# READCLOUD LIMITED

## ABN 44 136 815 891

## APPENDIX 4D HALF YEAR REPORT
## FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

### PROVIDED TO THE ASX UNDER LISTING RULE 4.2A.3

## 1. Company details

| | |
|---|---|
| Name of entity: | ReadCloud Limited |
| ABN: | 44 136 815 891 |
| Reporting period: | For the half-year ended 31 December 2019 |
| Previous period: | For the half-year ended 31 December 2018 |

## 2. Results for announcement to the market

| | | | | $ |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 34.8% | to | 3,152,798 |
| Loss from ordinary activities after tax attributable to the Owners of ReadCloud Limited | up | 17.3% | to | (1,101,644) |
| Loss for the half-year attributable to the Owners of ReadCloud Limited | up | 17.3% | to | (1,101,644) |

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

*Comments*
The loss for the Group after providing for income tax amounted to $1,101,644 (31 December 2018: $939,196). Underlying earnings before interest taxation, depreciation and amortisation ('Underlying EBITDA') was a loss of $682,527 (31 December 2018: loss of $441,980). This is reconciled to the statutory loss as follows:

| | | Consolidated | |
|---|---|---|---|
| | | 31 December 2019 $ | 31 December 2018 $ |
| Reported (statutory) net loss after tax | | (1,101,644) | (939,196) |
| Add back: | Depreciation and amortisation | 305,834 | 159,665 |
| | Share based payments | 93,852 | 335,000 |
| | Transaction costs incurred on business acquisition (expensed) | 7,085 | 35,138 |
| | Net interest (revenue) / expense | 559 | (32,587) |
| | Income tax expense / (benefit) | 0 | 0 |
| Underlying EBITDA* | | (694,314) | (441,980) |

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 | 2.91 | 2.10 |

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.

## 6. Dividends

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

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

## 7. Dividend reinvestment plans

Not applicable.

## 8. Details of associates and joint venture entities

Not applicable.

## 9. Foreign entities

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

Not applicable.

## 10. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half Year Report.

## 11. Attachments

*Details of attachments (if any):*

The Half Year Report of ReadCloud Limited for the half-year ended 31 December 2019 is attached.

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## 12. Signed

Signed ___________________________ Date: 27 February 2020

# ReadCloud Limited

## ABN 44 136 815 891

# Half Year Report - 31 December 2019

| | |
|---|---|
| Directors | Mr Paul Collins (Non-executive Chairman)<br>Mr Lars Lindstrom (Executive Director and Chief Executive Officer)<br>Mr Darren Hunter (Executive Director and Chief Information Officer)<br>Mr Guy Mendelson (Non-Executive Director) |
| Company secretary | Ms Melanie Leydin |
| Registered office | 284 Bay Street<br>Brighton VIC 3186<br>Phone: +61 3 9078 4833 |
| Principal place of business | 284 Bay Street<br>Brighton VIC 3186<br>Phone: +61 3 9078 4833 |
| Share register | Boardroom Limited<br>Level 12, 225 George Street<br>Sydney NSW 2000<br>Phone: 1300 737 760; +61 2 9290 9600 |
| Auditor | PKF Melbourne Audit & Assurance Pty Ltd<br>Level 12, 440 Collins Street<br>Melbourne VIC 3000<br>Phone: +61 9679 2361 |
| Stock exchange listing | ReadCloud Limited shares and options are listed on the Australian Securities Exchange (ASX code: RCL and RCLO) |
| Website | www.readcloud.com |

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 half-year ended 31 December 2019.

## Directors

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

Mr Paul Collins (Non-executive Chairman)
Mr Lars Lindstrom (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.

## Review of operations

Highlights for FY20 year to date include:

- H1 FY20 Group revenue $3.15million (up 35% on H1 FY19 revenue of $2.34 million), with FY20 revenue being more skewed to the second half than in prior years;
- Year-to-date unaudited Group revenue to the end of February 2020 $5.51 million is up 83% compared to $3.01 million for the same period in FY19 reflecting strong sales for the 2020 school year;
- As at the date of this report, eBook orders from full-curriculum schools are still being received and ReadCloud is still winning new full curriculum schools for the 2020 school year;
- As in FY19, the vast majority of revenue for the Vocational Education and Training ("VET") in schools segment will be generated in the second half. School auspicing fees for the 2020 school year (charged to schools on the basis of VET courses delivered) have largely been invoiced in February 2020, however student fees for 2020 are still to be invoiced following completion of student enrolments in March;
- Notable new school wins in 1H20 for both the full-curriculum and VET segments; and
- At the end of January 2020 ReadCloud was in over 350 schools (up 75% from January 2019) and had over 103,000 users on its platform (up 72% from January 2019), with user numbers set to increase in the coming weeks with further new schools and new enrolments in VET courses.

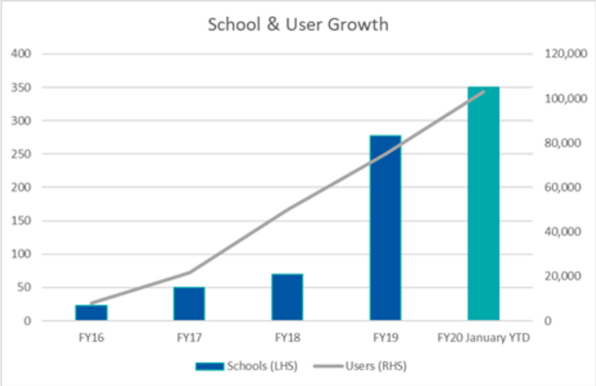
The Directors are pleased to report that ReadCloud achieved strong growth in H1 FY20 across both the full-curriculum school and VET in-school segments and commenced penetration of the broader VET market. Notable new school wins for Direct full-curriculum schools in H1 FY20 included three of the largest State High schools in Brisbane (each with over 2,000 students, including the largest State High School in Queensland with over 3,000 students) and a large independent Anglican School in New South Wales. These successes have already led to additional new referrals and inbound enquiries in that market.

Direct sales efforts for the 2020 school year have been focused on targeting larger schools as reference customers and for operational efficiencies (the on-boarding process for a school with larger user numbers is not dissimilar to that for a smaller school in terms of set-up and eBook provisioning).

Notable school wins by Resellers have included two prestigious Grammar schools in Melbourne that will be using the ReadCloud eLearning platform in conjunction with ReadCloud partner OfficeMax for physical books in 2020.

In H1 FY20 ReadCloud signed up new VET in-school customers across Victoria, Queensland, South Australia and Western Australia. The months of February and March each year represent the peak enrolment period for VET-in-school students. As at the date of this announcement, the enrolment process for VET school customers and students is well underway, with final school and user numbers for this segment to be ascertained following completion of student enrolments and VET subject choices in March.

ReadCloud platform users increased to 103,000 as at the end of January 2020 (up 72% from the same time in 2019), with user numbers set to increase in 2H20 as enrolments in VET courses are completed in the coming weeks.




*Sales and fee revenue*

ReadCloud's revenue for H1 FY20 increased 35% to $3.15 million compared to H1 FY19. The Company expects a higher proportion of revenue to be generated in the second half year compared to FY19. eBook sales to direct full-curriculum schools are usually strongly biased towards the first half of the financial year with 88% of FY19 eBook revenues generated in H1 FY19. However, a number of direct full-curriculum schools (including new schools signed late in the calendar year) were still finalising timetables and eBook orders in late December 2019, with orders not placed until January and February 2020. As a result, eBook sales to this segment in H2 FY20 are expected to account for a significantly larger proportion of full-year FY20 eBook sales than the 12% of FY19 revenue generated in H2 FY19.

eBook sales to Reseller full-curriculum schools are normally biased towards the second half of the financial year with 70% of FY19 revenue generated in H2 FY19. Given the strong eBook sales through Resellers in January and February 2020, a significantly higher proportion of annual eBook sales to this segment is expected in H2 FY20.

eBook sales to full-curriculum schools (direct school customers and Reseller schools) in January and February 2020 have exceeded $1.55 million (versus $0.48 million for January and February 2019).

VET auspicing fee revenue of $0.24 million was generated in H1 FY20 (H1 FY19: $4,000), as new VET qualifications were commenced and completed by VET school customers in the second half of the calendar year. A number of new customer schools that had commenced VET subjects with competitor Registered Training Organisations at the beginning of 2019 came across to AIET to complete the delivery of these subjects from Term 3 2019. At the conclusion of FY19 the generation of auspicing fees in respect of the 2019 school year was considered largely complete and as such, the auspicing fee revenue generated in H1 FY20 exceeded expectations.

The enrolment process for 2020 VET courses commenced in February 2020 and will be largely completed by March 2020. In January and February 2020 school VET auspicing fees have exceeded $0.77 million, with further invoicing still to be completed. In addition, student fees for 2020 (charged to schools on a per enrolled student basis and accounting for the majority of total auspicing fees) are also yet to be invoiced (invoicing will be done once enrolments have been finalised in March).

For the 8 months to the end of February 2020, the consolidated entity has recorded (unaudited) revenue of $5.51 million (up 83% compared to $3.01 million for the same period in FY19).

*Reported result*

In H1 FY20 ReadCloud recorded a 35% increase in consolidated revenue to $3.15 million ($2.34 million in H1 FY19), a consolidated Underlying EBITDA* loss of $0.69 million (loss of $0.44 million in H1 FY19) and a consolidated statutory loss of $1.10 million (loss of $0.94 million in H1 FY19). Underlying EBITDA* 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.

| | | Consolidated | |
|---|---|---|---|
| | | **31 December 2019** | **31 December 2018** |
| | | **$** | **$** |
| Reported (statutory) net loss after tax | | (1,101,644) | (939,196) |
| Add back: | Depreciation and amortisation | 305,834 | 159,665 |
| | Share based payments | 93,852 | 335,000 |
| | Transaction costs incurred on business acquisition (expensed) | 7,085 | 35,138 |
| | Net interest revenue | 559 | (32,587) |
| Underlying EBITDA* | | (694,314) | (441,980) |

** 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.*

The H1 FY20 consolidated statutory loss reflects six months of costs for the AIET VET business (compared to two months of costs for this business from the acquisition date of 31 October 2018 in the prior comparable period), investment in additional human resources for this business for growth and increased depreciation and amortisation costs (explained below). As a consequence, whilst H1 FY20 revenue increased over the prior comparable period, the statutory loss for H1 FY20 has also increased. Further, due to the cyclical nature of ReadCloud's business, with revenue (particularly for the AIET VET business) skewed to the second half of the financial year, the H1 FY20 result is not indicative of the likely FY20 full-year result.

The H1 FY20 consolidated statutory loss is comprised of:

- sales and fee revenue of $2.96 million ($2.08 million in H1 FY19), with growth over H1 FY19 driven by eBook sales to new full-curriculum schools, increased eBook sales to existing FY19 full-curriculum schools and VET auspicing fee revenue generated in H1 FY20 (VET auspicing fee revenue for H1 FY19 was negligible;
- other revenue of $0.19 million ($0.26 million in H1 FY19), including government grant and interest income;
- publisher and bookseller expenses of $1.98 million (H1 FY19: $1.48 million), with the increase from H1 FY19 a result of growth in eBook sales during the period. Gross margins on eBook sales to full-curriculum schools (direct school customers and Reseller schools) declined by 1.6% from FY19 due to a change in the product mix (towards lower margin products) of eBooks sold to schools in FY20;
- employment expenses of $1.25 million (H1 FY19: $0.87 million), with the increase over the prior comparable period attributable entirely to the acquisition of the AIET VET business on 31 October 2018 (employment costs for full-curriculum business for 1H20 were in line with H1 FY19). Employment costs for H1 FY19 only included two months of AIET employment costs (from the acquisition date to 31 December 2018). In addition, significant investment has been made in the AIET business with two new employees in Perth to service nearly 80 West Australian VET school customers, a full-time Compliance Officer, and in a new student management platform for AIET that enforces better compliance due to an end to end electronic process and ensures AIET is well placed to scale with expected future growth;
- depreciation and amortisation of $0.30 million (H1 FY19: $0.16 million), with the increase attributable to the Group's adoption (from 1 July 2019) of new Accounting Standard AASB16 Leases, which has resulted in the capitalisation of depreciating "right-of-use assets" on the Group's consolidated balance sheet. In

addition, more capitalised development costs from previous financial years commenced amortising during 1H20;

- professional services expenses of $0.14 million (H1 FY19: $0.14 million), including audit fees, tax consulting fees, share registry costs and company secretarial fees;
- share based payments of $0.09 million (H1 FY19: $0.34 million), with the decline in 1H20 attributable to the lapse of performance rights during the period due to performance hurdles not being met; and
- other expenses of $0.29 million (H1 FY19: $0.15 million), the main components being ASX fees, insurance, web hosting, telephone & internet and office expenses.

*Platform update*

Significant investment has been made in the ReadCloud platform to ensure it remains the leading solution for our schools and educational customers. A number of advancements have been achieved for delivery in the 2020 school year including:

- development of an Enhanced Annotations feature, which enables publishers, teachers and students to create and share rich video, audio, images and drawings within the ReadCloud application. The addition of Apple Pen support and split screen functionality has raised the bar considerably in this area. This has been well received by school customers and usage of the feature is very encouraging;
- streamlining of the Operational and Support processes to ensure schools are 'up and running' as soon as possible at the commencement of the new school year, representing a significant competitive advantage to competing digital delivery offerings;
- adoption and implementation of a new student management system (the aXcelerate platform) for the AIET business. Currently used by over 700 Registered Training Organisations nationally, the aXcelerate software encompasses compliance, student enrolments, student management and finance (school customer invoicing) in one system. The aXcelerate platform replaces three separate software platforms, will reduce operational and development costs and ensure compliance in a heavily regulated industry. The ReadCloud platform has been well integrated into the aXcelerate solution, enabling seamless delivery of digital course materials to students enrolled in VET courses; and
- a web-based edition of the ReadCloud eReader, which enables integration into many of the systems currently used in schools. This enables users to have access to their resources via the incumbent school platforms and also via the ReadCloud applications, enabling both an online and offline experience depending on the preferred requirements.

*Funding*

In August 2019 ReadCloud completed a well-supported placement of new shares to existing and new institutional and sophisticated investors that raised $2.0 million before costs. As at 31 December 2019 the Group had a strong balance sheet with cash at bank of $2.84 million and zero debt. The December quarter is the typically the low point in the Group's cash cycle. As at 31 December 2019 the Group had trade and other receivables owing to it of $2.44 million.

*Outlook*

The Company is well-placed to continue its strong growth in the eLearning sector in Australia, driven by:

- increasing momentum in new school acquisitions in both the full-curriculum and VET-in-school segments. Increasing market penetration, in particular in larger schools, is generating an increasing pipeline of new sales leads;
- the continued difficulties experienced by the main competitors in delivering digital solutions to schools in a timely manner;
- organic growth within existing school customers, driven by expanded usage of the ReadCloud platform and VET auspicing services across additional courses and year levels within existing school customers;

- accelerating digital adoption within both the full-curriculum and VET in school sectors driven by student preference for digital delivery and increasing willingness of teachers and school administrations to adopt digital;
- increasing success in cross-selling between ReadCloud's VET course schools and ReadCloud full-curriculum schools; and
- adoption of the ReadCloud platform and ReadCloud's growing resource library within the broader tertiary VET market.

## Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Group during the financial half-year.

## Matters subsequent to the end of the financial half-year
No matter or circumstance has arisen since 31 December 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.

## 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.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

Paul Collins
Chairman

27 February 2020

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

In relation to our review of the financial report of ReadCloud Limited for the half-year ended 31 December 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*; and
(b) no contraventions of any applicable code of professional conduct.

This declaration is made in respect of ReadCloud Limited and the entities it controlled during the financial period.

**PKF**
**Melbourne, 27 February 2020**

**Steven Bradby**
**Partner**

| | | Consolidated | |
|---|---|---|---|
| | Note | 31 December 2019 $ | 31 December 2018 $ |
| **Revenue** | | | |
| Sales revenue | 4 | 2,964,130 | 2,083,226 |
| Other income | 4 | 188,668 | 255,201 |
| **Total revenue** | | 3,152,798 | 2,338,427 |
| | | | |
| **Expenses** | | | |
| Advertising & Marketing | | (76,124) | (39,942) |
| Depreciation and amortisation | | (305,834) | (159,665) |
| Employment expenses | | (1,254,050) | (866,115) |
| Printing & stationary | | (11,292) | (22,317) |
| Professional services expenses | | (143,823) | (141,746) |
| Publisher and bookseller fees expense | | (1,979,631) | (1,477,093) |
| Share based payments | | (93,852) | (335,000) |
| Travel expenses | | (96,193) | (87,934) |
| Other expenses | | (290,804) | (147,811) |
| Finance Costs | | (2,839) | - |
| | | | |
| **Loss before income tax expense/(benefit)** | | (1,101,644) | (939,196) |
| Income tax expense/(benefit) | | - | - |
| | | | |
| **Loss after income tax expense/(benefit) for the half-year attributable to the Owners of ReadCloud Limited** | | (1,101,644) | (939,196) |
| Other comprehensive income for the half-year, net of tax | | - | - |
| **Total comprehensive loss for the half-year attributable to the Owners of ReadCloud Limited** | | (1,101,644) | (939,196) |
| | | **Cents** | **Cents** |
| Basic earnings / (loss) per share | 11 | (1.16) | (1.09) |
| Diluted earnings / (loss) per share | 11 | (1.16) | (1.09) |

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

## ReadCloud Limited
## Consolidated statement of financial position
## As at 31 December 2019

| | Note | Consolidated 31 December 2019 | Consolidated 30 June 2019 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 2,840,190 | 3,067,599 |
| Trade and other receivables | 5 | 2,440,369 | 470,165 |
| Prepayments | | 102,951 | 75,119 |
| Total current assets | | 5,383,510 | 3,612,883 |
| **Non-current assets** | | | |
| Property, plant & equipment | | 109,449 | 59,756 |
| Right-of-use assets | 6 | 374,674 | - |
| Intangibles | 7 | 4,390,335 | 4,296,301 |
| Total non-current assets | | 4,874,458 | 4,356,057 |
| **Total assets** | | 10,257,968 | 7,968,940 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8 | 2,080,097 | 508,712 |
| Lease liabilities | 6 | 153,025 | - |
| Provision for employee entitlements | | 92,860 | 108,024 |
| Contract liability | | 19,796 | 164,120 |
| Other (contingent consideration) | | - | 1,800,000 |
| Total current liabilities | | 2,345,778 | 2,580,856 |
| **Non-current liabilities** | | | |
| Lease liabilities | 6 | 220,442 | - |
| Provision for leasehold make-good | | 10,000 | - |
| Deferred tax | | 45,326 | 45,326 |
| Provision for employee benefits | | 21,367 | 10,408 |
| Total non-current liabilities | | 297,135 | 55,734 |
| **Total liabilities** | | 2,642,913 | 2,636,590 |
| **Net assets** | | 7,615,055 | 5,332,350 |
| **Equity** | | | |
| Contributed equity | 9 | 11,357,770 | 8,067,274 |
| Reserves | | 370,973 | 407,002 |
| Accumulated losses | | (4,113,688) | (3,141,926) |
| **Total equity** | | 7,615,055 | 5,332,350 |

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

| Consolidated | Issued capital $ | Share-based payment reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 July 2018 | 7,257,899 | 299,005 | (1,550,496) | 6,006,408 |
| Loss after income tax expense/(benefit) for the half-year | - | - | (939,196) | (939,196) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | (939,196) | (939,196) |
| *Transactions with Owners in their capacity as Owners:* | | | | |
| Share-based payments | - | 335,000 | - | 335,000 |
| Exercise of performance rights | 324,375 | (324,375) | - | - |
| Issue of shares as consideration for acquisition | 85,000 | - | - | 85,000 |
| Lapse of performance rights | - | (38,993) | 38,993 | - |
| Balance at 31 December 2018 | 7,667,274 | 270,637 | (2,450,699) | 5,487,212 |

| Consolidated | Issued capital $ | Share-based payment reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 July 2019 | 8,067,274 | 407,002 | (3,141,926) | 5,332,350 |
| Loss after income tax expense/(benefit) for the half-year | - | - | (1,101,644) | (1,101,644) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | (1,101,644) | (1,101,644) |
| *Transactions with Owners in their capacity as Owners:* | | | | |
| Contributions of equity, net of transaction costs (note 9) | 1,850,496 | - | - | 1,850,496 |
| Share-based payments | - | 93,852 | - | 93,852 |
| Issue of shares as consideration for acquisition | 1,440,000 | - | - | 1,440,000 |
| Lapse of performance rights | - | (129,881) | 129,881 | - |
| Balance at 31 December 2019 | 11,357,770 | 370,973 | (4,113,688) | 7,615,055 |

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

| | Note | Consolidated 31 December 2019 $ | 31 December 2018 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 673,118 | 402,267 |
| Payments to suppliers and employees | | (2,342,819) | (1,755,114) |
| Research and development tax incentive refund | | 393,123 | 351,725 |
| Interest income | | 2,280 | 32,587 |
| Net cash used in operating activities | | (1,274,298) | (968,535) |
| **Cash flows from investing activities** | | | |
| Payments for purchase of business, net of cash acquired | | (360,000) | (346,893) |
| Payments for property, plant and equipment | | (66,137) | (701) |
| Payments for software development | 7 | (331,700) | (361,281) |
| Net cash used in investing activities | | (757,837) | (708,875) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 9 | 2,000,000 | - |
| Share issue transaction costs | | (149,504) | - |
| Repayment of lease liabilities | | (42,931) | - |
| Interest paid on lease liabilities | | (2,839) | - |
| Net cash from financing activities | | 1,804,726 | - |
| Net increase/(decrease) in cash and cash equivalents | | (227,409) | (1,677,410) |
| Cash and cash equivalents at the beginning of the financial half-year | | 3,067,599 | 4,593,330 |
| Cash and cash equivalents at the end of the financial half-year | | 2,840,190 | 2,915,920 |

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

## Note 1. Basis of preparation and significant accounting policies

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2020.

These general-purpose financial statements for the half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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 following Accounting Standards and Interpretations are most relevant to the Group:

*AASB 16 Leases*
The Group has adopted this new standard from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Upon adoption of the standard the Group, as lessee, is required to recognise its leases in the statement of financial position. The only exceptions are short-term (less than 12 months) leases and leases of low-value assets. The lease liability is measured as the present value of the unavoidable future lease payments to be made over the lease term (refer Note 6 Leases). The Group has elected to adopt the modified retrospective approach (with the application of practical expedients), which equates the 'right-of-use' asset (ROUA) with the value of the lease liability, therefore there is no requirement to restate either retained earnings or prior period comparatives

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

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

## Note 1. Basis of preparation and significant accounting policies (continued)

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

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

## Note 2. 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. The key judgements and estimates used by Management in applying the Group's policies for the period have been updated to reflect the latest information available. Those judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

*Capitalised software development costs*
The Group capitalises software development costs associated with the ReadCloud platform, based on management's judgement that technological and economic feasibility is confirmed. 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.

*Impairment of non-financial assets*
The Group tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are assessed at each reporting date by evaluating conditions specific to the Group and to the particular asset that may indicate an impairment trigger. Resultant testing requires the recoverable amount of the asset or cash-generating unit, as relevant, to be determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Income tax*
Judgement is required in determining amounts impacting the provision for income tax, such as in relation to entitlements to access R&D offset as of the interim reporting date. Liabilities are determined on the Group's current understanding of the tax law.

## Note 3. 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.

*Cyclical nature of the Group's business*

Each segment has a different revenue profile. For the eBook solutions segment revenue from eBook sales is recognised at the time of eBook purchases by schools, with the significant majority of eBook sales occurring in the months of December through February (just prior to and immediately following the commencement of the school year).

## Note 3. Operating segments (continued)

For the Vocational Education and Training business, the Group receives fees for the provision of auspicing services to secondary schools that enables these schools to offer their students nationally accredited VET courses under the auspices of Australian Institute of Education and Training's Registered Training Organisation ("RTO") licence. The significant majority of auspicing fees are invoiced to schools in February and March each year (the peak student enrolment period), with the component of these fees relating to the pre-approval of a school to operate under the RTO licence and the provision of course materials recognised as revenue at the time of invoicing. While other components are recognised over time, the majority of the Group's Vocational Education and Training revenues are recognised in the second half of the Group's financial year.

The trade receivables and payables profiles are impacted by the cyclical nature of the Group's business, when viewed from the half-year and year-end perspectives.

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.

**Consolidated – 31 December 2018**

| | eBook solutions $ | Vocational Education and Training $ | Total $ |
|---|---|---|---|
| Sales revenue | 2,053,466 | 29,760 | 2,083,226 |
| Other income | 254,764 | 437 | 255,201 |
| Total revenue | 2,308,230 | 30,197 | 2,338,427 |
| | | | |
| Underlying EBITDA | (364,807) | (77,173) | (441,980) |
| Depreciation and amortisation | (159,665) | - | (159,665) |
| Share based payments | (335,000) | - | (335,000) |
| Transaction costs incurred on business acquisition (expensed) | (35,138) | - | (35,138) |
| Net interest revenue | 32,587 | - | 32,587 |
| Income tax benefit / (expense) | - | - | - |
| Reported (statutory) net loss after tax | (862,023) | (77,173) | (939,196) |
| | | | |
| Total segment assets | 6,851,176 | 1,947,062 | 8,798,238 |
| Total segment liabilities | (3,129,966) | (47,984) | (3,177,950) |

## Note 3. Operating segments (continued)

**Consolidated – 31 December 2019**

| | eBook solutions<br>$ | Vocational Education and Training<br>$ | Total<br>$ |
|---|---|---|---|
| Sales revenue | 2,696,561 | 267,569 | 2,964,130 |
| Other income | 184,588 | 4,080 | 188,668 |
| Total revenue | 2,881,149 | 271,649 | 3,152,798 |
| | | | |
| Underlying EBITDA | (137,506) | (556,808) | (694,314) |
| Depreciation and amortisation | (246,489) | (59,345) | (305,834) |
| Share based payments | (69,848) | (24,004) | (93,852) |
| Transaction costs incurred on business acquisition (expensed) | (7,085) | - | (7,085) |
| Net interest revenue / (expense) | 1,398 | (1,957) | (559) |
| Income tax benefit / (expense) | | | |
| Reported (statutory) net loss after tax | (459,530) | (642,114) | (1,101,644) |
| | | | |
| Total segment assets | 7,792,269 | 2,465,699 | 10,257,968 |
| Total segment liabilities | (2,452,654) | (190,259) | (2,642,913) |

## Note 4. Revenue

| | Consolidated<br>31 December 2019<br>$ | <br>31 December 2018<br>$ |
|---|---|---|
| *Sales revenue* | | |
| eBook Sales | 2,323,892 | 1,786,726 |
| Licence fees | 362,098 | 256,286 |
| Auspicing fees | 237,386 | 4,220 |
| Sales & fees - Other | 40,754 | 35,994 |
| | 2,964,130 | 2,083,226 |
| | | |
| *Other income* | | |
| Government grants – R&D tax incentive | 181,909 | 221,905 |
| Interest | 2,280 | 32,587 |
| Other revenue | 4,479 | 709 |
| | 188,668 | 255,201 |
| | | |
| Revenue | 3,152,798 | 2,338,427 |

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

| | Consolidated<br>31 December 2019<br>$ | <br>31 December 2018<br>$ |
|---|---|---|
| Goods transferred at a point in time | 2,364,646 | 1,822,720 |
| Services transferred over time | 599,484 | 260,506 |
| | 2,964,130 | 2,083,226 |

## Note 5. Current assets - trade and other receivables

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 30 June 2019 $ |
| Trade receivables | 2,220,826 | 69,659 |
| Deposits | 37,633 | 7,383 |
| R&D tax incentive receivable | 181,910 | 393,123 |
| | 219,543 | 400,506 |
| | 2,440,369 | 470,165 |

## Note 6. Leases

A. Expenses

Expenses from transactions not recognised as leases:

| | Consolidated 31 December 2019 $ |
|---|---|
| Rental expense relating to leases of low-value assets | 16,532 |

B. Cash flows

| | Consolidated 31 December 2019 $ |
|---|---|
| Total cash outflow for leases | 45,770 |

C. Right-of-use assets

| | Property $ | Photocopying Equipment $ | Total $ |
|---|---|---|---|
| Right-of-use assets | 355,406 | 70,993 | 426,399 |
| Less: Accumulated depreciation | (31,441) | (20,284) | (51,725) |
| Net book amount at 31 December 2019 | 323,965 | 50,709 | 374,674 |
| *Reconciliation* | | | |
| Opening balance at 1 July 2019 (upon adoption of AASB16 Leases) | 60,151 | 70,993 | 131,144 |
| Additions (new leases) | 295,255 | - | 295,255 |
| Depreciation charge | (31,441) | (20,284) | (51,725) |
| Balance at 31 December 2019 | 323,965 | 50,709 | 374,674 |

## Note 6. Leases (continued)

D. Lease liabilities

| | Consolidated 31 December 2019 $ |
|---|---|
| Current | 153,025 |
| Non-current | 220,442 |
| Total at 31 December 2019 | 373,467 |
| Reconciliation of opening balance: | |
| Non-cancellable lease commitments at 30 June 2019 | 142,420 |
| Reduction to reflect commitment disclosed for short term leases at 30 June 2019 | (6,403) |
| Reduction from discounting future, undiscounted lease payments to their net present value at the Group's incremental borrowing rate | (4,874) |
| Lease liability as at 1 July 2019 | 131,143 |

**Additional information**

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

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

Weighted average lease term
The average unavoidable property lease term, weighted by the outstanding lease liability as 31 December 2019, is 2.69 years.

The Group (via the acquisition of Australian Institute of Education and Training) has leased equipment with 1.22 years remaining on the lease term as at 31 December 2019. There is no residual payment at the end of the lease term.

## Note 7. Non-current assets - intangibles

| | Consolidated 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| Goodwill - at cost | 2,213,929 | 2,213,929 |
| | | |
| Software - at cost | 3,215,187 | 2,883,487 |
| Less: Accumulated amortisation | (1,102,723) | (882,653) |
| | 2,112,464 | 2,000,834 |
| | | |
| Registered Training Organisation Licence | 50,000 | 50,000 |
| Less: Accumulated amortisation | (8,974) | (5,128) |
| | 41,026 | 44,872 |
| | | |
| Intellectual property in Vocational Education & Training course materials | 55,000 | 55,000 |
| Less: Accumulated amortisation | (32,083) | (18,333) |
| | 22,917 | 36,667 |
| | | |
| | 4,390,335 | 4,296,301 |

## Note 8. Current liabilities - trade and other payables

| | Consolidated 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| Trade payables | 1,862,841 | 108,401 |
| Accrued expenses | 28,250 | 31,516 |
| GST payable | 25,047 | 21,445 |
| Other payables | 163,959 | 347,350 |
| | | |
| | 2,080,097 | 508,712 |

## Note 9. Equity - contributed equity

| | Consolidated | | | |
|---|---|---|---|---|
| | 31 December 2019 Shares | 30 June 2019 Shares | 31 December 2019 $ | 30 June 2019 $ |
| Ordinary shares - fully paid | 97,905,556 | 88,750,000 | 11,357,770 | 8,067,274 |

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| Balance | 1 July 2019 | 88,750,000 | | 8,067,274 |
| Shares issued pursuant to placement | 6 August 2019 | 5,555,556 | $0.00 | 2,000,000 |
| Shares issued as final consideration for AIET acquisition | 23 September 2019 | 3,600,000 | $0.00 | 1,440,000 |
| Share issue transaction costs | | - | $0.00 | (149,504) |
| Balance | 31 December 2019 | 97,905,556 | | 11,357,770 |

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

## Note 10. Events after the reporting period

No matter or circumstance has arisen since 31 December 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 11. Earnings per share

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 31 December 2018 $ |
| Loss after income tax attributable to the Owners of ReadCloud Limited | (1,101,644) | (939,196) |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 95,160,201 | 86,322,404 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 95,160,201 | 86,322,404 |
| | Cents | Cents |
| Basic earnings / (loss) per share | (1.16) | (1.09) |
| Diluted earnings / (loss) per share | (1.16) | (1.09) |

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-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.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Paul Collins
Chairman

27 February 2020

**Independent Auditor's Review Report to the Members of ReadCloud Limited**

**Report on the Half-Year Financial Report**

***Conclusion***

We have reviewed the accompanying half-year financial report of ReadCloud Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

***Directors' Responsibility for the Half-Year Financial Report***

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

***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

**PKF**
**Melbourne, 27 February 2020**

**Steven Bradby**
**Partner**