



**READCLOUD LIMITED**

**ABN 44 136 815 891**

**APPENDIX 4E PRELIMINARY FINAL REPORT  
30 JUNE 2019**

## 1. Company details

Name of entity:	ReadCloud Limited
ABN:	44 136 815 891
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

## 2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	125.2% to	4,808,568
Loss from ordinary activities after tax attributable to the Owners of ReadCloud Limited	up	26.8% to	(1,630,423)
Loss for the year attributable to the Owners of ReadCloud Limited	up	26.8% to	(1,630,423)

### Dividends

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

### Comments

The loss for the Company after providing for income tax amounted to \$1,630,423 (30 June 2018: \$1,285,855). Underlying earnings before interest taxation, depreciation and amortisation ('Underlying EBITDA') was a loss of \$421,960 (30 June 2018: loss of \$147,055). This is reconciled to the statutory loss as follows:

	Consolidated	
	30 June 2019	30 June 2018
	\$	\$
Reported (statutory) net loss after tax	(1,630,423)	(1,285,855)
Add back: Depreciation and amortisation	416,624	257,567
Share based payments	471,365	610,630
Fair value movement on contingent consideration	405,000	
Transaction costs incurred on business acquisition (expensed)	40,520	
Initial public offering costs expensed	-	174,000
Net interest revenue	(37,296)	(36,473)
Income tax expense / (benefit)	(87,750)	133,076
Underlying EBITDA*	<u>(421,960)</u>	<u>(147,055)</u>

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

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

## 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>1.17</u>	<u>5.15</u>

#### 4. Control gained over entities

Refer to note 23 to the financial statements for details of entities over which control has been gained during the financial period.

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#### 5. Loss of control over entities

Not applicable.

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#### 6. Dividends

*Current period*

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

*Previous period*

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

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#### 7. Dividend reinvestment plans

Not applicable.

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

Not applicable.

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#### 9. Foreign entities

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

Not applicable.

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#### 10. Audit qualification or review

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

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

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#### 11. Attachments

*Details of attachments (if any):*

The Annual Report of ReadCloud Limited for the year ended 30 June 2019 is attached.

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#### 12. Signed

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

Signed \_\_\_\_\_

Date: 30 August 2019

Paul Collins  
Chairman

# **ReadCloud Limited**

**ABN 44 136 815 891**

## **Annual Report - 30 June 2019**

Corporate directory	2
Directors' report	3
Auditor's independence declaration	20
Consolidated statement of profit or loss and other comprehensive income	21
Consolidated statement of financial position	22
Consolidated statement of changes in equity	23
Consolidated statement of cash flows	24
Notes to the consolidated financial statements	25
Directors' declaration	52
Independent auditor's report to the members of ReadCloud Limited	53
Shareholder information	57

Directors	Mr Paul Collins (Non-Executive Chairman) Mr Lars Lindstrom (Managing Director and Chief Executive Officer) Mr Guy Mendelson (Non-Executive Director) Mr Darren Hunter (Executive Director and Chief Information Officer)
Company secretary	Ms Melanie Leydin
Registered office	1/426 Glenhuntly Road Elsternwick VIC 3185 Phone: +61 3 9041 8550
Principal place of business	1/426 Glenhuntly Road Elsternwick VIC 3185 Phone: +61 3 9041 8550
Share register	Boardroom Limited Level 12, 225 George Street Sydney NSW 2000 Phone: 1300 737 760; +61 2 9290 9600
Auditor	PKF Melbourne Audit & Assurance Pty Ltd Level 12, 440 Collins Street Melbourne VIC 3000
Stock exchange listing	ReadCloud Limited shares are listed on the Australian Securities Exchange (ASX code: RCL)
Website	<a href="http://www.readcloud.com">www.readcloud.com</a>
Corporate Governance Statement	Refer to the Company's Corporate Governance statement at: <a href="http://www.readcloud.com/investors#corporate-governance">www.readcloud.com/investors#corporate-governance</a>

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'ReadCloud' or the 'Group') consisting of ReadCloud Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

### **Directors**

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

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

### **Principal activities**

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

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

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

### **Dividends**

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

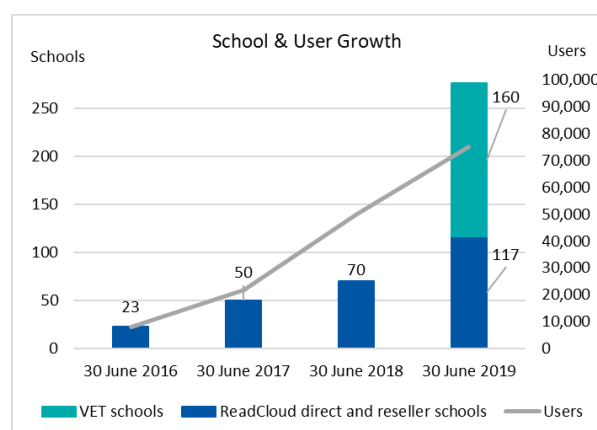
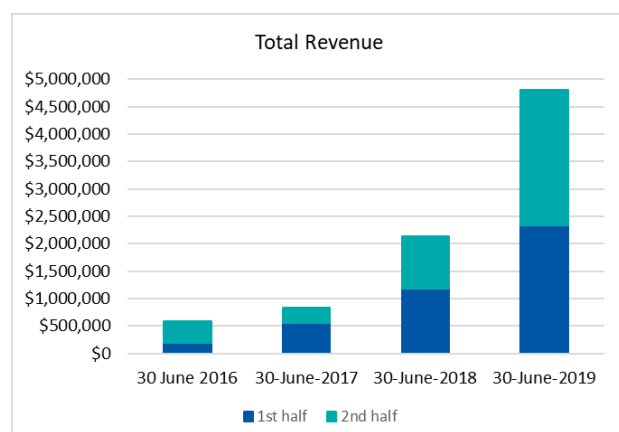
### **Review of operations**

#### *Revenue*

The Directors are pleased to report that for the 2019 financial year ReadCloud achieved 125% revenue growth (the second consecutive year of over 100% revenue growth) to \$4.8 million (2018: \$2.1 million), driven by:

- a 115% increase in the number of direct full-curriculum school customers to 43 (2018: 20), translating to a 96% increase in eBook sales and licence fee revenue;
- a 48% increase in the number of ReadCloud reseller schools to 74 (2018: 50), translating to a 44% increase in revenue from reseller schools; and
- the acquisition of AIET, effective from 1 October 2018, which contributed revenues of \$1,363,056 for the 8 months to 30 June 2019. AIET provided auspicing and related services to 160 schools in this period (as compared to 91 VET school customers that AIET had in the 2018 financial year).

Growth in the number of direct full-curriculum and reseller schools has exceeded growth in revenue from these schools due to minimal revenue being recorded in respect of some of the new schools signed up late in the financial year, with significant eBook sales revenue from these schools expected for the 2020 school year. On a "like-for-like" basis, revenue from direct full-curriculum schools that were customers in 2018 grew by 26% in the 2019 financial year (compared to the 2018 financial year) as use of the ReadCloud platform expanded within those schools. At the conclusion of the 2019 financial year ReadCloud had over 80,000 users on the ReadCloud platform (across direct full curriculum, reseller and VET schools), representing a 60% increase on FY18.



### Underlying EBITDA

ReadCloud recorded an Underlying EBITDA\* loss for the 2019 financial year of \$(421,960), which is reconciled to the statutory loss as detailed below. This reconciliation adds back the effect of certain non-operating and non-recurring items which would not ordinarily relate to the Group's underlying performance. Underlying EBITDA for the second half of the financial year was \$20,020 versus an Underlying EBITDA loss for the first half of the financial year of \$(441,980).

	<b>Consolidated</b>	
	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>\$</b>	<b>\$</b>
Reported (statutory) net loss after tax	(1,630,423)	(1,285,855)
Add back: Depreciation and amortisation	416,624	257,567
Share based payments	471,365	610,630
Fair value movement on contingent consideration	405,000	
Transaction costs incurred on business acquisition (expensed)	40,520	
Initial public offering costs expensed	-	174,000
Net interest revenue	(37,296)	(36,473)
Income tax expense / (benefit)	(87,750)	133,076
<b>Underlying EBITDA*</b>	<b>(421,960)</b>	<b>(147,055)</b>

Significant expenses included in the statutory net loss after tax for the 2019 financial year include:

- publisher and bookseller expenses of \$2,329,507 (2018: \$1,290,463), with the increase from 2018 a result of growth in eBook sales during the period. Gross margins on eBook sales to direct full-curriculum and reseller schools improved slightly on the prior year as a result of both:
  - new direct distribution agreements with leading textbook publishers (enabling ReadCloud to sell these publishers' eBooks directly to schools rather than via its reseller partners at a lower margin); and
  - higher-margin eBook sales to direct full-curriculum customers accounting for a greater proportion of overall eBook sales;
- employment expenses of \$1,889,310 (2018: \$474,568), with the increase over 2018 due to a full year of costs incurred for additional sales and operations staff employed late in the 2018 financial year and the acquisition of AIET effective from 1 October. At year-end the Group had 20 full-time equivalent employees;
- depreciation and amortisation of \$416,624 (2018: \$257,567), with the increase from 2018 largely due to more capitalised development costs from previous years commenced amortising during the 2019 financial year;

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



- fair value movement on contingent consideration of \$405,000 (2018: \$nil), which is discussed further below;
- printing and stationery expenses of \$79,834 (2018: \$12,287), with the increase from 2018 largely due to the cost of in-house production of printed VET course materials for supply to VET schools;
- professional services expenses of \$252,220 (2018: \$277,578), with the main components including audit fees, share registry costs, company secretarial fees, outsourced accounting expenses incurred prior to the employment of a full-time Chief Financial Officer and legal fees incurred in relation to the acquisition of AIET;
- travel expenses of \$192,917 (2018: \$98,485), with the increase from 2018 due to increased marketing efforts and establishment of services to new customers; and
- other expenses of \$377,016 (2018: \$226,334), the main components being ASX fees, web hosting, insurance and office expenses.

#### *Fair value movement on contingent consideration*

The final tranche of consideration payable by the Company for the acquisition of AIET remained outstanding as at the end of the 2019 financial year, with the amount payable to the vendor based on a sliding scale on AIET achieving from \$200,000 and up to \$600,000 in Earnings before Interest and Tax ("EBIT") for the 2019 financial year. In its 31 December half-year report, the Group provisionally recorded a contingent consideration liability of \$956,250 in respect of this final tranche of consideration based on a probability-weighted estimate of likely EBIT outcomes for the 2019 financial year. The performance of the AIET business has significantly exceeded the Group's expectations from when the contingent consideration liability was estimated for the 31 December 2019 half-year report. As at 30 June 2019, the fair value of the final tranche of consideration payable to the vendor has been estimated at \$1.8 million (comprising \$360,000 cash and \$1.44 million in ReadCloud shares), with the increase attributed to both facts and circumstances that existed at the date of the acquisition (resulting in an increase in goodwill of \$438,750) and new school customers that AIET has won for the 2019 school year that weren't known about at the time of the acquisition (resulting in a "Fair value movement on contingent consideration" expense to the Profit and loss of \$405,000).

#### *Funding*

As at 30 June 2019 the Group had a strong balance sheet with cash at bank of \$3,067,599 (2018: \$4,593,330) and zero debt. Net cash used in operating activities for the 2019 financial year was \$435,539 (2018: \$221,540). As noted below, subsequent to year end the Company raised \$2 million before costs via a placement of fully-paid ordinary shares.

#### *Outlook*

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

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

Although still very early in the selling season for the 2020 school year, the Company is very encouraged by the strength of the sales pipeline following the significant groundwork laid by the ReadCloud sales team in the last 12 months.

In addition, the Group entered into a Strategic Distribution Agreement with Australian Training Products ("ATP") in April 2019 that provides ReadCloud with an exciting opportunity to expand into the broader (non-school) VET sector. ATP is a leading provider of training resources to over 1,000 Registered Training Organisations (RTOs) in Australia and internationally.

Under this exclusive 3-year agreement, ReadCloud's software platform will enable the protection and delivery of ATP's digital content to its RTO customers, for which ReadCloud will receive software licence fees from end-users. Integration of ATP's full eBookstore into the ReadCloud platform commenced during the June quarter. This integration involves the digitisation and encryption of ATP's entire textbook range and delivery of this content via the ReadCloud platform. A "media overlay" feature will be added to the ReadCloud software platform by the end of

the September 2019 quarter, enabling ATP-produced videos to be embedded inside ATP's course materials, significantly enriching this content and further entrenching ReadCloud's technology into ATP's training services.

The Directors expect to be in a position to provide an update on the sales outlook for the 2020 school year at the Company's Annual General Meeting in November 2019.

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

During the financial year the Company completed the acquisition of AIET. There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

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

In July 2019, the Company paid the vendor of AIET \$300,000 cash in partial settlement of the contingent consideration liability owing to the vendor (this payment was approved by the Board in June 2019). As at 30 June 2019 the fair value of contingent consideration owing to the vendor was \$1.8 million. The balance of the contingent consideration liability, comprising \$60,000 cash and \$1,440,000 of shares in the Company, is to be settled in the coming weeks.

On 6 August 2019, the Company completed a placement of 5,555,556 new shares to institutional and sophisticated investors at \$0.36 per share to raise \$2 million before costs. The capital raised will provide additional funding for the Group to increase marketing and system development for its continued expansion in the Vocational Education and Training sector.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

#### **Likely developments and expected results of operations**

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

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

#### **Environmental regulation**

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

## Information on Directors

Name:	Paul Collins
Title:	Chairman
Qualifications:	BSc Applied Science (Computer Science), GAICD
Experience and expertise:	Paul commenced his career with IBM in 1982. After 3 years he started his own consulting business working in a state government agency and large corporations primarily in software development and implementation roles. This included 7 years at IOOF in the Development Manager's role. Over the last 20 years, Paul has been extensively involved in the start-up and subsequent ASX listing of 2 successful FinTech companies. A co-founder of IWL in 1997, Paul was an Executive Director of the company from its inception, through its listing in 1999 before leaving in 2004. Later in 2004, Paul was a co-founder and Executive Director of Managed Accounts Ltd which listed on the ASX in 2014 (ASX:MGP). Paul chaired the Audit and the Risk and Compliance Committees of MGP from 2009 until 2016.
Other current directorships:	Integrated Payment Technologies Ltd (ASX:IP1) Non-Executive Director since October 2018
Former directorships (last 3 years):	Managed Accounts Limited (ASX:MGP) (resigned 16 May 2016)
Interests in shares:	1,060,411 fully paid ordinary shares
Interests in options:	125,000 options
Interests in rights:	375,000 performance rights
Name:	Lars Lindstrom
Title:	Managing Director and Chief Executive Officer
Qualifications:	Masters in Business Administration & Corporate Law
Experience and expertise:	Lars co-founded ReadCloud in 2009 and has extensive tech startup experience. Previously a Partner in LundXY Global Ventures (the first investor in Skype) and the CFO/Co-Founder of Nyhedsavisen which within one year became the most read newspaper in Denmark publishing over 500,000 copies daily. Lars spent his first 10 years working in investment banking/M&A working for Deutsche Bank and Rothschild in Melbourne.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	8,534,128 fully paid ordinary shares
Interests in rights:	2,062,500 performance rights
Name:	Guy Mendelson
Title:	Non-Executive Director
Qualifications:	B. Bus
Experience and expertise:	Guy has a strong working knowledge of ReadCloud and its management having been a member of the ReadCloud Advisory Board for three years prior to the Company's IPO in February 2018. Guy's previous Board experience includes being a BPAY Board Director for four years and a Brotherhood of St Laurence Audit and Risk Committee member for the past 8 years. Guy has extensive strategic and commercial experience at an executive level with 20 years' experience working for ANZ Bank running various businesses. He is currently Managing Director, Business Owners Portfolio within ANZ responsible for the growth and profitability of this business segment.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	1,435,318 fully paid ordinary shares

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

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: 7,009,880 fully paid ordinary shares  
Interests in options: 75,000 options  
Interests in rights: 2,062,500 performance rights

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

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

### Company secretary

Ms Melanie Leydin, CA

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

### Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

	Full Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Attended	Held	Attended	Held	Attended	Held
Paul Collins	11	11	5	5	3	3
Lars Lindstrom	10	11	1	1	-	-
Darren Hunter	11	11	5	5	3	3
Guy Mendelson	10	11	4	4	3	3

### Remuneration report (audited)

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

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all directors. The key management personnel of the Group during the year ended 30 June 2019 consisted of the following Directors and executives:

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

- Mr Joshua Fisher - Chief Product Officer
- Mr Luke Murphy - Chief Financial Officer

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

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

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

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

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

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

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

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

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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

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

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

- having economic profit as a core component of plan design

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

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

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

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

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

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

Non-executive directors may receive equity-based incentives, such as performance rights, where it is determined that this is an appropriate means of incentivising those directors by aligning their interests with the interests of shareholders, in the context of a newly-listed company.

The Chairman was issued performance rights during the year ended 30 June 2019. Details of these performance rights are set out below under the heading Group performance and link to remuneration.

#### *Executive remuneration*

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

The executive remuneration and reward framework has the following components:

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

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

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

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

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

#### *Group performance and link to remuneration*

Remuneration for certain individuals is directly linked to the performance of the Group, by way of the issue of performance rights and options, details of which are as follows. Each performance right will convert to one fully paid ordinary share in the Company following achievement of the relevant performance condition. Each option will convert into one fully paid ordinary share in the Company following both the achievement of the relevant vesting condition (being continued employment until the relevant vesting date) and payment of the relevant exercise price.



Refer to the section "Additional Information" below for details of the earnings and total shareholders return for the period since ASX listing, or the last five years, whichever is the lesser period.

## Performance rights

Class	KMP Holders	Performance condition(s)	Condition expiry date
Class A Performance Rights - issued 9 November 2017	Lars Lindstrom – 1,375,000 Darren Hunter – 1,375,000 Joshua Fisher - 750,000 Paul Collins – 250,000	Tranche 1 - 50% of Class A Rights convert to Shares if Company has in excess of 45,000 Users	31 December 2018(i)
		Tranche 2 - 50% of Class A Rights convert to Shares if Company has in excess of 100,000 Users	31 December 2019
Class B Performance Rights - issued 9 November 2017	Lars Lindstrom – 1,375,000 Darren Hunter – 1,375,000 Joshua Fisher - 750,000 Paul Collins – 250,000	Tranche 1 - 50% of Class B Rights convert to Shares if Company achieves revenue of \$2 million or greater for FY18	10 Business Days after the release to ASX of the Company's audited FY18 financial statements (ii)
		Tranche 2 - 50% of Class B Rights convert to Shares if Company achieves revenue of \$7.5 million or greater for FY19	10 Business Days after the release to ASX of the Company's audited FY19 financial statements
Class C Performance Rights - issued 9 November 2017	Lars Lindstrom – 1,375,000 Darren Hunter – 1,375,000 Joshua Fisher - 750,000 Paul Collins – 250,000	Tranche 1 - 50% of Class C Rights will convert to Shares if Company achieves EBITDA of \$500,000 or greater for FY18	10 Business Days after the release to ASX of the Company's audited FY18 financial statements (iii)
		Tranche 2 - 50% of Class C Rights convert to Shares if Company achieves EBITDA of \$2 million or greater for FY19	10 Business Days after the release to ASX of the Company's audited FY19 financial statements
Class D Performance Rights - issued 9 November 2017	Lars Lindstrom – 1,375,000 Darren Hunter – 1,375,000 Joshua Fisher - 750,000 Paul Collins – 250,000	Tranche 1 - 50% of Class D Rights convert to Shares if the VWAP of the Shares exceeds \$0.30 per Share over a period of 30 consecutive days	31 December 2018 (iv)
		Tranche 2 - 50% of Class D Rights convert to Shares if the VWAP of the Shares exceeds \$0.40 per Share over a period of 30 consecutive days	31 December 2019

## Options

Class	KMP Holders	Vesting conditions
Options over ordinary shares, exercisable at \$0.41 per share and expiring on 17 July 2022	Luke Murphy – 360,000	33.3% of these Options vest upon continued employment until 17 July 2019
		33.3% of these Options vest upon continued employment until 17 July 2020
		33.3% of these Options vest upon continued employment until 17 July 2021

- (i) 50% of Class A Performance Rights vested during the year ended 30 June 2018 upon achievement of the Users target
- (ii) 50% of Class B Performance Rights vested during the year ended 30 June 2019 upon achievement of the FY18 revenue target
- (iii) 50% of Class C Performance Rights lapsed during the year ended 30 June 2019 due to the non-achievement of the FY18 EBITDA target
- (iv) 50% of Class D Performance Rights vested during the year ended 30 June 2018 and the remaining 50% of Class D Performance Rights vested during the year ended 30 June 2019 upon achievement of the share price targets

All shares issued upon conversion of the performance rights are subject to ASX escrow until 6 February 2020.

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

### Details of remuneration

#### Amounts of remuneration

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

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

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



	<u>Short-term benefits</u>			<u>Post-employment benefits</u>	<u>Long-term benefits</u>	<u>Share-based payments</u>	
	Cash salary and fees \$	Annual leave accrued \$	Non-monetary \$	Super-annuation \$	Long service Leave \$	Equity-settled \$	Total \$
<b>2018</b>							
<i>Non-Executive Directors:</i>							
Paul Collins*	23,333	-	-	2,217	-	37,608	63,158
Guy Mendelson**	3,125	-	-	-	-	-	3,125
<i>Executive Directors:</i>							
Lars Lindstrom	169,045	8,196	-	16,059	112	206,845	400,257
Darren Hunter	169,045	8,196	-	16,059	112	206,845	400,257
<i>Other Key Management Personnel:</i>							
Joshua Fisher***	143,535	7,376	-	13,636	101	112,824	277,472
	508,083	23,768	-	47,971	325	564,122	1,144,269

\* Mr Collins was appointed as a Director and Chairman on 2 August 2017

\*\* Mr Mendelson was appointed as a Director on 14 May 2018

\*\*\* Mr Fisher resigned as Director on 2 August 2017 but continued to be a member of key management personnel.

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

Name	<u>Fixed remuneration</u>		<u>At risk - STI</u>		<u>At risk - LTI</u>	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive Directors:</i>						
Paul Collins	73%	40%	-	-	27%	60%
Guy Mendelson	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Lars Lindstrom	74%	48%	-	-	26%	52%
Darren Hunter	74%	48%	-	-	26%	52%
<i>Other Key Management Personnel:</i>						
Joshua Fisher	79%	59%	-	-	21%	41%
Luke Murphy	64%	-	-	-	36%	-

### Service agreements

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

Name:	Lars Lindstrom
Title:	Managing Director and Chief Executive Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving 3 months' notice.
Details:	Base salary of \$250,000 per annum (increasing to \$260,000 as from 1 July 2019), inclusive of superannuation. The employee has also been issued performance rights by the Company, details of which are disclosed elsewhere in this remuneration report.

Name: Darren Hunter  
Title: Executive Director and Chief Information Officer  
Term of agreement: No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving 3 months' notice.  
Details: Base salary of \$250,000 per annum (increasing to \$260,000 as from 1 July 2019), inclusive of superannuation. The employee has also been issued performance rights by the Company, details of which are disclosed elsewhere in this remuneration report.

Name: Joshua Fisher  
Title: Chief Product Officer  
Term of agreement: No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving three months' notice.  
Details: Base salary of \$180,000 per annum (increasing to \$190,000 as from 1 July 2019), inclusive of superannuation. The employee has also been issued performance rights by the Company, details of which are disclosed elsewhere in this remuneration report.

Name: Luke Murphy  
Title: Chief Financial Officer  
Term of agreement: No fixed term. The Company may terminate the agreement by giving two months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving two months' notice.  
Details: Base salary of \$130,000 per annum (increasing to \$160,000 as from 1 July 2019), inclusive of superannuation. The employee has also been issued options by the Company, details of which are disclosed elsewhere in this remuneration report.

Name: Paul Collins  
Title: Chairman  
Term of agreement: No fixed term.  
Details: Annual fee of \$40,000 plus statutory superannuation. The director has also been issued performance rights by the Company, details of which are disclosed elsewhere in this remuneration report.

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

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

### **Share-based compensation**

#### *Issue of shares*

In August 2018 the Company issued 1,875,000 shares to Directors and other KMP pursuant to the vesting condition for Class D Tranche 2 performance rights being satisfied.

In September 2018 the Company issued 1,875,000 shares to the Directors and other KMP pursuant to the vesting condition for Class B Tranche 1 performance rights being satisfied.

There were no other shares issued to Directors and other KMP as part of compensation during the year ended 30 June 2019.

### Options

In September 2018 the Company issued 360,000 options over ordinary shares in the Company to Luke Murphy that vest subject to continued employment as follows:

- 120,000 vesting on 17 July 2019;
- 120,000 vesting on 17 July 2020; and
- 120,000 vesting on 17 July 2021.

Each option is exercisable at \$0.41 per share and expires on 17 July 2022. The fair value of these options as at their grant date was \$0.334 per option.

There were no other options over ordinary shares granted to or vested by Directors and other KMP as part of compensation during the year ended 30 June 2019.

### Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of Directors and other KMP in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date	Performance right type/Vesting conditions*	Expiry date	Fair value per right at grant date
Lars Lindstrom	687,500	09 November 2017	Class A Tranche 2	31 December 2019	\$0.0640
Darren Hunter	687,500	09 November 2017	Class A Tranche 2	31 December 2019	\$0.0640
Joshua Fisher	375,000	09 November 2017	Class A Tranche 2	31 December 2019	\$0.0640
Paul Collins	125,000	09 November 2017	Class A Tranche 2	31 December 2019	\$0.0640
Lars Lindstrom	687,500	09 November 2017	Class B Tranche 1	Refer (ii) below	\$0.0750
Darren Hunter	687,500	09 November 2017	Class B Tranche 1	Refer (ii) below	\$0.0750
Joshua Fisher	375,000	09 November 2017	Class B Tranche 1	Refer (ii) below	\$0.0750
Paul Collins	125,000	09 November 2017	Class B Tranche 1	Refer (ii) below	\$0.0750
Lars Lindstrom	687,500	09 November 2017	Class B Tranche 2	Refer (iii) below	\$0.0270
Darren Hunter	687,500	09 November 2017	Class B Tranche 2	Refer (iii) below	\$0.0270
Joshua Fisher	375,000	09 November 2017	Class B Tranche 2	Refer (iii) below	\$0.0270
Paul Collins	125,000	09 November 2017	Class B Tranche 2	Refer (iii) below	\$0.0270
Lars Lindstrom	687,500	09 November 2017	Class C Tranche 2	Refer (iii) below	\$0.0130
Darren Hunter	687,500	09 November 2017	Class C Tranche 2	Refer (iii) below	\$0.0130
Joshua Fisher	375,000	09 November 2017	Class C Tranche 2	Refer (iii) below	\$0.0130
Paul Collins	125,000	09 November 2017	Class C Tranche 2	Refer (iii) below	\$0.0130
Lars Lindstrom	687,500	09 November 2017	Class D Tranche 2	Refer (iv) below	\$0.0980
Darren Hunter	687,500	09 November 2017	Class D Tranche 2	Refer (iv) below	\$0.0980
Joshua Fisher	375,000	09 November 2017	Class D Tranche 2	Refer (iv) below	\$0.0980
Paul Collins	125,000	09 November 2017	Class D Tranche 2	Refer (iv) below	\$0.0980

- For vesting conditions of each class and tranche of performance rights, refer "Group performance and link to remuneration" section of this Remuneration Report.
- The Class B Tranche 1 Performance Rights vested during the year ended 30 June 2019 upon achievement of the FY18 revenue target
- Expiry date is 10 Business Days after release of FY19 financial statements
- The Class D Tranche 2 Performance Rights vested during the year ended 30 June 2019 upon achievement of the share price target

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to and vested by Directors and other KMP as part of compensation during the year ended 30 June 2019 are set out below (no performance rights lapsed during the year ended 30 June 2018):

Name	Number of performance rights					
	Granted during the year 2019	Granted during the year 2018	Vested during the year 2019	Vested during the year 2018	Lapsed during the year 2019	Lapsed during the year 2018
Lars Lindstrom	-	5,500,000	1,375,000	1,375,000	687,500	-
Darren Hunter	-	5,500,000	1,375,000	1,375,000	687,500	-
Joshua Fisher	-	3,000,000	750,000	750,000	375,000	-
Paul Collins	-	1,000,000	250,000	250,000	125,000	-

### Additional information

The earnings of the Group for the two years to 30 June 2019 are summarised below:

	2019 \$	2018 \$
Sales revenue	4,316,479	1,756,527
Underlying EBITDA	(421,960)	(147,054)
Profit/(loss) after income tax	(1,630,423)	(1,285,855)

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

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

### Additional disclosures relating to key management personnel

#### Shareholding

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

	Balance at the start of the year	Received upon exercise of performance rights	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Lars Lindstrom	7,159,128	1,375,000	-	-	8,534,128
Darren Hunter	5,634,880	1,375,000	-	-	7,009,880
Paul Collins	810,411	250,000	-	-	1,060,411
Guy Mendelson	1,435,318	-	-	-	1,435,318
Joshua Fisher	4,124,721	750,000	-	-	4,874,721
Luke Murphy	50,000	-	-	-	50,000
	<u>19,214,458</u>	<u>3,750,000</u>	<u>-</u>	<u>-</u>	<u>22,964,458</u>

#### Option holding

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

	Balance at the start of the year	Received as part of remuneration	Acquired	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>						
Darren Hunter	75,000	-	-	-	-	75,000
Paul Collins	125,000	-	-	-	-	125,000
Luke Murphy	-	360,000	-	-	-	360,000
	<u>200,000</u>	<u>360,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,000</u>

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Darren Hunter	75,000	-	75,000
Paul Collins	125,000	-	125,000
Luke Murphy	120,000	240,000	360,000
	<u>320,000</u>	<u>240,000</u>	<u>560,000</u>

*Performance rights holding*

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

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Lars Lindstrom	4,125,000	-	(1,375,000)	(687,500)	2,062,500
Darren Hunter	4,125,000	-	(1,375,000)	(687,500)	2,062,500
Josh Fisher	2,250,000	-	(750,000)	(375,000)	1,125,000
Paul Collins	750,000	-	(250,000)	(125,000)	375,000
	<u>11,250,000</u>	<u>-</u>	<u>(3,750,000)</u>	<u>(1,875,000)</u>	<u>5,625,000</u>

*Loans*

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

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

**Shares under option**

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

Grant date	Expiry date	Exercise price	Number under option
02 February 2018	30 November 2020	\$0.300	15,000,000
02 February 2018	30 November 2020	\$0.300	3,333,332
02 February 2019	30 November 2020	\$0.300	1,666,663
13 March 2018	07 February 2021	\$0.200	375,000
13 March 2018	07 February 2022	\$0.200	225,000
28 May 2018	27 March 2021	\$0.330	120,000
28 May 2018	07 May 2022	\$0.330	300,000
21 September 2018	17 July 2022	\$0.410	360,000
9 January 2019	14 December 2021	\$0.350	360,000
			<u>21,739,995</u>

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

### **Shares under performance rights**

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

Grant date	Expiry date	Exercise price	Number under rights
09 November 2017	31 December 2019 (Class A Tranche 2)	\$0.000	1,875,000
09 November 2017	10 Business Days after release of FY19 financial statements (Class B Tranche 2)	\$0.000	1,875,000
09 November 2017	10 Business Days after release of FY19 financial statements (Class C Tranche 2)	\$0.000	1,875,000
			<u>5,625,000</u>

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate. No performance rights have converted into fully paid ordinary shares in the Company since 30 June 2019 until the date of this report.

### **Shares issued on the exercise of options**

There were no ordinary shares of the Company issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

### **Shares issued on the exercise of performance rights**

The following ordinary shares of the Company were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
09 November 2017	\$0.000	3,750,000

### **Indemnity and insurance of officers**

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

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

### **Indemnity and insurance of auditor**

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

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

### **Proceedings on behalf of the Company**

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

### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 18 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in note 18 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

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

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

#### **Auditor's independence declaration**

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

#### **Auditor**

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

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

On behalf of the Directors



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Paul Collins  
Chairman

30 August 2019

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

In relation to our audit of the financial report of ReadCloud Limited for the year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

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



PKF  
Melbourne, 30 August 2019



Steven Bradby  
Partner

PKF Melbourne  
Audit & Assurance Pty Ltd  
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**ReadCloud Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**30 June 2019**



	Note	Consolidated 2019 \$	2018 Restated \$
<b>Revenue</b>			
Sales revenue	5	4,316,479	1,756,527
Other revenue	5	492,089	378,545
<b>Total revenue</b>		4,808,568	2,135,072
<b>Expenses</b>			
Advertising and marketing		(112,711)	(36,272)
Depreciation and amortisation expense	6	(416,624)	(257,567)
Employment expenses		(1,889,309)	(474,568)
Fair value movement on contingent consideration		(405,000)	-
Printing and stationery		(79,834)	(12,287)
Professional services expenses		(252,220)	(277,578)
Publisher and bookseller fees expense		(2,329,507)	(1,290,463)
Share-based payments		(471,365)	(610,630)
Travel expenses		(192,917)	(98,485)
Other expenses		(377,016)	(226,334)
Finance costs		(238)	(3,667)
<b>Loss before income tax expense/(benefit) (restated)</b>		(1,718,173)	(1,152,779)
Income tax expense/(benefit)	7	(87,750)	133,076
<b>Loss after income tax expense/(benefit) for the year attributable to the Owners of ReadCloud Limited</b>		(1,630,423)	(1,285,855)
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the Owners of ReadCloud Limited</b>		<u>(1,630,423)</u>	<u>(1,285,855)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	26	(1.87)	(2.06)
Diluted earnings per share	26	(1.87)	(2.06)

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



	Note	Consolidated 2019 \$	2018 Restated \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,067,599	4,593,330
Trade and other receivables	8	470,165	548,940
Prepayments		75,119	33,871
Total current assets		<u>3,612,883</u>	<u>5,176,141</u>
<b>Non-current assets</b>			
Property, plant and equipment		59,756	44,045
Intangible assets	9	<u>4,296,301</u>	<u>1,689,877</u>
Total non-current assets		<u>4,356,057</u>	<u>1,733,922</u>
<b>Total assets</b>		<u>7,968,940</u>	<u>6,910,063</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	508,712	615,123
Employee benefits	11	108,024	49,181
Unearned revenue	12	164,120	105,566
Contingent consideration	23	<u>1,800,000</u>	<u>-</u>
Total current liabilities		<u>2,580,856</u>	<u>769,870</u>
<b>Non-current liabilities</b>			
Employee benefits		10,408	709
Deferred tax liability	7	<u>45,326</u>	<u>133,076</u>
Total non-current liabilities		<u>55,734</u>	<u>133,785</u>
<b>Total liabilities</b>		<u>2,636,590</u>	<u>903,655</u>
<b>Net assets</b>		<u>5,332,350</u>	<u>6,006,408</u>
<b>Equity</b>			
Contributed equity	13	8,067,274	7,257,899
Reserves	14	407,002	299,005
Accumulated losses		<u>(3,141,926)</u>	<u>(1,550,496)</u>
<b>Total equity</b>		<u>5,332,350</u>	<u>6,006,408</u>

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

	Issued capital \$	Share based payments Reserve \$	Retained Profits Restated \$	Non- controlling interest \$	Total equity Restated \$
<b>Consolidated</b>					
Balance at 1 July 2017	1,255,914	-	(264,641)	-	991,273
Loss after income tax expense/(benefit) for the year (restated)	-	-	(1,285,855)	-	(1,285,855)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	(1,285,855)	-	(1,285,855)
<i>Transactions with Owners in their capacity as Owners:</i>					
Contributions of equity, net of transaction costs (note 13)	5,690,360	-	-	-	5,690,360
Share-based payments (note 27)	-	610,630	-	-	610,630
Exercise of performance rights	311,625	(311,625)	-	-	-
Balance at 30 June 2018	<u>7,257,899</u>	<u>299,005</u>	<u>(1,550,496)</u>	<u>-</u>	<u>6,006,408</u>
	Issued capital \$	Share based payments reserve \$	Retained profits \$	Non- controlling interest \$	Total equity \$
<b>Consolidated</b>					
Balance at 1 July 2018	7,257,899	299,005	(1,550,496)	-	6,006,408
Loss after income tax expense/(benefit) for the year	-	-	(1,630,423)	-	(1,630,423)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	(1,630,423)	-	(1,630,423)
<i>Transactions with Owners in their capacity as Owners:</i>					
Issue of shares as consideration for acquisition (note 13)	485,000	-	-	-	485,000
Share-based payments (note 27)	-	471,365	-	-	471,365
Exercise of performance rights	324,375	(324,375)	-	-	-
Lapse of performance rights	-	(38,993)	38,993	-	-
Balance at 30 June 2019	<u>8,067,274</u>	<u>407,002</u>	<u>(3,141,926)</u>	<u>-</u>	<u>5,332,350</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes



		Consolidated	
	Note	2019	2018
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		4,538,336	1,771,460
Payments to suppliers (inclusive of GST)		(5,363,134)	(2,261,435)
Research and development tax incentive refund		351,725	228,295
Interest income		37,534	40,140
		<u>          </u>	<u>          </u>
Net cash used in operating activities	25	(435,539)	(221,540)
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	23	(396,893)	-
Payments for property, plant and equipment		(10,513)	(47,564)
Payments for software development	9	(682,786)	(683,115)
		<u>          </u>	<u>          </u>
Net cash used in investing activities		(1,090,192)	(730,679)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	13	-	6,195,811
Share issue transaction costs		-	(505,451)
Repayment of borrowings		-	(399,042)
		<u>          </u>	<u>          </u>
Net cash from financing activities		-	5,291,318
Net increase/(decrease) in cash and cash equivalents		(1,525,731)	4,339,099
Cash and cash equivalents at the beginning of the financial year		4,593,330	254,231
		<u>          </u>	<u>          </u>
Cash and cash equivalents at the end of the financial year		<u>3,067,599</u>	<u>4,593,330</u>

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

## **Note 1. General information**

The financial statements cover the consolidated entity (referred to as the “Group”), consisting of ReadCloud Limited (the “Company” or “parent entity”) and the entities it controlled at the end of, or during the year ended 30 June 2019. The financial statements are presented in Australian dollars, which is ReadCloud Limited's functional and presentation currency.

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 30 August 2019. 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 or amended Accounting Standards and Interpretations adopted**

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

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

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

#### *AASB 3 Business Combinations*

As a consequence of a business combination transacted during the current reporting period (refer note 23), the Group has adopted the following accounting policies:

- Principles of Consolidation
- Business Combinations
- Goodwill

#### *Principles of consolidation*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ReadCloud Limited ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the period from the date on which control was transferred to the consolidated entity to 30 June 2019. ReadCloud Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

## Note 2. Significant accounting policies (continued)

### *Business combinations*

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

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

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

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

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

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

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

### *Goodwill and other intangible assets*

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

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

## Note 2. Significant accounting policies (continued)

### *AASB 9 Financial Instruments*

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

When adopting AASB 9, the Group has applied transitional relief and elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018. The impact of using the expected credit loss model has been assessed and determined to have an immaterial effect on the financial position of the consolidated entity. On this basis we have made no changes have made to our current and prior period balances.

### *AASB 15 Revenue from Contracts with Customers*

The Group adopted AASB 15 Revenue from contracts with customers in the financial year ended 30 June 2017.

### **Basis of preparation**

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

### *Historical cost convention*

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

### *Critical accounting estimates*

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

### **Parent entity information**

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

### **Current and non-current classification**

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



## **Note 2. Significant accounting policies (continued)**

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

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

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

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 and other comprehensive income in that period.

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

### **Unearned revenue - distribution agreement**

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

### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

#### **AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Upon adoption of the standard with effect from 1 July 2019 the Group will apply the modified retrospective approach (with the application of practical expedients) equating the 'right-of-use' asset (ROUA) with the value of the lease liability, thus requiring no restatement of accumulated losses or prior period comparatives.

Subject to exceptions, a ROUA will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a ROUA is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.



## Note 2. Significant accounting policies (continued)

Had the Group early adopted this standard from 1 July 2018, the impact would have been as follows:

- a. Recognition of ROUA and lease liabilities in equal amount of \$206,274;
- b. Recognition during the year of \$72,424 depreciation of the ROUA and \$5,421 in interest on lease, reversing \$76,033 in lease rental expenses. The net impact on profit or loss before income tax would have been to increase the loss by \$1,812;
- c. The year-end balances of the ROUA and lease liabilities would be \$133,850 and \$135,662 respectively.
- d. There would be no net impact on the consolidated statement of cash flows.

Upon adoption of AASB 16 as of 1 July 2019 under the modified retrospective approach, the ROUA and lease liability will be recognised in equal amount of \$135,662. Inclusive of interest, note 21 reflects the commitments relating to this liability, as at 30 June 2019.

## 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.

### *Capitalised software development costs*

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

### *Share-based payments*

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

### *Estimation of useful lives of assets*

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

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

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

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

#### *Income tax*

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

#### *Recovery of deferred tax assets*

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

### Note 4. Operating segments

#### *Identification of reportable operating segments*

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

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

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

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

The information reported to the CODM is on a monthly basis. The Vocational Education and Training segment commenced during the current reporting period with the acquisition of Australian Institute of Education and Training. Prior to this acquisition, the Group was organised into one operating segment: the provision of eBook solutions to secondary schools across Australia.

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

##### Consolidated – 30 June 2019

	eBook solutions	Vocational Education and Training	Total
	\$	\$	\$
Sales to external customers	2,976,602	1,339,878	4,316,479
Other revenue	468,911	23,178	492,089
Total revenue	3,445,513	1,363,056	4,808,568
Underlying EBITDA	(985,503)	563,543	(421,960)
Depreciation and amortisation			(416,624)
Share based payments			(471,365)
Fair value movement on contingent consideration			(405,000)
Transaction costs incurred on business acquisition (expensed)			(40,520)
Net interest revenue			37,296
Income tax benefit / (expense)			87,750
Reported (statutory) net loss after tax			(1,630,423)
Total segment assets	5,340,049	2,628,891	7,968,940
Total segment liabilities	691,032	1,945,558	2,636,590

##### Consolidated – 30 June 2018

	eBook solutions	Vocational Education and Training	Total
	\$	\$	\$
Sales to external customers	1,756,527	-	1,756,527
Other revenue	378,545	-	378,545
Total revenue	2,135,072	-	2,135,072
Underlying EBITDA	(147,055)	-	(147,055)
Depreciation and amortisation			(257,567)
Share based payments			(610,630)
Initial public offering costs expensed, including prior year audit fees			(174,000)
Net interest revenue			36,473
Income tax benefit / (expense)			(133,076)
Reported (statutory) net loss after tax			(1,285,855)

##### Major customers

During the year ended 30 June 2019 approximately 28% (2018: 49%) of the Group's external revenue was derived from sales to one reseller. The underlying customers on whose behalf this reseller transacts comprise approximately 70 schools. Approximately 6% (2018: 14%) of the Group's external revenue was derived from sales to one direct school.

## Note 5. Revenue

	Consolidated	
	2019	2018
	\$	\$
<i>Sales revenue</i>		
eBook Sales	2,766,660	1,527,672
Licence Fee	284,597	228,855
Auspicing fees	1,118,245	-
Sales & fees - other	146,977	-
	<u>4,316,479</u>	<u>1,756,527</u>
<i>Other revenue</i>		
Government grants - R&D	417,915	326,933
Interest revenue calculated using the effective interest method	37,534	40,140
Other revenue	36,640	11,472
	<u>492,089</u>	<u>378,545</u>
Revenue	<u>4,808,568</u>	<u>2,135,072</u>

### *Accounting policy for revenue recognition*

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

### *Revenue from contracts with customers*

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

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

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

## Note 5. Revenue (continued)

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

### *Interest*

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

### *eBook sales revenue*

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

### *Software licence fee revenue*

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

### *Auspicing fees*

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

### *Government grants*

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

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

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

## Note 6. Expenses

	Consolidated	
	2019	2018
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	19,592	3,519
Leasehold improvements	1,742	-
	<u>21,334</u>	<u>3,519</u>
<i>Amortisation</i>		
Software development	371,829	254,048
Registered Training Organisation licence	5,128	-
Intellectual property in Vocational Education & Training course materials	18,333	-
	<u>395,290</u>	<u>254,048</u>
Total depreciation and amortisation	<u>416,624</u>	<u>257,567</u>
Defined contribution superannuation expense	<u>208,793</u>	<u>79,391</u>
Share-based payments expense	<u>471,365</u>	<u>610,630</u>
Employee benefits expense excluding superannuation	<u>1,680,516</u>	<u>395,177</u>

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

	Consolidated	
	2019	2018
	\$	Restated \$
Income tax expense / (benefit)	(87,750)	133,076
Deferred tax liability	45,326	133,076
<i>Identification of prior year correction</i>		
Management currently identified a correction required to the previous year's assumption that available unrecognised tax benefits exceeded future tax obligations. It has been ascertained that this assumption was not correct, on the basis that Capitalised Software has a tax base of zero, due to the benefits arising from the R&D tax incentive already having been applied to the asset. The impact of the error, which has been adjusted in the comparative, gives rise to a deferred tax liability; no current income tax obligation arises.		
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax expense/(benefit)	<u>(1,718,173)</u>	<u>(1,152,779)</u>
Tax at the statutory tax rate of 27.5%	(472,498)	(317,014)
Non-assessable R&D tax incentive	(114,927)	(89,907)
Non-deductible R&D expenditure subject to incentive	60,760	18,825
Share based payments	129,625	167,923
Other net non-deductible expenditure	122,934	71,286
Recognition of and movement in temporary differences	<u>186,356</u>	<u>281,963</u>
Income tax expense / (benefit)	<u>(87,750)</u>	<u>133,076</u>

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Deferred tax liability comprises temporary differences attributable to:		
Provisions, accruals and other amounts not yet deductible	(154,757)	(141,017)
Capitalised software costs deducted	550,229	464,716
Unused income tax losses	(350,146)	(190,623)
Total deferred tax liability	45,326	133,076

### Accounting policy for income tax

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

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

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	69,659	171,611
GST receivable	-	43,013
Deposits	7,383	7,383
R&D tax incentive receivable	393,123	326,933
	400,506	377,329
	470,165	548,940



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

### *Allowance for expected credit losses*

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
0 to 3 months	67,617	167,056
3 to 6 months	2,042	4,555
	<u>69,659</u>	<u>171,611</u>

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

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

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

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

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

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

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

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

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



## Note 9. Non-current assets - intangibles

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Goodwill - at cost	2,213,929	-
Software - at cost	2,883,487	2,200,701
Less: Accumulated amortisation	(882,653)	(510,824)
	2,000,834	1,689,877
Registered Training Organisation Licence	50,000	-
Less: Accumulated amortisation	(5,128)	-
	44,872	-
Intellectual property in Vocational Education & Training course materials	55,000	-
Less: Accumulated amortisation	(18,333)	-
	36,667	-
	<u>4,296,301</u>	<u>1,689,877</u>

### Reconciliations

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

	Software at cost \$	Goodwill \$	Registered Training Organisation licence \$	Intellectual property in course materials \$	Total \$
<b>Consolidated</b>					
Balance at 1 July 2017	1,260,810	-	-	-	1,260,810
Additions	683,115	-	-	-	683,115
Amortisation expense	(254,048)	-	-	-	(254,048)
Balance at 30 June 2018	1,689,877	-	-	-	1,689,877
Additions	682,786	-	-	-	682,786
Additions through business combinations (note 23)	-	2,213,929	50,000	55,000	2,318,929
Amortisation expense	(371,829)	-	(5,128)	(18,333)	(395,290)
Balance at 30 June 2019	<u>2,000,834</u>	<u>2,213,929</u>	<u>44,872</u>	<u>36,667</u>	<u>4,296,301</u>

### Accounting policy for Goodwill

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

### Accounting policy for internally developed software

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

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

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

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

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

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

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

### *Impairment of non-financial assets*

Non-financial assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

Goodwill acquired during the year has been allocated to the Vocational Education and Training segment cash-generating unit (CGU). The recoverable amount of the CGU is determined based on a value-in-use model. The model uses a discount rate of 11%, cash flow projections based on the financial budget for the 12 months immediately following the reporting date, cash flows beyond 12 months extrapolated through a 5-year outlook utilising conservative growth rates, and a terminal value growth rate of 2.5%.

Upon applying the test to purchased goodwill, it is concluded that no impairment has occurred. Sensitivity analysis has been performed to assess the impact of possible changes in assumptions. This has concluded that any reasonable possible change in valuation parameters would not cause the carrying amount of the CGU to exceed its recoverable amount.

## Note 10. Current liabilities - trade and other payables

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Trade payables	108,401	399,803
Accrued expenses	31,516	37,167
GST payable	21,445	-
Other payables	347,350	178,153
	<u>508,712</u>	<u>615,123</u>

Refer to note 16 for further information on financial instruments.

#### Note 10. Current liabilities - trade and other payables (continued)

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

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

#### Note 11. Current liabilities - employee benefits

	Consolidated	
	2019	2018
	\$	\$
Annual leave	108,024	49,181

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

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

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

##### *Defined contribution superannuation expense*

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

#### Note 12. Current liabilities - unearned revenue

	Consolidated	
	2019	2018
	\$	\$
Unearned revenue - software	18,270	5,566
Unearned revenue - distribution agreement	100,000	100,000
Unearned revenue – auspicing fees	45,850	-
	164,120	105,566

##### *Unearned revenue - distribution agreement*

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

### Note 13. Equity - contributed equity

	2019 Shares	Consolidated 2018 Shares	2019 \$	2018 \$
Ordinary shares - fully paid	88,750,000	83,750,000	8,067,274	7,257,899

#### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2017	17,673		1,255,914
Share issue to sophisticated investors*	31 July 2017	1,173	\$0.000	195,811
Share split	5 February 2018	49,981,154	\$0.000	-
Share issue - Initial Public Offering	6 February 2018	30,000,000	\$0.200	6,000,000
Shares issued on conversion of employee performance rights	27 March 2018	1,875,000	\$0.000	176,250
Shares issued on conversion of employee performance rights	28 May 2018	1,875,000	\$0.000	135,375
Share issue transaction costs		-	\$0.000	(505,451)
Balance	30 June 2018	83,750,000		7,257,899
Shares issued upon vesting of performance rights	8 August 2018	1,875,000	\$0.000	183,750
Shares issued upon vesting of performance rights	21 September 2018	1,875,000	\$0.000	140,625
Shares issued as part consideration for acquisition of AIET	23 November 2018	250,000	\$0.340	85,000
Shares issued as part consideration for acquisition of AIET	13 May 2019	1,000,000	\$0.400	400,000
Balance	30 June 2019	88,750,000		8,067,274

\* Shares were issued 31 July 2017. The value of the shares issued amounted to \$400,000 in total. Proceeds of \$204,189 were received by 30 June 2017 with the balance of \$195,811 received in July 2017

#### Share buy-back

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

#### Capital risk management

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

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

### Note 13. Equity - contributed equity (continued)

#### *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 – reserves

	Consolidated 2019 \$	2018 \$
Share-based payments reserve	407,002	299,005

#### *Share-based payments reserve*

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

#### *Movements in reserves*

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

	Consolidated Share based payments reserve \$	Total \$
Balance at 1 July 2017	-	-
Share based payments	610,630	610,630
Conversion of employee performance rights	(311,625)	(311,625)
Balance at 30 June 2018	299,005	299,005
Share based payments expense	471,365	471,365
Conversion of employee performance rights	(324,375)	(324,375)
Lapse of performance rights	(38,993)	(38,993)
Balance at 30 June 2019	407,002	407,002

### Note 15. Equity - dividends

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

### Note 16. Financial instruments

#### ***Financial risk management objectives***

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

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

## Note 16. Financial instruments (continued)

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

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Cash and cash equivalents	3,067,599	4,593,330
Trade and other receivables	462,782	541,557
	<u>3,530,381</u>	<u>5,134,887</u>
<b>Financial liabilities</b>		
Trade and other payables	508,713	615,123
Lease obligations	142,420	33,330
Cash component of contingent consideration for acquisition	360,000	-
	<u>1,011,133</u>	<u>648,453</u>

### **Market risk**

#### *Foreign currency risk*

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

#### *Price risk*

The Group is not exposed to any significant price risk.

#### *Interest rate risk*

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

### **Credit risk**

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

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

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

### **Liquidity risk**

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

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

## Note 16. Financial instruments (continued)

### Remaining contractual maturities

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

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Consolidated - 2019</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	508,713	-	-	-	508,713
Lease obligations	-	80,173	62,247	-	-	142,420
Contingent consideration for acquisition		360,000	-	-	-	360,000
Total non-derivatives		948,886	62,247	-	-	1,011,133
<b>Consolidated - 2018</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	615,123	-	-	-	615,123
Lease obligations	-	27,583	5,747	-	-	33,330
Total non-derivatives		642,706	5,747	-	-	648,453

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

### Fair value of financial instruments

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

## Note 17. Key management personnel disclosures

### Compensation

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	801,081	531,851
Post-employment benefits	72,371	47,971
Long-term benefits	3,237	325
Share-based payments	306,497	564,122
	<u>1,183,186</u>	<u>1,144,269</u>

## Note 18. Remuneration of auditors

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

	Consolidated	
	2019	2018
	\$	\$
<i>Audit services - PKF Melbourne Audit &amp; Assurance Pty Ltd</i>		
Audit or review of the financial statements	52,700	44,500
<i>Non-audit services - PKF Melbourne Corporate Pty Ltd</i>		
Goods and services tax advice	2,900	-
Investigating accountant - Prospectus	-	84,830
	<u>55,600</u>	<u>129,330</u>

## Note 19. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2019 (2018: \$Nil).

## Note 20. Related party transactions

### *Parent entity*

ReadCloud Limited is the parent entity.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 17 and in the remuneration report included in the Directors' report.

### *Transactions with related parties*

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

### *Receivable from and payable to related parties*

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

### *Loans to/from related parties*

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

## Note 21. Commitments

	Consolidated	
	2019	2018
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	80,173	27,583
One to five years	62,247	5,747
	<u>142,420</u>	<u>33,330</u>

Operating lease commitments includes contracted amounts for:

- office premises under a non-cancellable operating lease expiring within 3 months;
- office premises under a non-cancellable operating lease expiring within 24 months; and
- photocopying equipment under a non-cancellable operating lease expiring within 21 months.



## Note 22. Parent entity information

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

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

	Parent	
	2019	2018
	\$	\$
Loss after income tax	(1,759,079)	(1,285,855)
Total comprehensive income	<u>(1,759,079)</u>	<u>(1,285,855)</u>

### Statement of financial position

	Parent	
	2019	2018
	\$	\$
Total current assets	3,299,805	5,176,141
Total assets	5,340,049	6,910,063
Total current liabilities	638,025	769,870
Total liabilities	691,032	903,655
Net assets	<u>4,649,017</u>	<u>6,006,408</u>

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019.

### Significant accounting policies

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

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

### Interests in subsidiaries

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

- Australian Institute of Education and Training, 100% controlled (refer Note 23)

### **Note 23. Business combinations**

The Company acquired Australian Institute of Education & Training (comprising The Australian Institute of Education & Training Unit Trust and the trustee of the unit trust, Australian Institute of Education & Training Pty Ltd, together "AIET") with effect from 31 October 2018 for a total consideration of \$2,685,000. AIET is a leading Registered Training Organisation ("RTO") that provides Vocational Education and Training ("VET") courses and accreditation that enables secondary schools to offer VET courses under AIET's RTO licence. AIET provides a highly complimentary service to the same secondary school market that ReadCloud targets, creating significant cross-selling opportunities.

The goodwill of \$2,213,929 represents the value of AIET's brand, reputation and relationships in the VET-in-schools market. The acquired business contributed revenues of \$1,363,056 and profit after tax of \$533,656 to the Group for the period from 1 November 2018 to 30 June 2019. If the acquisition occurred on 1 July 2018, the full year contributions would have been revenues of \$1,487,311 and profit after tax of \$455,661. The values identified in relation to the acquisition of AIET are final as at 30 June 2019.

Details of the acquisition are as follows:

	<b>Fair value \$</b>
Cash and cash equivalents	3,107
Trade receivables	26,751
Other receivables	19,343
Plant and equipment	20,000
Leasehold improvements	6,532
Registered Training Organisation licence (at fair value)	50,000
Intellectual property in Vocational Education & Training course materials (at fair value)	55,000
Trade payables	(20,903)
Other payables	(86,312)
Unearned income	(2,040)
Employee entitlements	(5,407)
	<hr/>
Net assets acquired	66,071
Goodwill	2,213,929
Fair value movement in Contingent consideration (expensed to profit & loss)	405,000
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>2,685,000</u>
Representing:	
Cash paid to the vendor	400,000
ReadCloud Limited shares issued to vendor	485,000
Contingent consideration (payable as to: cash \$360,000, ReadCloud shares \$1,440,000)	1,800,000
	<hr/>
	<u>2,685,000</u>
	<hr/>
Acquisition costs expensed to profit or loss	<u>40,520</u>
	<hr/>
Cash used during the financial year to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	2,685,000
Less: Cash and cash equivalents acquired	(3,107)
Less: contingent consideration	(1,800,000)
Less: shares issued by Company as part of consideration	(485,000)
	<hr/>
Net cash used during the year	<u>396,893</u>

## Note 23. Business combinations (continued)

### *Accounting policy for business combinations*

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

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

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

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

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

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

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

## Note 24. Events after the reporting period

In July 2019, the Company paid the vendor of AIET \$300,000 cash in partial settlement of the contingent consideration liability owing to the vendor (this payment was approved by the Board in June 2019). As at 30 June 2019 the fair value of contingent consideration owing to the vendor was \$1.8 million. The balance of the contingent consideration liability, comprising \$60,000 cash and \$1,440,000 of shares in the Company, is to be settled in the coming weeks.

On 6 August 2019, the Company completed a placement of 5,555,556 new shares to institutional and sophisticated investors at \$0.36 per share to raise \$2 million before costs. The capital raised will provide additional funding for the Group to increase marketing and system development for its continued expansion in the Vocational Education and Training ("VET") sector.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Note 25. Reconciliation of loss after income tax to net cash used in operating activities**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax expense/(benefit) for the year	(1,630,423)	(1,285,855)
Adjustments for:		
Depreciation and amortisation	416,624	257,567
Share-based payments	471,365	610,630
Fair value movement on contingent consideration	405,000	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	129,380	(307,522)
Increase in prepayments	(41,248)	(33,871)
Increase/(decrease) in trade and other payables	(218,135)	356,273
Increase in employee benefits	63,134	49,890
(Decrease)/increase in unearned revenue	56,514	(1,728)
Increase in deferred tax liability	(87,750)	133,076
Net cash used in operating activities	<u>(435,539)</u>	<u>(221,540)</u>

**Note 26. Earnings per share**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax attributable to the Owners of ReadCloud Limited	<u>(1,630,423)</u>	<u>(1,285,855)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>87,168,493</u>	<u>62,329,830</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>87,168,493</u>	<u>62,329,830</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(1.87)	(2.06)
Diluted earnings per share	(1.87)	(2.06)

*Accounting policy for earnings per share*

*Basic earnings per share*

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

## Note 26. Earnings per share (continued)

### Diluted earnings per share

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

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

Description	Number on issue
Options issued under the Group's employee share plan (refer Note 27)	1,740,000
Performance rights issued under the Group's employee share plan (refer Note 27)	5,625,000
Options exercisable at \$0.30 each, expiring 30 November 2020 issued in connection with the Company's initial public offering	19,999,995

## Note 27. Share-based payments

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

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

### 2019

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

### 2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
13/03/2018	07/02/2021	\$0.200	-	375,000	-	-	375,000
13/03/2018	07/02/2022	\$0.200	-	225,000	-	-	225,000
28/05/2018	21/03/2021	\$0.330	-	240,000	-	-	240,000
28/05/2018	27/03/2021	\$0.330	-	120,000	-	-	120,000
28/05/2018	07/05/2022	\$0.330	-	300,000	-	-	300,000
			-	1,260,000	-	-	1,260,000
Weighted average exercise price			\$0.000	\$0.270	\$0.000	\$0.000	\$0.270

## Note 27. Share-based payments (continued)

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.44 years (2018: 3.12 years).

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

2019

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

2018

Grant date	Expiry date*	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
09/11/2017	14/09/2018	\$0.000	-	3,750,000	-	-	3,750,000
09/11/2017	31/12/2018	\$0.000	-	3,750,000	(3,750,000)	-	-
09/11/2017	13/09/2019	\$0.000	-	3,750,000	-	-	3,750,000
09/11/2017	31/12/2019	\$0.000	-	3,750,000	-	-	3,750,000
			<u>-</u>	<u>15,000,000</u>	<u>(3,750,000)</u>	<u>-</u>	<u>11,250,000</u>

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 0.31 years (2018: 0.97 years).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
21/09/2018	17/07/2022	\$0.470	\$0.410	100.00%	-	2.75%	\$0.334
09/01/2019	14/12/2021	\$0.300	\$0.350	100.00%	-	2.31%	\$0.177

### Accounting policy for share-based payments

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

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

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

#### **Note 27. Share-based payments (continued)**

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

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

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

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

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

In the Directors' opinion:

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

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

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

On behalf of the Directors



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Paul Collins  
Chairman

30 August 2019



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

## Report on the Financial Report

### Opinion

We have audited the accompanying financial report of ReadCloud Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

### Independence

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

### Key audit matters

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

Key audit matter – Revenue recognition	How our audit addressed this matter
<p>The Group's sales revenue amounted to \$4,316,479 during the year. Note 5 <i>Revenue</i> describes the accounting policies applicable to distinct revenue streams, noting that revenue from:</p> <ul style="list-style-type: none"> <li>eBook sales are recognised at the time of the eBook purchase by the customer;</li> <li>provision of software applications used in the delivery of and access to eBooks is recognised on satisfaction of the separate embedded performance obligations, being access revenue at the time of eBook sale and maintenance revenue over the period of the licence;</li> <li>auspicing fees are generated from enabling schools to offer their students nationally accredited courses under licence; fees relating to the pre-approval of a school to offer the course and the provision of course materials are recognised at the point in time they are transferred, whilst maintenance, monitoring and certification components are recognised over the time of delivery.</li> </ul>	<p>Our procedures included, but were not limited to, the following:</p> <ul style="list-style-type: none"> <li>assessing the performance obligations for a sample of contracts across each of the revenue streams by: <ul style="list-style-type: none"> <li>evaluating the contracts and agreeing revenue amounts to the records accumulated as inputs to the financial statements, including supporting billing systems and bank records;</li> <li>assessing the values recorded and the timing of revenue recognition as appropriate to the timeframe of product delivery or period of service provision;</li> </ul> </li> <li>assessing the accuracy of revenue cut off and completeness of deferred revenue as of the year end; and</li> <li>assessing the consistency of the Group's accounting policies in respect of revenue recognition with the criteria prescribed by AASB 15; and</li> <li>assessing completeness of management's AASB 15 disclosures in the financial statements.</li> </ul>

<i>Key audit matter – Revenue recognition (continued)</i>	<i>How our audit addressed this matter</i>
<p>The recognition of revenue and associated unearned revenue is considered a Key Audit Matter due to the varied timing of recognition relative to the different revenue streams and separate performance obligations, and the application of AASB 15 concepts.</p>	
<i>Key audit matter – Acquisition of Australian Institute of Education &amp; Training (AIET)</i>	<i>How our audit addressed this matter</i>
<p>As described in Note 23, the Group acquired 100% of the issued capital of AIET with effect from 1 November 2018. The acquisition-date fair value of the total consideration transferred amounted to \$2,685,000. Significant judgements were formed by Management in valuing the acquired identifiable assets and allocation to goodwill. At the half-year ending 31 December 2018, a provisional assessment was made of the appropriate acquisition accounting treatment. At 30 June 2019, Management have finalised the accounting for the acquisition of AIET. Based on this we have considered the acquisition of AIET to be a Key Audit Matter.</p>	<p>Our procedures covering the existence and treatment of goodwill included, but were not limited to, the following:</p> <ul style="list-style-type: none"> <li>• considering the Group's assessment of the application of AASB 3 <i>Business Combinations</i>;</li> <li>• reviewing and obtaining an understanding of the Share Purchase Agreement between the parties resulting in the business combination;</li> <li>• assessing the methodology applied to provisionally determine the identifiable assets acquired and liabilities assumed, the fair value of the consideration transferred, and the fair value attributed to each asset and liability class;</li> <li>• reviewing and assessing Management's calculation of contingent consideration at 30 June 2019, including the assessment performed of results which are deemed to have been derived from events which existed at the time of acquisition as opposed to results derived from new events subsequent to acquisition;</li> <li>• validating inputs of the components of the business combination to underlying support, and assessing the resultant provisional accounting entries associated with the acquisition, including recognition of goodwill;</li> <li>• assessing the appropriateness of the allocation of goodwill to the AIET Cash Generating Unit;</li> <li>• considering Management's updated assessment of final accounting for the business combination and the resultant impact.</li> </ul> <p>Our procedures covering the carrying value of goodwill at 30 June 2019 included, but were not limited to, the following:</p> <ul style="list-style-type: none"> <li>• reviewing and challenging Management's methodology and assumptions used within the discounted cash flow model as a basis for impairment testing of the AIET investment, including: <ul style="list-style-type: none"> <li>○ assumptions used for future growth rates in number of schools and students attending courses which utilise AIET's auspiced licence;</li> <li>○ the discount rate applied;</li> <li>○ key assumptions for growth in future cash flows;</li> </ul> </li> <li>• assessing the appropriateness of the disclosures in relation to both the business combination and intangible assets acquired included in Notes 9 and 23.</li> </ul>

<i>Key audit matter – Capitalisation of software development costs as intangible assets</i>	<i>How our audit addressed this matter</i>
<p>As at 30 June 2019, the Group's assets include capitalised software development costs with a carrying value of \$2,000,834 (2018: \$1,689,877), as disclosed in Note 9 <i>Intangibles</i> of the financial report. The accounting policy in respect of this asset is also outlined within Note 9. Capitalised software development costs are considered a Key Audit Matter due to the amount of expenditure capitalised and the specific criteria that have to be met for capitalisation, in accordance with AASB 138 <i>Intangible Assets</i>.</p> <p>Judgement is required in determining development expenditures that should be capitalised. Such judgements include consideration of matters such as generation of future economic benefits and distinction between development of new software and maintenance or upgrade of existing software. Capitalised development costs are then amortised over the estimated useful life of the asset, presently judged to be five years.</p>	<p>Our procedures included, but were not limited to, the following:</p> <ul style="list-style-type: none"> <li>• testing, on a sample basis, development expenditure incurred during the year for compliance with AASB 138 and the Group's accounting policy;</li> <li>• assessing evidence of Management's conclusion of the economic feasibility of the products relying on the application of the software, including board approved budgets, and marketing and business development plans;</li> <li>• assessing the reasonableness of estimated useful life of five years and the calculation of amortisation;</li> <li>• assessing whether there are any indicators of impairment, such as evidence of adverse market or internal conditions, and product or revenue underperformance;</li> <li>• assessing and challenging, with reference to Management's value in use analysis, that the recoverable amount of the asset from its continuing use supports its carrying amount; and</li> <li>• the appropriateness of related disclosures in Note 9.</li> </ul>

### Other Information

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

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

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

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

### Directors' responsibility for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards 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 Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the Group's ability 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 Company or cease operations, or have no realistic alternative but to do so.

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

Our responsibility is to express an opinion on the financial report based on our audit. 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 the auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control.

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.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events and 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 on the financial report. 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 Company to cease to continue as a going concern.

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

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

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

#### **Report on the Remuneration Report**

##### **Opinion**

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2019. In our opinion, the Remuneration Report of ReadCloud Limited for the year then ended complies with Section 300A of the *Corporations Act 2001*.

##### **Responsibilities**

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



PKF  
Melbourne, 30 August 2019



Steven Bradby  
Partner

The shareholder information set out below was applicable as at 27 August 2019.

### Distribution of equity securities

	Number of holders of unquoted employee options	Number of holders of escrowed options	Number of holders of quoted options	Number of holders of escrowed shares	Number of holders of ordinary shares
1 to 1,000	-	-	0	-	23
1,001 to 5,000	-	-	47	-	170
5,001 to 10,000	-	-	33	-	114
10,001 to 100,000	-	-	131	-	289
100,001 and over	10	2	26	14	55
	10	2	237	14	651
Holding less than a marketable parcel	-	-	-	-	39

In addition to the equity securities listed above, the Company has also issued Performance Rights, for which there are 4 holders with holdings of over 100,001.

### Equity security holders

#### Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total quoted shares issued
HSBC Custody Nominees (Australia) Limited	4,998,524	9.85
UBS Nominees Pty Ltd	4,933,556	9.73
Mr Jonathan Brett Isaacs	4,231,667	8.34
Sargon CT Pty Ltd <Cyan C3G Fund>	3,194,444	6.30
J P Morgan Nominees Australia Pty Limited	2,530,987	4.99
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	1,573,030	3.10
Mr Guy Samuel Mendelson	1,435,318	2.83
Mr Nicholas Mardling*	1,250,000	2.46
Mr Raymond Jowett & Ms Claudia Gardiner <Jowett Superfund>	1,034,702	2.04
Ms Nicole Sharp	968,375	1.91
Mrs Katrina Claire Andrew & Mr Christian Thomas Andrew <KC & CT Andrew Superfund>	811,843	1.60
Mrs Natanya Pesha Fisher & Mr Joshua Luke Fisher <Fisher Super>	806,895	1.59
Howard Trading Co Pty Ltd	500,000	0.99
Mr Lars Peder Lindstrom	500,000	0.99
Mr Kenneth Biddick & Mrs Catherine Biddick <Conquest Sports PL SFBEN A/C>	484,634	0.96
Scotch Investments Pty Ltd <Scotch Investments A/C>	450,000	0.89
Mr Peter Colin Eichhorn	450,000	0.89
Mr Alistair David Strong	430,000	0.85
Mr Stephen Jolson	403,269	0.79
Mr Andrew Isaacs	403,269	0.79
	31,390,513	61.88

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

**Escrow expiry**

	Number
12 Month Escrow 23 November 2019	125,000
12 Month Escrow to 13 May 2020	500,000
24 Month Escrow 23 November 2020	125,000
24 Month Escrow to 13 May 2021	500,000
Total	<u>1,250,000</u>

**Options over ordinary shares**

	Number held	% of total options issued
HSBC Custody Nominees (Australia) Limited	2,500,000	15.00
UBS Nominees Pty Ltd	2,500,000	15.00
J P Morgan Nominees Australia Pty Limited	1,124,112	6.74
Sargon CT Pty Ltd <Cyan C3G Fund>	1,000,000	6.00
Australian Executor Trustees Ltd	666,666	4.00
Custodial Services Limited <Beneficiaries Holdings A/C>	550,000	3.30
Biggins Super Pty Ltd <Biggins S/F A/C>	474,166	2.84
Atlantis MG Pty Ltd <MG Family A/C>	441,666	2.65
Mr Kenneth Biddick & Mrs Catherine Biddick <Conquest Sports PL SFBEN A/C>	375,000	2.25
Mr Philip Leslie Bish	300,000	1.80
Retzos Executive Pty Ltd <Retzos Executive S/F A/C>	250,000	1.50
Sam Gouloupoulos Pty Ltd <S Gouloupoulos F/Super A/C>	208,333	1.25
Mr Timothy Grantham Simpson Hosking	200,217	1.20
Righttime Investments Pty Ltd	200,000	1.20
Mackay Group Pty Ltd <The Mackay Family A/C>	187,416	1.12
GT Capital Pty Ltd <Greenwood Super A/C>	175,000	1.05
GT Capital Pty Ltd	170,000	1.02
Mr Shehan Cecil Goonesekera	158,951	0.95
Hoppscotch Pty Ltd <Hoppscotch Super Fund A/C>	150,000	0.90
Mr Christopher Leslie Lawson & Ms Pippa June Lawson <Gordanna SF A/C>	140,000	0.84
	<u>11,771,527</u>	<u>70.63</u>

The names of the twenty largest security holders of issued ordinary shares (including quoted ordinary shares and shares escrowed for 24 months until 6 February 2020) are listed below:

	Ordinary shares Number held	% of total shares issued
Amity Agency Pty Ltd	14,326,648	15.19
Mr Lars Peder Lindstrom	8,454,128	8.96
J & D Pollaers Holdings Pty Ltd <Pollaers Family Trust>	5,193,750	5.51
HSBC Custody Nominees (Australia) Limited	4,998,524	5.30
UBS Nominees Pty Ltd	4,933,556	5.23
Ms Kimberley Juanita Marshall	4,775,549	5.06
Mr Jonathan Brett Isaacs	4,231,667	4.49
Hunmar Holdings Pty Ltd	3,817,786	4.05
Sargon CT Pty Ltd <Cyan C3G Fund>	3,194,444	3.39
Mr Darren Hunter	2,750,000	2.92
J P Morgan Nominees Australia Pty Limited	2,530,987	2.68
Ms Natanya Pesha Fisher	2,026,955	2.15
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	1,573,030	1.67
Mr Joshua Fisher	1,500,000	1.59
Mrs Natanya Pesha Fisher & Mr Joshua Luke Fisher <Fisher Super>	1,486,655	1.58
Mr Guy Samuel Mendelson	1,435,318	1.52
Mr Nicholas Mardling	1,250,000	1.33
Mr Raymond Jowett & Ms Claudia Gardiner <Jowett Superfund>	1,034,702	1.10
Ms Nicole Sharp	968,375	1.03
Mrs Katrina Claire Andrew & Mr Christian Thomas Andrew <KC & CT Andrew Superfund>	811,843	0.86
	<b>71,293,917</b>	<b>75.99</b>

*Unquoted equity securities*

	Number on issue	Number of holders
Shares escrowed for 24 months until 6 February 2020	43,574,909	13
Options escrowed for 24 months until 7 February 2020	3,333,332	2
Employee options with various expiry dates	1,740,000	10
Employee performance rights escrowed until 7 February 2020	5,625,000	4

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

Name	Class	Number held
Amity Agency Pty Ltd	Shares escrowed for 24 months until 6 February 2020	14,326,646
UBS Securities Australia Limited	Options escrowed for 24 months until 7 February 2020	1,666,666
HSBC Custody Nominees (Australia) Limited	Options escrowed for 24 months until 7 February 2020	1,666,666



### Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Amity Agency Pty Ltd	14,326,648	15.19
Thorney Technologies Ltd	10,638,504	11.28
TIGA Trading Pty Ltd	10,638,504	11.28
Lars Lindstrom	8,534,128	9.05
Darren Hunter	7,009,880	7.43
D & J Pollaers Holdings Pty Limited (Pollaers Family Trust)	5,193,750	5.51
Joshua Fisher	5,013,610	5.32
Kimberley Juanita Marshall	4,775,549	5.06

### Voting rights

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

#### Ordinary shares

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

There are no other classes of equity securities.

### Restricted securities

Class	Expiry date	Number of securities
Fully paid ordinary shares escrowed for 24 months	6 February 2020	43,574,909
Options over fully paid ordinary shares escrowed for 24 months	7 February 2020	3,333,332
Performance rights escrowed for 24 months	7 February 2020	5,625,000
		<u>52,533,241</u>

### Consistency with business objectives - ASX Listing Rule 4.10.19

In accordance with Listing Rule 4.10.19, the Company states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The Company believes it has used its cash in a consistent manner to which was disclosed under the Replacement Prospectus dated 19 December 2017, and the Prospectus dated 13 December 2017.