayment of borrowings | | (660,714) | - |
| Payment of transaction costs | | (107,070) | - |
| Receipt of recoverable GST | | 141,281 | - |
| **Net cash provided by financing activities** | | 15,920,765 | 7,500,039 |
| **Reconciliation of cash** | | | |
| Cash at beginning of the financial year | | 1,438,171 | - |
| Net increase in cash held | | 3,773,071 | 1,438,171 |
| **Cash at end of financial year** | 19(a) | 5,211,242 | 1,438,171 |

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards - Reduced Disclosure Requirements, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Sovereign Cloud Holdings Limited and its consolidated entity. Sovereign Cloud Holdings Limited is a Company limited by shares, incorporated and domiciled in Australia. Sovereign Cloud Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was approved by the directors as at the date of the reissued director's report.

The following are the significant accounting policies adopted by the group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (a) Basis of preparation of the financial report

*Historical Cost Convention*

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

*Significant accounting estimates and judgements*

The preparation of the financial report requires the use of certain estimates and judgements in applying the group's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2 to the financial statements.

*Reissued Financial Statements*

The previously issued financial statements of the Group for the year ended 30 June 2019 dated 31 October 2019 have been withdrawn and are replaced by these financial statements. Refer Note 27 for further information and details of the restatements made to comparative information.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) New and revised accounting standards effective at 30 June 2019**

The group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2018, including AASB 9: *Financial Instruments* (AASB 9) and AASB 15: *Revenue from Contracts with Customers* (AASB 15).

*AASB 9: Financial Instruments*

AASB 9 replaces AASB 139: *Financial Instruments: Recognition and Measurement*. The key changes introduced by AASB 9 in relation to the accounting treatment for financial instruments include:

- simplifying the general classifications of financial assets into those measured at amortised cost and those measured at fair value;
- permitting entities to irrevocably elect, on initial recognition, for gains and losses on equity instruments not held for trading to be presented in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirement to separate and measure embedded derivatives at fair value, in relation to embedded derivatives associated with financial assets measured at amortised cost;
- requiring entities that elect to measure financial liabilities at fair value, to present the portion of the change in fair value arising from changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- Introducing a new 'expected credit loss' impairment model (replacing the 'incurred loss' impairment model of previous accounting standard).

In accordance with the transition requirements of AASB 9, the group has elected to apply AASB 9 retrospectively to each prior reporting period presented in the financial statements, with the cumulative impact, if any, of initially applying the new standard recognised as at the beginning of the earliest prior period presented (i.e., as at 1 July 2017). The group has also applied to consequential amendments to AASB 7: *Financial Instruments: Disclosure* to the disclosure of information about the group's financial instruments for the current financial year, and the comparative reporting period.

The application of AASB 9 has not materially impacted the classification and measurement of the group's financial assets and financial liabilities.

Further details of the group's accounting policies in relation to accounting for financial instruments under AASB 9 are contained in note 1(i) .

*AASB 15: Revenue from Contracts with Customers*

AASB 15 provides (other than in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the previous accounting standard, AASB 118 Revenue, revenue from the sale of goods was recognised when the significant risks and rewards of ownership of the goods transferred to the buyer, and revenue from the rendering of services was recognised by reference to the stage of completion of the transaction at the end of the reporting period.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In accordance with the transition requirements of AASB 15, the group has elected to apply AASB 15 retrospectively to each prior reporting period presented in the financial statements, with the cumulative impact, if any, of initially applying the new standard recognised as at the beginning of the earliest prior period presented (i.e., as at 1 July 2017).

The application of AASB 15 has not materially impacted the recognition and measurement of the group's revenue from contracts with customers.

Further details of the group's accounting policies in relation to accounting for revenue from contracts with customers under AASB 15 are contained in note 1(f) .

**(c) Going concern**

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The group incurred a loss from ordinary activities of $7,350,315 during the year ended 30 June 2019.

The ability of the Group to continue as a going concern is principally dependent upon the ability of the Company to raise additional funding in the future. The Company is currently in the process of seeking additional equity funds which is expected to be completed by the end of December 2020.

These conditions give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Based on preliminary discussions with the Company's major shareholders and previous successful capital raisings, the Directors have prepared the financial statements on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

The Directors are confident of securing funds as and when necessary to meet the Group's obligations as and when they fall due.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

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. Deferred consideration payable is measured at its acquisition date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is measured at its acquisition date fair value.

Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non-controlling interest, and the acquisition date fair value of the acquirer’s previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the amount of any non-controlling interest, and the acquisition date fair value of the acquirer’s previously held equity interest, the difference is immediately recognised as a gain in the profit or loss.

Acquisition related costs are expensed as incurred.

### (e) Principles of consolidation

The consolidated financial statements are those of the consolidated entity ("the group"), comprising the financial statements of the parent entity and all of the entities the parent controls. The group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entity to affect the amount of its returns.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the group and are de-recognised from the date that control ceases.

Equity interests in a subsidiary not attributable, directly or indirectly, to the group are presented as non-controlling interests. Non-controlling interests are initially recognised either at fair value or at the non-controlling interests’ proportionate share of the acquired entity’s net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Non-controlling interests in the results of subsidiaries are shown separately in the reissued consolidated statement of profit or loss and other comprehensive income and the reissued consolidated statement of financial position respectively.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Revenue from contracts with customers**

The group derives revenue by providing customers with access to IT hardware and services in a secure cloud environment. This offering is commonly referred to as Infrastructure as a Service (IaaS). Revenue is billed based on a self-service pay-as-you-go model with no set-up fees and no usage commitments. Revenue is recognised over time as the customer utilises the infrastructure, based on an agreed hourly rates of usage of computing cycles and data storage.

*Receivables from contracts with customers*

A receivable from a contract with a customer represents the group's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Subsequent to initial recognition, receivables from contracts with customers are measured at amortised cost and are tested for impairment.

**(g) Income tax**

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Tax Consolidation*

The parent entity and its subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group from 1 July 2018. This means that:

- each entity recognises their own current and deferred tax amounts in respect of the transactions, events and balances of the entity.
- the parent entity assumes the current tax liability and any deferred tax assets relating to tax losses, arising in the subsidiary, and recognises a contribution to (or distribution from) the subsidiaries.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group, arising under the joint and several liability provisions of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

**(h) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the reissued consolidated statement of financial position.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Financial instruments**

*Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

*Classification of financial assets*

Financial assets recognised by the group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

(a) the group's business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

*Classification of financial liabilities*

Financial liabilities classified as held-for-trading, contingent consideration payable by the group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the group are subsequently measured at amortised cost.

*Trade and other receivables*

Trade and other receivables arise from the group's transactions with its customers and are normally settled within 30 days.

Consistent with both the group's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

*Impairment of financial assets*

The following financial assets are tested for impairment by applying the 'expected credit loss' impairment model:

(a) debt instruments measured at amortised cost;

(b) debt instruments classified at fair value through other comprehensive income; and

(c) receivables from contracts with customers and contract assets.

The group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for both receivables from contracts with customers and contract assets. Under the AASB 9 simplified approach, the group determines the allowance for credit losses for receivables from contracts with customers and contract assets on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Financial instruments (Continued)**

For all other financial assets subject to impairment testing, when there has been a significant increase in credit risk since the initial recognition of the financial asset, the allowance for credit losses is recognised on the basis of the lifetime expected credit losses. When there has not been an increase in credit risk since initial recognition, the allowance for credit losses is recognised on the basis of 12-month expected credit losses. '12-month expected credit losses' is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The group consider a range of information when assessing whether the credit risk has increased significantly since initial recognition. This includes such factors as the identification of significant changes in external market indicators of credit risk, significant adverse changes in the financial performance or financial position of the counterparty, significant changes in the value of collateral, and past due information.

The group assumes that the credit risk on a financial asset has not increased significantly since initial recognition when the financial asset is determined to have a low credit risk at the reporting date. The group considers a financial asset to have a low credit risk when the counter party has an external 'investment grade'' credit rating (if available) of BBB or higher, or otherwise is assessed by the group to have a strong financial position and no history of past due amounts from previous transactions with the group.

The group assumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

The group determines expected credit losses using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The group has identified contractual payments more than 90 days past due as default events for the purpose of measuring expected credit losses. These default events have been selected based on the group's historical experience. Because contract assets are directly related to unbilled work in progress, contract assets have a similar credit risk profile to receivables from contracts with customers. Accordingly, the group applies the same approach to measuring expected credit losses of receivables from contracts with customers as it does to measuring impairment losses on contract assets.

The measurement of expected credit losses reflects the group's 'expected rate of loss', which is a product of the probability of default and the loss given default, and its 'exposure at default', which is typically the carrying amount of the relevant asset. Expected credit losses are measured as the difference between all contractual cash flows due and all contractual cash flows expected based on the group's exposure at default, discounted at the financial asset's original effective interest rate.

Financial assets are regarded as 'credit-impaired' when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset. Indicators that a financial asset is 'credit-impaired' include observable data about the following:

(a) significant financial difficulty of the issuer or the borrower;

(b) breach of contract;

(c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, has granted concessions to the borrower that the lender would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Financial instruments (Continued)**

The gross carrying amount of a financial asset is written off (i.e., reduced directly) when the counterparty is in severe financial difficulty and the group has no realistic expectation of recovery of the financial asset. Financial assets written off remain subject to enforcement action by the group. Recoveries, if any, are recognised in profit or loss.

**(j) Impairment of non-financial assets**

Goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

Assets other than goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use (where 'value in use' is determined as the present value of the future cash flows expected to be derived from an asset or cash-generating unit).

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is measured at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for the same asset. Impairment losses in respect of cash generating units are allocated first against the carrying amount of any goodwill attributed to the cash generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash generating unit.

A reversal of an impairment loss for an asset measured at cost is recognised in profit or loss. A reversal of an impairment loss for an asset measured at a revalued amount is treated as a revaluation increase and is recognised in other comprehensive income, except to the extent that an impairment loss on the same asset was previously recognised in profit or loss, in which case a reversal of that impairment loss is also recognised in profit or loss.

**(k) Property, plant and equipment**

Each class of plant and equipment is measured at cost or fair value less, where applicable, any accumulated depreciation and any accumulated impairment losses.

*Plant and equipment*

Plant and equipment is measured at cost, less accumulated depreciation and any accumulated impairment losses.

*Depreciation*

Land is not depreciated. The depreciable amount of all other property, plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held available for use, consistent with the estimated consumption of the economic benefits embodied in the asset.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Property, plant and equipment (Continued)**

| **Class of fixed asset** | **Depreciation rates** | **Depreciation basis** |
|---|---|---|
| Office equipment at cost | 20% | Straight line |
| Computer equipment at cost | 20% | Straight line |

**(l) Intangible assets**

*Goodwill*

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

*Separately acquired intangible assets*

Except for indefinite useful life intangible assets, which are not amortised but are tested annually for impairment, separately acquired intangible assets are recognised at cost and amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, separately acquired intangible assets are measured at cost, less accumulated amortisation (where applicable) and any accumulated impairment losses. The amortisation period of intangibles is 3 - 5 years.

*Intangible assets acquired in a business combination*

Intangibles acquired in a business combination are initially recognised at fair value (which, for accounting purposes, is treated as the cost of the intangible asset), and are subsequently amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost, less accumulated amortisation and any accumulated impairment losses.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Finance leases*

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the fair value or, if lower, the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease, if this is practicable to determine; if not, the group's incremental borrowing rate is used. Interest expense on finance leases is included in finance costs in the statement of profit or loss and other comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the group will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period in accordance with the effective interest method.

*Operating leases*

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(n) Employee benefits**

*(i) Short-term employee benefit obligations*

Liabilities arising in respect of wages and salaries, annual leave and other employee benefits (other than termination benefits) expected to be settled wholly before twelve months after the end of the reporting period are measured at the (undiscounted) amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables in the reissued consolidated statement of financial position.

*(ii) Long-term employee benefit obligations*

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For currencies in which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency are used. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) Employee benefits (Continued)**

Other long-term employee benefit obligations are presented as current liabilities in the reissued consolidated statement of financial position if the group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur. All other long-term employee benefit obligations are presented as non-current liabilities in the reissued consolidated statement of financial position.

*(iii) Retirement benefit obligations*

*Defined contribution superannuation plan*

The group makes superannuation contributions to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the related employee services are received. The group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the reissued consolidated statement of financial position.

*(iv) Share-based payments*

The group operates share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**(o) Goods and services tax (GST)**

Revenues, expenses and purchased assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the reissued consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the reissued consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(p) Comparatives**

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures. Refer also Note 27.

## NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

*(a) Impairment of goodwill*

Goodwill is allocated to a cash generating unit or units (CGU's) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a minimum period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

*(b) Impairment of non-financial assets other than goodwill*

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment and future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined.

The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a minimum period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **NOTE 3: REVENUE FROM CONTRACTS WITH CUSTOMERS** | | |
| Revenue from contracts with customers | | |
| Provision of IaaS | 66,364 | - |
| | | |
| **NOTE 4: OTHER REVENUE AND OTHER INCOME** | | |
| Interest income | 55,427 | 11,348 |

| | 2019 $ | 2018 $ |
|---|---|---|

## NOTE 5: OPERATING PROFIT

Profit / (losses) before income tax has been determined after:

| | 2019 $ | 2018 $ |
|---|---|---|
| Finance costs | | |
| - other | 68,875 | - |
| Depreciation | | |
| - office furniture and equipment | 16,131 | - |
| - computer equipment | 453,943 | - |
| | 470,074 | - |
| Amortisation of non-current assets | | |
| - software intangibles | 7,890 | - |
| Impairment losses - goodwill | - | 5,379,970 |
| Superannuation guarantee contributions | 296,261 | 31,250 |

## NOTE 6: INCOME TAX

### Income tax reconciliation

The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Prima facie income tax payable on profit before income tax at 27.5% (2018: 27.5%) | (2,021,337) | (2,128,206) |
| Add tax effect of: | | |
| - goodwill impairment | - | 1,479,491 |
| Tax losses and deferred tax not recognised | 2,021,337 | 648,715 |
| Income tax expense attributable to profit | - | - |

## NOTE 7: CASH AND CASH EQUIVALENTS

| | 2019 $ | 2018 $ |
|---|---|---|
| Cash at bank | 2,211,242 | 1,438,171 |
| Cash on deposit | 3,000,000 | - |
| | 5,211,242 | 1,438,171 |

| | 2019 $ | 2018 $ |
|---|---|---|
| **NOTE 8: RECEIVABLES** | | |
| CURRENT | | |
| Receivables from contracts with customers | 16,421 | - |
| Other receivables - recoverable GST | 155,547 | - |
| Other receivables | 61,172 | 50,089 |
| Amounts receivables from: | | |
| - individual shareholders (see notes 23 and 24) | 750,000 | 2,500,000 |
| | 983,140 | 2,550,089 |
| NON CURRENT | | |
| Other receivables - recoverable GST | 259,997 | - |
| **NOTE 9: OTHER ASSETS** | | |
| CURRENT | | |
| Prepayments | 317,430 | - |
| NON CURRENT | | |
| Prepayments | 404,179 | 4,800 |
| **NOTE 10: PROPERTY, PLANT AND EQUIPMENT** | | |
| **Plant and equipment** | | |
| Office equipment at cost | 16,131 | 13,748 |
| Accumulated depreciation | (16,131) | - |
| | - | 13,748 |
| Computer equipment at cost | 8,990,174 | 4,272,566 |
| Accumulated depreciation | (453,943) | - |
| | 8,536,231 | 4,272,566 |
| Total property, plant and equipment | 8,536,231 | 4,286,314 |

**(a) Reconciliations**

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year

| | 2019 $ | 2018 $ |
|---|---|---|
| *Office equipment* | | |
| Opening carrying amount | 13,748 | - |
| Additions | 2,383 | 13,748 |
| Depreciation expense | (16,131) | - |
| Closing carrying amount | - | 13,748 |

| | 2019 $ | 2018 $ |
|---|---|---|

## NOTE 10: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### (a) Reconciliations (Continued)

| | 2019 $ | 2018 $ |
|---|---|---|
| *Computer equipment* | | |
| Opening carrying amount | 4,272,566 | - |
| Additions | 4,717,608 | 4,272,566 |
| Depreciation expense | (453,943) | - |
| Closing carrying amount | 8,536,231 | 4,272,566 |

### (b) Property, plant and equipment pledged as security

Computer equipment at cost of $4,097,837 (2018: $nil) was acquired under hire purchase contracts and are pledged as security for the related hire purchase liabilities. No depreciation was charged against these assets during the year.

## NOTE 11: INTANGIBLE ASSETS

| | 2019 $ | 2018 $ |
|---|---|---|
| Goodwill on consolidation at cost | - | 5,379,970 |
| Provision for impairment loss | - | (5,379,970) |
| | - | - |
| Software intangibles at cost | 543,474 | 126,000 |
| Accumulated amortisation and impairment | (7,890) | - |
| | 535,584 | 126,000 |
| Total intangible assets | 535,584 | 126,000 |

### (a) Reconciliations

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year

| | 2019 $ | 2018 $ |
|---|---|---|
| *Goodwill at cost* | | |
| Opening balance | - | - |
| Additions through business combinations | - | 5,379,970 |
| Impairment losses | - | (5,379,970) |
| Closing balance | - | - |
| *Software intangibles at cost* | | |
| Opening balance | 126,000 | - |
| Additions | 417,474 | 126,000 |
| Amortisation | (7,890) | - |
| Closing balance | 535,584 | 126,000 |

## NOTE 11: INTANGIBLE ASSETS (CONTINUED)

### (b) Intangible assets pledged as security

Software intangible assets at a cost of $417,474 (2018: $nil) was acquired under hire purchase contracts and are pledged as security for the related hire purchase liabilities. No amortisation was charged against these assets during the year.

## NOTE 12: PAYABLES

| | | |
|---|---|---|
| CURRENT | | |
| *Unsecured liabilities* | | |
| Trade creditors | 385,985 | 1,104,836 |
| Sundry creditors and accruals | 184,623 | 85,690 |
| | 570,608 | 1,190,526 |

## NOTE 13: BORROWINGS

| | | |
|---|---|---|
| CURRENT | | |
| *Secured liabilities* | | |
| Hire purchase liability | 1,997,807 | - |
| NON CURRENT | | |
| *Secured liabilities* | | |
| Hire purchase liability | 3,302,147 | - |

### (a) Assets pledged as security

Assets under hire purchase contracts are pledged as security for the related hire purchase liabilities. See Notes 10 and 11 for further details.

### (b) Terms and conditions

Interest rates applicable on hire purchase liabilities range from 4.6% to 7.6% per annum. All loans are to be repaid on a monthly basis over 3 years.

## NOTE 14: PROVISIONS

| | | |
|---|---|---|
| CURRENT | | |
| Employee benefits | 159,238 | 21,741 |

## NOTE 15: SHARE CAPITAL

| | | 2019 $ | 2018 $ |
|---|---|---|---|
| Issued and paid-up capital | | | |
| 46,929,280 (2018: 29,864,000) ordinary shares | (a) | 25,064,098 | 14,932,000 |
| 30,000,000 (2018: 30,000,000) performance shares | (b) | 39 | 39 |
| | | 25,064,137 | 14,932,039 |

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Number | $ | Number | $ |
| **(a) Ordinary shares** | | | | | |
| Opening balance | | 29,864,000 | 14,932,000 | - | - |
| Shares issued: | | | | | |
| 1 December 2017 | Acquisition of SCA @ $0.50 per share | - | - | 9,864,000 | 4,932,000 |
| 1 December 2017 | Subscription Agreement @ $0.50 per share | - | - | 20,000,000 | 10,000,000 |
| 1 December 2018 | Placement @ $0.60 per share | 17,065,280 | 10,239,168 | - | - |
| Transaction costs relating to shares issued | | - | (107,070) | - | - |
| At reporting date | | 46,929,280 | 25,064,098 | 29,864,000 | 14,932,000 |

All issued shares are fully paid. At 30 June 2019 an amount of $750,000 under the December 2018 placement remained uncalled, by agreement with the company. See Note 23 for further details.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

| | 2019 Number | 2019 $ | 2018 Number | 2018 $ |
|---|---|---|---|---|
| **(b) Performance shares** | | | | |
| Opening balance | 30,000,000 | 39 | - | - |
| Shares issued: | | | | |
| 1 December 2017 | - | - | 30,000,000 | 39 |
| At reporting date | 30,000,000 | 39 | 30,000,000 | 39 |

## NOTE 15: SHARE CAPITAL (CONTINUED)

### (b) Performance shares (Continued)

As part of the December 2017 subscription agreement, the Company issued a number of performance shares to the same shareholders. The performance shares convert to ordinary shares based on certain milestones, and have an end date of 31 December 2022. A summary of the terms of the performance shares is as follows:

| Class | Milestone | No. 2019 | No. 2018 |
|---|---|---|---|
| A | The company completes the acquisition of all the issued capital of all or substantially all of the business and assets of UK Cloud Limited | 10,000,000 | 10,000,000 |
| B | The Company has undertaken a capital raising or series of capital raising under which it has raised at least $10 million or an exit event has occurred | 10,000,000 | 10,000,000 |
| C | The Company completes an exit event in which the value of the ordinary shares is at least $1.50 | 10,000,000 | 10,000,000 |

An exit event includes an IPO, trade sale or the sale of all the share capital in the company. If the company completes an exit event but has not completed the UKCloud acquisition, the class A performance shares will be automatically redeemed for $1.

The performance shares are nontransferable, have no voting rights and do not entitle the holder to any dividends. At 30 June 2019 none of the milestones had been achieved and no performance shares had been converted to ordinary shares.

| | | 2019 $ | 2018 $ |
|---|---|---|---|
| **NOTE 16: RESERVES** | | | |
| Share based payments reserve | 16(a) | 243,113 | - |
| | | 243,113 | - |

**(a) Share based payments reserve**

The share based payments reserve is used to record the fair value of shares or options issued to employees.

| | 2019 $ | 2018 $ |
|---|---|---|
| *Movements in reserve* | | |
| Share based payments expensed | 243,113 | - |
| Closing balance | 243,113 | - |

**NOTE 17: ACCUMULATED LOSSES**

| | 2019 $ | 2018 $ |
|---|---|---|
| Accumulated losses at beginning of year | (7,738,932) | - |
| Net profit / (loss) | (7,350,315) | (7,738,932) |
| Accumulated losses at end of year | (15,089,247) | (7,738,932) |

**NOTE 18: INTERESTS IN SUBSIDIARIES**

*Subsidiaries*

The following are the group's significant subsidiaries:

| Subsidiaries of Sovereign Cloud Holdings Limited 2019: | Country of incorporation | Ownership interest held by the group 2019 % | 2018 % |
|---|---|---|---|
| Sovereign Cloud Australia Pty Ltd | Australia | 100 | 100 |

In December 2017 the company acquired all the share capital in Sovereign Cloud Australia Pty Ltd ("SCA"). The purchase price of the business acquired has been allocated as follows:

| | $ |
|---|---|
| Cash | 14,780 |
| Creditors | (80,043) |
| Net assets/(deficiency) | (65,263) |
| Goodwill on acquisition | 5,379,970 |
| **Purchase Price** | **5,314,707** |
| Consideration paid: | |
| - Issue of shares (note 15) | 4,932,000 |
| - Cash | 382,707 |
| | **5,314,707** |

## NOTE 19: CASH FLOW INFORMATION

### (a) Reconciliation of cash

Cash at the end of the financial year as shown in the reissued consolidated statement of cash flows is reconciled to the related items in the reissued consolidated statement of financial position is as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash at bank | 2,211,242 | 1,438,171 |
| At call deposits with financial institutions | 3,000,000 | - |
| | 5,211,242 | 1,438,171 |

### (b) Reconciliation of cash flow from operations with profit after income tax

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Profit / (loss) from ordinary activities after income tax | (7,350,315) | (7,738,932) |
| **Adjustments and non-cash items** | | |
| Amortisation | 7,890 | - |
| Depreciation | 470,074 | - |
| Impairment of intangible assets | - | 5,379,970 |
| Share based payment expense | 243,113 | - |
| **Changes in operating assets and liabilities** | | |
| (Increase) / decrease in receivables | (27,504) | (50,089) |
| (Increase) / decrease in other assets | 128,934 | - |
| Increase / (decrease) in payables | (619,918) | 1,110,483 |
| Increase / (decrease) in provisions | 137,497 | 21,741 |
| Cash flows from operating activities | (7,010,229) | (1,276,827) |

### (c) Non-cash financing and investing activities

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Borrowings - prepaid services | 845,743 | - |
| Borrowings - recoverable GST | 556,825 | - |

## NOTE 20: SHARE BASED PAYMENTS

### (a) Equity-settled share-based payments

*(i) Employee option plan*

The company commenced an Employee Share Options Plan ("ESOP") as part of its overall long term employee incentive arrangements. In July 2018 the company granted 2,725,029 options over ordinary shares under the ESOP.

**NOTE 20: SHARE BASED PAYMENTS (CONTINUED)**

**(a) Equity-settled share-based payments (Continued)**

*(i) Employee option plan (Continued)*

Details of the options granted are provided below:

**2019**

| Grant date | Expiry date | Exercise price* | Balance at beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at the end of the year | Exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| 1/07/2018 | 30/06/2022 | $ 0.60 | - | 210,045 | - | - | 210,045 | 210,045 |
| 1/07/2018 | 30/06/2022 | $ 0.60 | - | 838,328 | - | - | 838,328 | - |
| 1/07/2018 | 30/06/2022 | $ 0.60 | - | 838,328 | - | - | 838,328 | - |
| 1/07/2018 | 30/06/2022 | $ 0.60 | - | 838,328 | - | - | 838,328 | - |
| | | | - | 2,725,029 | - | - | 2,725,029 | 210,045 |
| Weighted average exercise price*: | | | $ - | $ 0.60 | $ - | $ - | $ 0.60 | $ 0.60 |

* Exercise price is $3, however, the exercise price reduces to $0.60 unless the participant has ceased to be employed for any reason before the vesting dates which are 1 July 2018, 1 July 2019, 1 July 2020 and 1 July 2021 respectively

Fair value of options granted:

The assessed fair value of the options at grant date was $0.11, $0.13, $0.15 and $0.16 respectively. Fair value was determined using the Black Scholes pricing model. The following inputs were utilised:

- Exercise price: $0.60
- Grant date: 01/07/2018
- Expiry date: 30/06/2022
- Expected price volatility of the group's shares: 50%
- Expected dividend yield: 0.0%
- Risk-free interest rate: 2.25%

*(ii) Expenses recognised from share-based payment transactions*

The expense recognised in relation to the share-based payment transactions was recognised within employee benefit expense within the statement of profit or loss were as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Options issued under employee option plan | 243,113 | - |
| Total expenses recognised from share-based payment transactions | 243,113 | - |

| | 2019 $ | 2018 $ |
|---|---|---|

## NOTE 21: CAPITAL AND LEASING COMMITMENTS

**(a) Hire purchase commitments**

| | 2019 $ | 2018 $ |
|---|---|---|
| Payable | | |
| - not later than one year | 2,130,786 | - |
| - later than one year and not later than five years | 3,529,008 | - |
| Minimum hire purchase payments | 5,659,794 | - |
| Less future finance charges | (359,840) | - |
| Total hire purchase liability | 5,299,954 | - |
| Represented by: | | |
| Current liability | 1,997,807 | - |
| Non-current liability | 3,302,147 | - |
| | 5,299,954 | - |

**(b) Operating lease commitments**

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

| | 2019 $ | 2018 $ |
|---|---|---|
| Payable | | |
| - not later than one year | 579,942 | - |
| - later than one year and not later than five years | 434,173 | - |
| | 1,014,115 | - |

## NOTE 22: CONTINGENT LIABILITIES

A contingent liabilitiy exists as follows:

**Technology Licence Agreement**

As part of the acquisition of Sovereign Cloud Australia Pty Ltd ("SCA") the company has a licence agreement with UKCloud Ltd, dated 16 January 2017. The agreement provides SCA exclusivity for 5 years to utilise UKCloud's intellectual property (knowhow) in Australia (until January 2022). The company is obliged to pay royalties to UKCloud at varying rates depending on whether the agreement is exclusive or nonexclusive. Royalties are payable based on a percentage of IaaS (InfrastructureasaService) contract revenues.

The company can terminate the agreement after the first 5 year contract period. UKCloud can terminate the agreement if there is a material breach or if a receiver or administrator is appointed to the company.

## NOTE 23: RELATED PARTY TRANSACTIONS

### (a) Transactions with shareholders

The Company received an application from a shareholder for the issue of 1.25 million ordinary shares at 60 cents each ($750,000) as part of the capital raising undertaken in December 2018. The proceeds had not been received by the Company at 30 June 2019 (see note 8). As part of these arrangements, Cathie Reid (a director of the Company) and Stuart Giles have agreed to provide the shareholder with a loan for $750,000 to fund the investment. Stuart Giles has also provided the Company with an unconditional commitment to pay the $750,000 on demand at the request of the Company. The amount owing was subsequently received by the Company (see note 24).

## NOTE 24: EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material matters or circumstances which have arisen between 30 June 2019 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial periods except as follows:

- The amount receivable from a shareholder of $750,000 (see notes 8 and 23) has subsequently been paid and deposited into the Company's bank account.

Shares issued subsequent to balance date:

- In October 2019, when the final funds were received in respect of the placement of shares ($10,239,168) on 1 December 2018 (see note 15), the performance milestone for the Class B performance shares had been achieved, which resulted in the Class B performance shares (10,000,000) being converted to ordinary shares;
- Placement of 4,166,667 fully paid ordinary shares at 60 cents each $2,500,000 to WAM Microcap Limited in August 2020;
- Issue of a further 4,882,831 fully paid ordinary shares at 60 cents each $2,929,698 under the Entitlement Offer;
- On 13 August 2019 the Company granted 353,253 options over ordinary shares to employees under the Employee Share Option Plan. During the 2020 financial year 61,679 options have expired;
- On 30 September 2020 the Company granted 1,102,707 options over ordinary shares to employees under the Employee Share Option Plan.

## NOTE 24: EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

Lease liabilities entered into subsequent balance date:

- In December 2018 and January 2019 the Company entered into lease finance facilities with a major supplier and other parties to fund the purchase of computer equipment and software which was used to establish a second cloud platform (Sovereignty Zone 2). The total amount financed was $5,963,878 with a repayment term of 36 months.
- The Company has agreed additional lease finance facilities with a major supplier to fund the purchase of computer equipment and software. These facilities include the purchase of compute and storage computer equipment at a cost of $1,559,357, and a further $1,366,155 for equipment and software payable on delivery acceptance.

## NOTE 25: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, Sovereign Cloud Holdings Limited, financial statements:

### (a) Summarised statement of financial position

| | | |
|---|---|---|
| **Assets** | | |
| Current assets | 19,456,158 | 9,395,388 |
| Non-current assets | 5,314,707 | 5,314,707 |
| Total assets | 24,770,865 | 14,710,095 |
| **Liabilities** | | |
| Current liabilities | 4,559 | - |
| Non-current liabilities | - | - |
| Total liabilities | 4,559 | - |
| Net assets | 24,766,306 | 14,710,095 |
| **Equity** | | |
| Share capital | 25,064,137 | 14,932,039 |
| Retained earnings | (540,944) | (221,944) |
| Reserves | | |
| Share based payments reserve | 243,113 | - |
| Total equity | 24,766,306 | 14,710,095 |

### (b) Summarised statement of comprehensive income

| | | |
|---|---|---|
| Profit for the year | (319,000) | (221,944) |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | (319,000) | (221,944) |

## NOTE 26: KEY MANAGEMENT PERSONNEL COMPENSATION

| | | |
|---|---|---|
| Key management personnel compensation | 363,746 | 230,930 |

### NOTE 27: RESTATEMENT OF COMPARATIVES

Goodwill was initially recognised in December 2017 when SCH acquired all the share capital of SCA. In accordance with AASB136 Impairment of Assets, the Directors assessed goodwill for impairment as at 30 June 2018 by comparing its carrying amount to recoverable amount. AASB136 defines recoverable amount as the higher of the asset's (or CGU's) fair value less costs of disposal (FVLCD) and its value-in-use (VIU).

For the year ended 30 June 2018, the directors attempted a VIU model (Income Approach), however were unable to provide reasonably supportable assumptions due to the infancy, early state and pre-revenue nature of the Company.

As at 30 June 2018, the Directors believed that the recoverable amount of goodwill should be assessed in accordance with the FVLCD method. FVLCD was calculated adopting the Market Approach using Level 3 (fair value hierarchy ) inputs, based on the equity raised to form SCH.

Subsequently it was observed that the use of the Market Approach represented a prior period error, given the limited quantum and spread of capital raised and goodwill should have been impaired on acquisition resulting in a nil carrying amount as at 30 June 2018.

The Directors have now restated the 2018 comparatives, and issued the 30 June 2018 financial statements, with goodwill on acquisition of SCA fully impaired.

A summary of the affected financial statement line items for the prior period is as follows:

**Restatement of financial position (extract)**

| | 2018 Opening $ | Increase / (Decrease) $ | 2018 Restated $ |
|---|---|---|---|
| Intangible assets | 5,379,970 | (5,379,970) | - |
| **Net assets** | 12,573,082 | (5,379,970) | 7,193,112 |
| **Equity** | | | |
| Accumulated losses | 2,358,962 | 5,379,970 | 7,738,932 |
| **Total equity** | (12,573,082) | 5,379,970 | (7,193,112) |

**Restatement of comprehensive income (extract)**

| | 2018 Opening $ | Increase / (Decrease) $ | 2018 Restated $ |
|---|---|---|---|
| **Expenses** | | | |
| Impairment expense | - | 5,379,970 | 5,379,970 |
| **Total expenses** | 2,370,310 | 5,379,970 | 7,750,280 |
| **Profit / (loss) for the year** | (2,358,962) | (5,379,970) | (7,738,932) |

**SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY**
**ABN: 80 622 728 189**

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. In the directors opinion, the financial statements and notes thereto, as set out on pages 7 - 36, are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*; and

   (b) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2019 and its performance for the year ended on that date.

2. Based on preliminary discussions with the Company's major shareholders, in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director: ____________________

Ross Walker

Dated this 16th day of October 2020

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF SOVEREIGN CLOUD HOLDINGS LIMITED**

**Report on the Audit of the Financial Report**

**Opinion**
We have audited the financial report of Sovereign Cloud Holdings Limited and controlled entity (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the director's declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year then ended; and
(ii) complying with Australian Accounting Standards – Reduced Disclosure Requirements 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 Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Australian 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.

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

**Material Uncertainty Related to Going Concern**
We draw attention to Note 1(c) in the financial report, which indicates that the Group incurred a net loss of $7,350,315 during the year ended 30 June 2019. As stated in Note 1(c) the ability of the Group to continue as a going concern is principally dependent upon the ability of the Group to raise additional funding in the future. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Emphasis of Matter - Reissue of financial report**
We draw attention to Note 1 (a) and Note 27 in the financial report that states the financial statements have been restated and reissued. These notes also outline the reasons for reissuing the financial report and the key differences between this and the original report. The Directors Report has also been reissued. This audit report supersedes our audit report on the previously issued financial report date 31 October 2019. Our opinion is not modified in respect of this matter.

**Responsibilities of the Directors for the Financial Report**
The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary 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.

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

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF SOVEREIGN CLOUD HOLDINGS LIMITED**
**(Continued)**

Bentleys
THINKING AHEAD

**Auditor's Responsibilities for the Audit of the Financial Report**
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 the 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 also:

- 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.
- 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
- 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 those charged with governance 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.

Bentleys

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas
Director
Brisbane
16 October 2020