

ReadCloud Pty Ltd

ABN 44 136 815 891

Annual Report - 30 June 2015

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Directors	Mr Darren Hunter (Chief Information Officer) Mr Lars Lindstrom (CEO) Mr Joshua Fisher (Chief Operational Officer) (resigned 2 August 2017) Mr Paul Collins (Non-executive Director) (appointed 2 August 2017)
Company secretary	Ms Melanie Leydin
Registered office	Unit 1, 426 Glen Huntly Road Elsternwick VIC 3185 Phone: +61 3 9041 8550
Principal place of business	Unit 1, 426 Glen Huntly Road Elsternwick VIC 3185 Phone: +61 3 9041 8550
Auditor	PFK Melbourne Audit & Assurance Pty Ltd Level 12, 440 Collins Street Melbourne VIC 3000 Phone: +61 9679 2361
Website	www.readcloud.com

The Directors present their report, together with the financial statements, on the Company for the year ended 30 June 2015.

Directors

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

Mr Darren Hunter (Chief Information Officer)
Mr Lars Lindstrom (CEO)
Mr Joshua Fisher (Chief Operational Officer) (resigned 2 August 2017)
Mr Paul Collins (Non-executive Director) (appointed 2 August 2017)

Principal activities

During the financial year the principal continuing activities of the Company consisted of the provision of eBook solutions to secondary schools across Australia.

Dividends

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

Review of operations

The loss for the Company after providing for income tax amounted to \$97,047 (30 June 2014: \$452,423).

Significant changes in the state of affairs

On 1 September 2014, the Company issued 108 fully paid ordinary shares at an issue price of \$555.56, raising \$60,000.

On 1 November 2014, the Company issued 2,515 fully paid ordinary shares at an issue price of \$0.01, raising \$25.

On 1 February 2015, the Company issued 855 fully paid ordinary shares at an issue price of \$223.21, raising \$190,845.

On 1 May 2015, the Company issued 1,937 fully paid ordinary shares at an issue price of \$0.01, raising \$19.

On 30 June 2015, the Company issued 101 fully paid ordinary shares at an issue price of \$491.05, raising \$49,596.

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

Matters subsequent to the end of the financial year

On 1 November 2015, the Company issued 1,425 fully paid ordinary shares at an issue price of \$246.43 per share, raising a total of \$351,140 before equity raising costs.

On 31 July 2017, the Company issued 1,173 fully paid ordinary shares at an issue price of \$341, raising \$400,000 before equity raising costs.

On 10 September 2017, the Company completed a share split on a 1 for 2,653 basis.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely developments and expected results of operations

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

- Continue in the provision of eBook solutions to secondary schools across Australia;
- Continue to source content so with its reseller partners and publisher agreements, the Company is able to deliver the Australian secondary school curriculum in digital form in all states; and
- Continue with proceeding with the processes involved with the initial public offering. It is the Company's intention to list on the Australian Stock Exchange (ASX) in the 2018 financial year.

Environmental regulation

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

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

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 the following page.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read "Paul Collins".

Paul Collins
Director

24 October 2017

Auditor's Independence Declaration to the Directors of ReadCloud Pty Ltd

In relation to our audit of the financial report of ReadCloud Pty Ltd for the financial year ended 30 June 2015 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



PKF Melbourne Audit & Assurance
Melbourne, 24 October 2017



Steven Bradby
Partner

ReadCloud Pty Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2015



	Note	2015 \$	2014 \$
Revenue	4	176,553	127,821
Government grants	5	159,258	271,891
Expenses			
Legal and Business Expenses		(234,774)	(30,618)
Employment Expenses		(68,804)	-
Depreciation and amortisation expense		(21,503)	(112,436)
Write off of assets		-	(611,820)
Cost of sales		(52,634)	(68,662)
Occupancy		(24,317)	(14,540)
Administration		(8,203)	(14,059)
Finance costs		(22,623)	-
Loss before income tax expense/(benefit)		(97,047)	(452,423)
Income tax expense/(benefit)	6	-	-
Loss after income tax expense/(benefit) for the year attributable to the Owners of ReadCloud Pty Ltd	14	(97,047)	(452,423)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the Owners of ReadCloud Pty Ltd		<u>(97,047)</u>	<u>(452,423)</u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

	Note	2015 \$	2014 \$
Assets			
Current assets			
Cash and cash equivalents	7	52,932	6,014
Trade and other receivables	8	160,629	223,074
Total current assets		<u>213,561</u>	<u>229,088</u>
Non-current assets			
Intangibles	9	535,903	215,030
Total non-current assets		<u>535,903</u>	<u>215,030</u>
Total assets		<u>749,464</u>	<u>444,118</u>
Liabilities			
Current liabilities			
Trade and other payables	10	41,813	-
Unearned revenue	11	94,375	-
Total current liabilities		<u>136,188</u>	<u>-</u>
Non-current liabilities			
Borrowings	12	447,865	482,145
Total non-current liabilities		<u>447,865</u>	<u>482,145</u>
Total liabilities		<u>584,053</u>	<u>482,145</u>
Net assets/(liabilities)		<u>165,411</u>	<u>(38,027)</u>
Equity			
Contributed equity	13	700,585	400,100
Accumulated losses	14	(535,174)	(438,127)
Total equity/(deficiency)		<u>165,411</u>	<u>(38,027)</u>

The above statement of financial position should be read in conjunction with the accompanying notes

	Contributed equity \$	Retained profits \$	Total deficiency in equity \$
Balance at 1 July 2013	107	14,296	14,403
Loss after income tax expense/(benefit) for the year	-	(452,423)	(452,423)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(452,423)	(452,423)
<i>Transactions with owners in their capacity as owners:</i>			
Contributions of equity, net of transaction costs (note 13)	399,993	-	399,993
Balance at 30 June 2014	<u>400,100</u>	<u>(438,127)</u>	<u>(38,027)</u>
	Contributed equity \$	Retained profits \$	Total equity \$
Balance at 1 July 2014	400,100	(438,127)	(38,027)
Loss after income tax expense/(benefit) for the year	-	(97,047)	(97,047)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(97,047)	(97,047)
<i>Transactions with owners in their capacity as owners:</i>			
Contributions of equity, net of transaction costs (note 13)	300,485	-	300,485
Balance at 30 June 2015	<u>700,585</u>	<u>(535,174)</u>	<u>165,411</u>

	Note	2015 \$	2014 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		270,928	127,821
Payments to suppliers (inclusive of GST)		(336,293)	(143,167)
Research and development tax incentive refund		206,924	64,967
Net cash from operating activities	17	141,559	49,621
Cash flows from investing activities			
Payments for software development	9	(342,376)	(457,986)
Payments for security deposits		(2,750)	(6,900)
Net cash used in investing activities		(345,126)	(464,886)
Cash flows from financing activities			
Proceeds from issue of shares		250,485	300,000
Net cash from financing activities		250,485	300,000
Net increase/(decrease) in cash and cash equivalents		46,918	(115,265)
Cash and cash equivalents at the beginning of the financial year		6,014	121,279
Cash and cash equivalents at the end of the financial year	7	52,932	6,014

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover ReadCloud Pty Ltd as an individual entity. The financial statements are presented in Australian dollars, which is ReadCloud Pty Ltd's functional and presentation currency.

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 October 2017. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

The following Accounting Standards and Interpretations are most relevant to the Company:

- AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
- AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets
- AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting
- AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities
- AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)

Basis of preparation

In the Directors' opinion, the Company is not a reporting entity because there are no users dependent on general purpose financial statements.

These are special purpose financial statements that have been prepared for the purposes of complying with the Corporations Act 2001 requirements to prepare and distribute financial statements to the Owners of ReadCloud Pty Ltd. The Directors have determined that the accounting policies adopted are appropriate to meet the needs of the Owners of ReadCloud Pty Ltd.

These financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the disclosure requirements of AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', AASB 1031 'Materiality', AASB 1048 'Interpretation of Standards' and AASB 1054 'Australian Additional Disclosures', as appropriate for for-profit oriented entities.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

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

Note 2. Significant accounting policies (continued)

Current and non-current classification

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

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

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

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

Going concern

It is noted that for the 2015 financial year, the Company incurred a loss from continuing operations after income tax of \$97,047 (2014: \$452,423) and had consolidated net cash inflows of \$141,559 (2014: \$49,621). At present, the Company is reliant upon the securing of contracts with schools, its continued investment from the community and its success in its initial public offering. These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Should the Company not be able 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. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Company not continue as a going concern.

Leases

Operating leases are arrangements under which the lessor effectively retains substantially all the risks and benefits incidental to ownership of leased assets. Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight line basis over the term of the lease.

Note 3. Critical accounting judgements, estimates and assumptions

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

Estimation of useful lives of assets

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

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

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

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

Income tax

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

Recovery of deferred tax assets

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

Note 4. Revenue

	2015 \$	2014 \$
<i>Sales revenue</i>		
eBook Sales	87,970	98,315
Licence Fee	87,500	27,975
	<u>175,470</u>	<u>126,290</u>
<i>Other revenue</i>		
Interest	1,083	1,531
Revenue	<u>176,553</u>	<u>127,821</u>

Accounting policy for revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue from contracts with customers

The Company elected to early adopt the provisions of AASB15 Revenue from contracts with customers. Revenue is recognised to depict the transfer of eBooks and licencing services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. All contracts (either written, verbal or implied) are identified, together with the separate performance obligations within the contract and the transaction price is determined. Adjustments are made for the time value of money excluding credit risk and the transaction price is allocated to the separate performance obligations on a basis of relative stand-alone selling price of each distinct service/good. The estimation approach is taken if no distinct observable prices exists and revenue is recognised when each performance obligation is satisfied.

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

Interest

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

Software licence fee revenue

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

Note 4. Revenue (continued)

eBook sales revenue

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

Note 5. Government grants

	2015 \$	2014 \$
Government grants - R&D	159,258	271,891

Accounting policy for government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. The Research and Development Tax Offset is recognised as a government grant as described in Note 6, Income tax.

Note 6. Income tax expense/(benefit)

	2015 \$	2014 \$
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax expense/(benefit)	(97,047)	(452,423)
Tax at the statutory tax rate of 30%	(29,114)	(135,727)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable R&D tax incentive	(47,777)	(62,077)
Non-deductible R&D expenditure subject to incentive	106,172	-
Other net non-deductible expenditure	(86,919)	228,473
Unrecognised income tax losses carried forward (applied)	58,607	(11,179)
Other temporary differences not recognised	(969)	(19,490)
Income tax expense/(benefit)	-	-

Note 6. Income tax expense/(benefit) (continued)

Accounting policy for income tax

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

(ii) Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

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

(iv) Current and deferred tax balances relating to amounts recognised directly in other comprehensive income and equity are also recognised directly in other comprehensive income and equity, respectively.

(v) The Research and Development Tax Offset is recognised as a government grant in profit before tax to match the expense/(benefit) with the costs for which it is intended to compensate. It is recognised in the period when there is a reasonable expectation that the Company will be able to realise the expense/(benefit).

(vi) The carrying value of recognised deferred tax assets is reviewed at each reporting date.

Note 7. Current assets - cash and cash equivalents

	2015 \$	2014 \$
Cash at bank	<u>52,932</u>	<u>6,014</u>

Accounting policy for cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the statement of financial position.

Note 8. Current assets - trade and other receivables

	2015 \$	2014 \$
GST receivable	(1,379)	9,250
Deposits	2,750	6,900
R&D tax incentive receivable	<u>159,258</u>	<u>206,924</u>
	<u>160,629</u>	<u>223,074</u>

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

Accounting policy for trade and other receivables

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

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

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

Accounting policy for goods and services tax

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

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

Note 9. Non-current assets - intangibles

	2015 \$	2014 \$
Software - at cost	557,406	215,030
Less: Accumulated amortisation	(21,503)	-
	<u>535,903</u>	<u>215,030</u>

Accounting policy for internally developed Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the statement of profit or loss in the period in which the expenditure is incurred.

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

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

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

During and subsequent to the period of development, the asset is tested for impairment annually.

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

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Note 10. Current liabilities - trade and other payables

	2015 \$	2014 \$
Wages payable	1,392	-
PAYG withholding payable	12,342	-
Superannuation payable	28,079	-
	<u>41,813</u>	<u>-</u>

Accounting policy for trade and other payables

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

Note 11. Current liabilities - unearned revenue

	2015 \$	2014 \$
Unearned revenue - software	2,500	-
Unearned revenue - distribution agreement	91,875	-
	<u>94,375</u>	<u>-</u>

Unearned revenue - distribution agreement

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

Note 12. Non-current liabilities - Borrowings

	2015 \$	2014 \$
Loan from shareholders	447,865	432,145
Loans convertible	-	50,000
	<u>447,865</u>	<u>482,145</u>

Loans from shareholders are unsecured, have no fixed repayment date and incur no interest.

Note 12. Non-current liabilities - Borrowings (continued)

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Note 13. Equity - contributed equity

	2015 Shares	2014 Shares	2015 \$	2014 \$
Ordinary shares - fully paid	<u>16,248</u>	<u>10,732</u>	<u>700,585</u>	<u>400,100</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2013	10,202		100,100
Share issue to sophisticated investors	1 November 2013	<u>530</u>	<u>\$566.04</u>	<u>300,000</u>
Balance	30 June 2014	10,732		400,100
Share issue to sophisticated investors	1 September 2014	108	\$555.56	60,000
Share issue to sophisticated investors	1 November 2014	2,515	\$0.01	25
Share issue to sophisticated investors	1 February 2015	855	\$223.21	190,845
Share issue to sophisticated investors	1 May 2015	1,937	\$0.01	19
Share issue to sophisticated investors	30 June 2015	<u>101</u>	<u>\$491.05</u>	<u>49,596</u>
Balance	30 June 2015	<u>16,248</u>		<u>700,585</u>

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 14. Equity - accumulated losses

	2015 \$	2014 \$
Retained profits/(accumulated losses) at the beginning of the financial year	(438,127)	14,296
Loss after income tax expense/(benefit) for the year	<u>(97,047)</u>	<u>(452,423)</u>
Accumulated losses at the end of the financial year	<u>(535,174)</u>	<u>(438,127)</u>

Note 15. Equity - dividends

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

Note 16. Events after the reporting period

On 1 November 2015, the Company issued 1,425 fully paid ordinary shares at an issue price of \$246.43 per share, raising a total of \$351,140 before equity raising costs.

On 31 July 2017, the Company issued 1,173 fully paid ordinary shares at an issue price of \$341, raising \$400,000 before equity raising costs.

On 10 September 2017, the Company completed a share split on a 1 for 2,653 basis.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 17. Reconciliation of loss after income tax to net cash from operating activities

	2015 \$	2014 \$
Loss after income tax expense/(benefit) for the year	(97,047)	(452,423)
Adjustments for:		
Depreciation and amortisation	21,503	91,872
Impairment of intangibles	-	611,820
Interest on shareholder loan	22,620	20,564
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	58,295	(222,212)
Increase in trade and other payables	41,813	-
Increase in unearned revenue	94,375	-
Net cash from operating activities	<u>141,559</u>	<u>49,621</u>

In the Directors' opinion:

- the Company is not a reporting entity because there are no users dependent on general purpose financial statements. Accordingly, as described in note 2 to the financial statements, the attached special purpose financial statements have been prepared for the purposes of complying with the Corporations Act 2001 requirements to prepare and distribute financial statements to the Owners of ReadCloud Pty Ltd ;
- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards as described in note 2 to the financial statements, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read "Paul Collins", written over a horizontal line.

Paul Collins
Director

24 October 2017

Independent Auditor's Report to the members of ReadCloud Pty Ltd

Opinion

We have audited the accompanying special purpose financial report of ReadCloud Pty Ltd (the Company), which comprises the statement of financial position as at 30 June 2015, the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (a) giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the year then ended; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1, 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 this report.

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Preparation and Going Concern

We draw attention to Note 2 *Basis of preparation* to the financial report, which describes the basis of preparation. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001* to prepare and distribute financial statements to the members. As a result, the financial report may not be suitable for another purpose.

Note 2 *Going concern* also provides details evidencing events or conditions indicating the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and which may impact its ability to realise its assets and discharge its liabilities in the normal course of business.

Our opinion is not modified in respect of either of these matters.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a 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 Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report.



PKF Melbourne Audit & Assurance
Melbourne, 24 October 2017



Steven Bradby
Partner