

APPENDIX 4D
SOVEREIGN CLOUD HOLDINGS LIMITED
ABN 80 622 728 189
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

The information contained in this report is for the half year ended 31 December 2020 and the previous corresponding period ended 31 December 2019 for Sovereign Cloud Holdings Limited and its controlled entities.

This report is presented in Australian dollars. The report has been subjected to independent review and is not subject to qualification.

Results for announcement to the market

	H1 FY21	H1 FY20	Movement
	\$	\$	%
Revenues from ordinary activities	1,451,026	361,444	+301%
Loss from ordinary activities after tax	(5,364,459)	(4,104,364)	-30.7%
Loss for the period	(5,364,459)	(4,104,364)	-30.7%

Dividend information

	Amount per Share (cents)	Franked Amount per Share (cents)	Conduit Foreign Income Amount per Share
Interim dividend	-	-	-

Brief explanation to figures reported above

Refer to review of operations on page 2.

	31 Dec 2020	31 Dec 2019
	\$	\$
Net tangible assets per security (cents)	25.3	9.6

Details of entities which control has been gained or lost during the period.

None.

Sovereign Cloud Holdings Limited

ABN: 80 622 728 189

Interim Financial report

For the half year ended 31 December 2020

TABLE OF CONTENTS

Directors' report	1 - 3
Auditor's independence declaration	4
Financial report	
Consolidated profit or loss and other comprehensive income	5
Consolidated financial position	6
Consolidated changes in equity	7
Consolidated statement of cash flows	8
Notes to financial statements	9 - 17
Directors' declaration	18
Independent auditor's report	19 - 20

SOVEREIGN CLOUD HOLDINGS LIMITED

ABN: 80 622 728 189

DIRECTORS' REPORT

The directors present their report together with the interim financial report of Sovereign Cloud Holdings Limited, the "Company" and its controlled entity, for the half year ended 31 December 2020 and auditor's report thereon.

Directors names

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

Cathie Reid (Chair)

Philip Dawson (Managing Director)

Ross Walker (Non-Executive Director)

Allan Brackin (Non-Executive Director), appointed as a Director on 16 October 2020.

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

Introducing New Operating Metrics

Summarised below are new operating metrics adopted by management for measuring the progress of business:

- *Total Contract Value (TCV)* is the total value of expected revenue from estimated consumption of Infrastructure-as-a-Service (IaaS), services secured through non-enforceable customer contracts (e.g. purchase orders, statement of works). Invoices are raised typically on a monthly basis against these contracts based on actual customer usage. Such contracts generally form part of a larger contractual scope that is less defined but provides overarching commercial terms (e.g. Master Services Agreements, Channel Partner Agreements, Teaming Agreements). As such, TCV provides an estimated of the total IaaS consumption expected by a customer over a defined time period, typically 12 months.
- *TCV Closed* in any period is the aggregated revenue associated with all signed commercial contracts in that period.
- *TCV Outstanding* is the remaining aggregated balance of all signed contracts at a point in time, net of any consumption utilised to date recognised against the respective contracts.
- *IaaS Consumption* is the revenue recognised based on the aggregated consumption of IaaS services, excluding implementation, consulting and setup charges or one-off non-recurring charges. In the Company's experience it is reasonable to expect IaaS Consumption to be repeated in subsequent periods.

SOVEREIGN CLOUD HOLDINGS LIMITED

ABN: 80 622 728 189

DIRECTORS' REPORT

Review and Results of Operations

Revenue

For the half year ended 31 December 2020 ("H1 FY21") revenue was \$1.1 million compared to \$0.3 million over the previous corresponding six month period to 31 December 2019 ("H1 FY20").

During H1 FY20 the Company was in the process of building its second technology platform (Sovereignty Zone 2) at Eastern Creek in Sydney and had engaged with a number of key channel partners and direct customers for beta testing. Revenue during this period (H1 FY20) was mostly generated through paid development to support initial reference projects and customer beta testing. While paid development revenue continued into the second half of FY20, and utilised by 30 June 2020, the Company secured a number of contracts/purchase orders which generated IaaS Consumption and implementation revenue in H2 FY20.

During the current period (H1 FY21) the Company continued to generate IaaS Consumption revenue and secure new contracts and expansion of existing contracts. Total revenue recorded in the current period of \$1.1 million comprised \$0.8 million in IaaS Consumption and \$0.3 million in consulting and implementation.

At 31 December 2020 TCV Outstanding was approximately \$2.1 million compared to \$0.8 million at 30 June 2020. TCV Closed in the current period was approximately \$2.4 million.

Other income in H1 FY21 of \$350,869 related to the Research and Development tax credit of \$300,869 and the Federal Government stimulus subsidy of \$50,000 received during the period.

Expenses

Total expenses in H1 FY21 were \$6.7 million compared to \$4.5 million in the previous corresponding period (an increase of \$2.2 million). The increase in expenses was mostly due to additional employee headcount, increase in depreciation and amortisation following completion of second technology platform build and expensing one-off IPO costs.

Financial Position

The Company's net asset position increased in H1 FY21 by \$19.2 million to \$25.4 million at 31 December 2020, mostly due to total capital raised of \$24.3 million (net of transaction costs) which included the IPO in December 2020 (capital raised of \$18.9 million, net) and listing of the Company's shares on ASX.

The Company also invested \$3.0 million in computer equipment and other assets to increase its storage and computer capacity at both Sydney and Canberra data centres to accommodate existing and anticipated customer usage. This investment was funded from an increase in the leased finance facility provided by a major equipment supplier.

Significant events occurring after the balance date

The directors of the company are not aware of any other matter or circumstances not otherwise dealt with in the financial report that significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs in the period subsequent to the half year ended 31 December 2020.

SOVEREIGN CLOUD HOLDINGS LIMITED

ABN: 80 622 728 189

DIRECTORS' REPORT

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 on page 4 and forms part of the Director's Report for half year ended 31 December 2020.

Signed in accordance with a resolution of the Board of Directors of Sovereign Cloud Holdings Limited.



Director: _____

Cathie Reid (Chair)

Dated this 24th day of February 2021

**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, in relation to the review for the half-year ended 31 December 2020 there have been:

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

Bentleys

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas

Stewart Douglas
Director
Brisbane
24 February 2021

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Note	31 Dec 2020	31 Dec 2019
		\$	\$
Revenue and other income			
Revenue from contracts with customers		1,093,715	336,145
Interest Income		6,442	25,299
Other income	2	<u>350,869</u>	<u>-</u>
		<u>1,451,026</u>	<u>361,444</u>
Less: expenses			
Depreciation and amortisation expense		(1,630,404)	(851,445)
Employee benefits expense		(2,816,507)	(2,373,895)
Finance costs		(175,179)	(178,066)
Licensing fees		(635,330)	(273,023)
Professional fees		(252,271)	(139,323)
IPO costs		(497,119)	-
Travel and conferences		(109,346)	(199,320)
Other expenses		<u>(699,329)</u>	<u>(450,736)</u>
		<u>(6,815,485)</u>	<u>(4,465,808)</u>
Profit / (loss) before income tax expense		(5,364,459)	(4,104,364)
Income tax expense	3	<u>-</u>	<u>-</u>
Net profit / (loss) from continuing operations		<u>(5,364,459)</u>	<u>(4,104,364)</u>
Other comprehensive income for the period		<u>-</u>	<u>-</u>
Total comprehensive income		<u>(5,364,459)</u>	<u>(4,104,364)</u>
Earnings per share for profit attributable to the shareholders:			
Basic earnings per share (cents)		(7.3)	(8.7)
Diluted earnings per share (cents)		(7.3)	(8.7)

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

CONSOLIDATED FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	31 Dec 2020	30 June 2020
		\$	\$
Current assets			
Cash and cash equivalents		20,518,011	1,129,906
Receivables	4	637,864	351,955
Other assets	5	<u>497,133</u>	<u>354,134</u>
Total current assets		<u>21,653,008</u>	<u>1,835,995</u>
Non-current assets			
Receivables	4	226,714	104,449
Property, plant and equipment	6	3,409,313	3,922,573
Intangible assets	7	82,313	101,318
Right of use lease assets	9	10,126,194	8,573,360
Other assets	5	<u>171,877</u>	<u>122,265</u>
Total non-current assets		<u>14,016,411</u>	<u>12,823,965</u>
Total assets		<u>35,669,419</u>	<u>14,659,960</u>
Current liabilities			
Payables	8	865,167	540,285
Lease liabilities	9	4,083,534	3,008,663
Provisions		<u>254,195</u>	<u>228,414</u>
Total current liabilities		<u>5,202,896</u>	<u>3,777,362</u>
Non-current liabilities			
Lease liabilities	9	<u>5,188,469</u>	<u>4,661,200</u>
Total non-current liabilities		<u>5,188,469</u>	<u>4,661,200</u>
Total liabilities		<u>10,391,365</u>	<u>8,438,562</u>
Net assets		<u>25,278,054</u>	<u>6,221,398</u>
Equity			
Share capital	10	53,527,207	29,214,908
Reserves	11	429,109	320,293
Accumulated losses	12	<u>(28,678,262)</u>	<u>(23,313,803)</u>
Total equity		<u>25,278,054</u>	<u>6,221,398</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

CONSOLIDATED CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Note	Contributed equity \$	Reserves \$	Accumulated Losses \$	Total equity \$
Consolidated					
Balance as at 1 July 2019		25,064,137	243,113	(15,089,247)	10,218,003
Loss for the period		<u>-</u>	<u>-</u>	<u>(4,104,364)</u>	<u>(4,104,364)</u>
Total comprehensive income for the half year		<u>-</u>	<u>-</u>	<u>(4,104,364)</u>	<u>(4,104,364)</u>
Transactions with owners in their capacity as owners:					
Share based payments expensed		<u>-</u>	<u>38,590</u>	<u>-</u>	<u>38,590</u>
Total transactions with owners in their capacity as owners		<u>-</u>	<u>38,590</u>	<u>-</u>	<u>38,590</u>
Balance as at 31 December 2019		<u>25,064,137</u>	<u>281,703</u>	<u>(19,193,611)</u>	<u>6,152,229</u>
Balance as at 1 July 2020		29,214,908	320,293	(23,313,803)	6,221,398
Loss for the period		<u>-</u>	<u>-</u>	<u>(5,364,459)</u>	<u>(5,364,459)</u>
Total comprehensive income for the half year		<u>-</u>	<u>-</u>	<u>(5,364,459)</u>	<u>(5,364,459)</u>
Transactions with owners in their capacity as owners:					
Contributions, net of transaction costs	10	24,312,299	-	-	24,312,299
Share based payments expensed	13	<u>-</u>	<u>108,816</u>	<u>-</u>	<u>108,816</u>
Total transactions with owners in their capacity as owners		<u>24,312,299</u>	<u>108,816</u>	<u>-</u>	<u>24,421,115</u>
Balance as at 31 December 2020		<u>53,527,207</u>	<u>429,109</u>	<u>(28,678,262)</u>	<u>25,278,054</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020	31 Dec 2019
	\$	\$
Cash flow from operating activities		
Receipts from customers	1,073,577	315,015
Operating grant receipts	350,869	-
Payments to suppliers and employees	(4,289,195)	(3,932,055)
Interest received	6,442	25,299
Right of use lease interest	(175,179)	(178,066)
IPO expenses	<u>(497,119)</u>	<u>-</u>
Net cash provided by / (used in) operating activities	<u>(3,530,605)</u>	<u>(3,769,807)</u>
Cash flow from investing activities		
Payment for property, plant and equipment	(2,650,972)	(329,970)
Payment for other non current assets	(116,769)	-
Payments for intangible assets	<u>-</u>	<u>(65,050)</u>
Net cash provided by / (used in) investing activities	<u>(2,767,741)</u>	<u>(395,020)</u>
Cash flow from financing activities		
Proceeds from share issue	25,425,900	750,000
Proceeds from borrowings	3,218,064	-
Repayment of borrowings	(1,615,924)	(969,977)
Repayment of Recoverable GST	(450,543)	-
Receipt of Recoverable GST	222,555	155,826
Payments of share issue costs	<u>(1,113,601)</u>	<u>-</u>
Net cash provided by / (used in) financing activities	<u>25,686,451</u>	<u>(64,151)</u>
Reconciliation of cash		
Cash at beginning of half year	1,129,906	5,211,242
Net increase / (decrease) in cash held	<u>19,388,105</u>	<u>(4,228,978)</u>
Cash at end of financial period	<u><u>20,518,011</u></u>	<u><u>982,264</u></u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose interim financial report for the half year ended 31 December 2020 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. The interim financial report does not include all information required for a full annual financial report, and should be read in conjunction with the annual report of the Group for the year ended 30 June 2020 and any public announcements made by Sovereign Cloud Holdings Limited during the interim reporting period.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

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.

Fair values

The fair values of Consolidated Entity's financial assets and financial liabilities approximate their carrying value due to being short-term in nature. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

The financial report also complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Going concern

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

New and revised standards

A number of new or amended standards became applicable for the current reporting period. The impact of the adoption of these standards did not have any impact on the group's accounting policies.

Government grants

Government grants are recognised when there is reasonable certainty that the grant will be received and all grant conditions are met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to depreciable assets are credited to deferred income and are recognised in profit or loss over the period and in the proportions in which depreciation expense on those assets is recognised.

Government grants include amounts received or receivable under the Federal Government's Cash Flow Boost Scheme, which provides a temporary subsidy to eligible businesses significantly affected by coronavirus (COVID-19).

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

The group has identified its operating segment as providing sovereign cloud Infrastructure-as-a-Service ("IaaS") in Australia. Management currently identifies the IaaS sector as being the Group's sole operating segment.

There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from the segment are equivalent to the financial statements of the Group as a whole.

	31 Dec 2020	31 Dec 2019
	\$	\$
NOTE 2: OTHER REVENUE AND OTHER INCOME		
Interest income	6,442	25,299
Other income		
R & D tax credit	300,869	-
Government stimulus subsidy	<u>50,000</u>	<u>-</u>
	<u>350,869</u>	<u>-</u>

NOTE 3: INCOME TAX

Income tax reconciliation

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

Prima facie income tax payable on loss before income tax at 27.5% (31 December 2019: 27.5%)	(1,475,226)	(1,128,700)
Tax effect of:		
Tax losses and deferred tax not recognised	<u>1,475,226</u>	<u>1,128,700</u>
Income tax expense attributable to loss	<u><u>-</u></u>	<u><u>-</u></u>

	31 Dec 2020	30 June 2020
	\$	\$
NOTE 4: RECEIVABLES		
CURRENT		
Receivables from contracts with customers	324,160	194,650
Other receivables - recoverable GST	261,271	155,547
Other receivables	<u>52,433</u>	<u>1,758</u>
	<u>637,864</u>	<u>351,955</u>
NON CURRENT		
Other receivables - recoverable GST	<u><u>226,714</u></u>	<u><u>104,449</u></u>

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020	30 June 2020
	\$	\$
NOTE 5: OTHER ASSETS		
CURRENT		
Prepayments	<u>497,133</u>	<u>354,134</u>
NON CURRENT		
Prepayments	<u>171,877</u>	<u>122,265</u>
 NOTE 6: PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
Office equipment at cost	39,561	17,543
Accumulated depreciation	<u>(18,406)</u>	<u>(17,543)</u>
	21,155	-
Computer equipment at cost	5,297,012	5,297,012
Accumulated depreciation	<u>(1,908,854)</u>	<u>(1,374,439)</u>
	<u>3,388,158</u>	<u>3,922,573</u>
Total property, plant and equipment	<u>3,409,313</u>	<u>3,922,573</u>
 Reconciliations		
Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial period		
<i>Office equipment</i>		
Opening carrying amount	-	-
Additions	22,018	1,412
Depreciation expense	<u>(863)</u>	<u>(1,412)</u>
Closing carrying amount	<u>21,155</u>	<u>-</u>
 <i>Computer equipment</i>		
Opening carrying amount	3,922,573	8,536,231
Additions	-	404,675
Depreciation expense	(534,415)	(920,496)
Reclassified on implementation of AASB 16	<u>-</u>	<u>(4,097,837)</u>
Closing carrying amount	<u>3,388,158</u>	<u>3,922,573</u>

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020	30 June 2020
	\$	\$
NOTE 7: INTANGIBLE ASSETS		
Software intangibles at cost	145,050	145,050
Accumulated amortisation and impairment	<u>(62,737)</u>	<u>(43,732)</u>
	<u><u>82,313</u></u>	<u><u>101,318</u></u>

Reconciliations

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

Software intangibles at cost

Opening balance	101,318	535,584
Additions	-	65,050
Amortisation	(19,005)	(35,842)
Reclassified on implementation of AASB 16	<u>-</u>	<u>(463,474)</u>
Closing balance	<u><u>82,313</u></u>	<u><u>101,318</u></u>

NOTE 8: PAYABLES

CURRENT

Unsecured liabilities

Trade creditors	484,799	272,521
Sundry creditors and accruals	<u>380,368</u>	<u>267,764</u>
	<u><u>865,167</u></u>	<u><u>540,285</u></u>

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 9: LEASE ASSETS AND LEASE LIABILITIES

	31 Dec 2020	30 June 2020
	\$	\$
LEASE ASSETS		
Data centres		
Data centres under lease	4,384,858	4,384,858
Accumulated depreciation	<u>(1,124,357)</u>	<u>(649,341)</u>
	3,260,501	3,735,517
Software		
Software under lease	868,255	868,255
Accumulated depreciation	<u>(246,957)</u>	<u>(128,249)</u>
	621,298	740,006
Computer equipment		
Computer equipment under lease	6,726,791	4,097,837
Accumulated depreciation	<u>(482,396)</u>	<u>-</u>
	<u>6,244,395</u>	<u>4,097,837</u>
Total carrying amount of lease assets	<u><u>10,126,194</u></u>	<u><u>8,573,360</u></u>
Reconciliations		
Reconciliation of the carry amount of lease assets at the beginning and end of the financial period:		
<i>Data centres</i>		
Opening carrying amount	3,735,517	-
Additions	-	1,500,506
Depreciation	(475,016)	(649,341)
Recognised on implmentation of AASB 16	<u>-</u>	<u>2,884,352</u>
Closing carrying amount	<u><u>3,260,501</u></u>	<u><u>3,735,517</u></u>
<i>Software</i>		
Opening carrying amount	740,006	-
Additions	-	404,781
Depreciation	(118,708)	(128,249)
Reclassified on implementation of AASB 16	<u>-</u>	<u>463,474</u>
Closing carrying amount	<u><u>621,298</u></u>	<u><u>740,006</u></u>
<i>Computer equipment</i>		
Opening carrying amount	4,097,837	-
Additions	2,628,954	-
Depreciation	(482,396)	-
Reclassified on implementation of AASB 16	<u>-</u>	<u>4,097,837</u>
Closing carrying amount	<u><u>6,244,395</u></u>	<u><u>4,097,837</u></u>

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020	30 June 2020
	\$	\$
NOTE 9: LEASE ASSETS AND LEASE LIABILITIES (CONTINUED)		
LEASE LIABILITIES		
CURRENT		
Lease liability - Data Centres	868,494	869,783
Lease liability - Computer equipment & software	<u>3,215,040</u>	<u>2,138,880</u>
	<u>4,083,534</u>	<u>3,008,663</u>
NON CURRENT		
Lease liability - Data Centres	2,558,465	2,979,325
Lease liability - Computer equipment & software	<u>2,630,004</u>	<u>1,681,875</u>
	<u>5,188,469</u>	<u>4,661,200</u>
Total carrying amount of lease liabilities	<u>9,272,003</u>	<u>7,669,863</u>

NOTE 10: SHARE CAPITAL

Issued and paid-up capital		
Ordinary shares	53,527,207	29,214,882
Performance shares	<u>-</u>	<u>26</u>
	<u>53,527,207</u>	<u>29,214,908</u>

	31 Dec 2020		30 June 2020		
	Number	\$	Number	\$	
Ordinary shares					
Opening balance	63,847,231	29,214,882	46,929,280	25,064,098	
Shares issued:					
24 January 2020	Conversion of Class B performance shares	-	-	10,000,000	13
27 March 2020	Entitlement Offer	-	-	6,792,951	4,075,771
25 June 2020	Exercise of employee options	-	-	125,000	75,000
14 August 2020	Share placement	4,166,667	2,500,000	-	-
18 August 2020	Share placement	4,876,499	2,925,900	-	-
22 October 2020	Redemption of Class A & C performance shares	-	26	-	-
8 December 2020	IPO prospectus	26,666,666	20,000,000	-	-
Transaction costs relating to shares issued	<u>-</u>	<u>(1,113,601)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Closing balance	<u>99,557,063</u>	<u>53,527,207</u>	<u>63,847,231</u>	<u>29,214,882</u>	

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020		30 June 2020	
	Number	\$	Number	\$
NOTE 10: SHARE CAPITAL (CONTINUED)				
Performance shares				
Opening balance	20,000,000	26	30,000,000	39
Movement:				
24 January 2020	Conversion of Class B performance shares to ordinary shares	-	(10,000,000)	(13)
22 October 2020	Redemption of Class A & C performance shares	<u>(20,000,000)</u>	<u>-</u>	<u>-</u>
Closing balance	<u>-</u>	<u>-</u>	<u>20,000,000</u>	<u>26</u>

NOTE 11: RESERVES

Share based payments reserve	<u>429,109</u>	<u>320,293</u>
	<u>429,109</u>	<u>320,293</u>

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

NOTE 12: ACCUMULATED LOSSES

Accumulated losses at beginning of period	(23,313,803)	(15,089,247)
Net profit / (loss)	<u>(5,364,459)</u>	<u>(8,224,556)</u>
Accumulated losses at end of financial period	<u>(28,678,262)</u>	<u>(23,313,803)</u>

NOTE 13: SHARE BASED PAYMENTS

Equity-settled share-based payments

(i) Employee option plan

The company issued 1,102,707 options on 30 September 2020 with the following vesting conditions:

Grant date	Expiry Date	Exercise price (\$)	Number granted (#)
1/07/2021	30/06/2024	\$ 0.60	367,569
1/07/2022	30/06/2024	\$ 0.60	367,569
1/07/2023	30/06/2024	\$ 0.60	<u>367,569</u>
			<u>1,102,707</u>

* 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 2022, 1 July 2023 and 1 July 2024 respectively.

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 13: SHARE BASED PAYMENTS (CONTINUED)

Equity-settled share-based payments (Continued)

(i) Employee option plan (Continued)

Mr Dawson is entitled to a Long-Term Incentive (“LTI”) of up to 50% of his base salary, subject to achieving personal performance targets. The number of Options to be offered to the Managing Director under the LTI component of his remuneration, on achieving certain performance targets, is to be calculated based on the company’s two week volume weighted average share price at the time the performance targets are met. There are three separate performance targets, each measured in terms of quarterly IaaS revenue and EBITDA milestones, to be achieved within certain timeframes otherwise the Options lapse.

The first performance target needs to be achieved on or before 30 June 2021, and thereafter, the performance targets are as follows:

	Performance Hurdle Growth	
Timeframe (quarter ending)	IaaS Revenue	EBITDA
Performance Target No 2 - 30 June 2022	70%	250%
Performance Target No 3 - 30 June 2023	50%	100%

Other key terms of the Managing Director’s LTI are as follows:

- Exercise price – each Option will have an exercise price of \$0.20;
- Expiry date – the Options will expire on 30 September 2025 or if the Managing Director ceases to be employed or engaged with AUCloud;
- Vesting date – the Options will vest 12 months after the performance target is achieved.

The assessed fair value at the date of grant of options issued is determined using an option pricing model that takes into account the exercise price, the underlying share price at the time of issue, the term of performance right, the underlying share's expected volatility, expected dividends and risk free interest rate for the expected life of the instrument. The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

The total expense for all share based payment recognised through Profit or Loss for the half year 31 December 2020 was \$108,816. The expense was calculated based on the probability of vesting conditions being met and the fair of options granted.

(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:

	31 Dec 2020	30 June 2020
	\$	\$
Options issued under employee option plan	<u>108,816</u>	<u>77,180</u>
Total expenses recognised from share-based payment transactions	<u><u>108,816</u></u>	<u><u>77,180</u></u>

SOVEREIGN CLOUD HOLDINGS LIMITED
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 14: EVENTS SUBSEQUENT TO REPORTING DATE

To the Directors' best knowledge, there has not arisen in the interval between 31 December 2020 and the date of this report any item, any transaction or event of a material and unusual nature that will, or may, significantly affect the operations of the Group.

SOVEREIGN CLOUD HOLDINGS LIMITED

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 5 - 17, are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) as stated in Note 1, the consolidated financial statements also comply with *International Financial Reporting Standards*; and
 - (c) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2020 and its performance for the half year ended on that date.
2. 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: _____

Cathie Reid (Chair)

Dated this 24th day of February 2021

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



Report on the Half-Year Financial Report

We have reviewed the half-year financial report of Sovereign Cloud Holdings Limited and its controlled entity (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2020, 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 half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review 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 Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

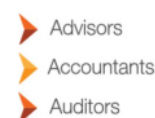
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas
Director
Brisbane
24 February 2021



A member of Bentleys, a network of independent advisory and accounting firms located throughout Australia, New Zealand and China that trade as Bentleys. All members of the Bentleys Network are affiliated only, are separate legal entities and not in partnership. Liability limited by a scheme approved under Professional Standards Legislation. A member of Allinial Global – an association of independent accounting and consulting firms.



CORPORATE DIRECTORY

Directors

Mrs Cathie Reid
Non-executive Chair

Mr Phil Dawson
Managing Director

Mr Allan Brackin
Non-executive Director

Mr Ross Walker
Non-executive Director

Company Secretary

Michelle Crouch

Head Office

Unit 7, 15-21 Beaconsfield Street
FYSHWICK ACT 2609

Registered Office

Level 38 Central Plaza One
345 Queen Street
BRISBANE QLD 4000

Auditor

Bentleys Brisbane (Audit) Pty Ltd

Level 9, 123 Albert Street
BRISBANE QLD 4000

Share Registry

Link Market Services Limited

Level 12, 680 George Street
SYDNEY NSW 2000

Stock Exchange Listing

The Company is listed on the Australian
Securities Exchange Limited (ASX: SOV)

ABN: 80 622 728 189