



**READCLOUD LIMITED**

**ABN 44 136 815 891**

**APPENDIX 4E PRELIMINARY FINAL REPORT  
30 JUNE 2021**

## 1. Company details

Name of entity:	ReadCloud Limited
ABN:	44 136 815 891
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

## 2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	3.1 % to	7,687,376
Loss from ordinary activities after tax attributable to the Owners of ReadCloud Limited	down	17.2 % to	(1,151,371)
Loss for the year attributable to the Owners of ReadCloud Limited	down	17.2 % to	(1,151,371)

### 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 \$1,151,371 (30 June 2020: \$981,984). Underlying earnings before interest taxation, depreciation and amortisation ('Underlying EBITDA') was a profit of \$15,553 (30 June 2020: loss of \$161,141). This is reconciled to the statutory loss as follows:

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
Reported (statutory) net loss after tax	(1,151,371)	(981,984)
Add back: Depreciation and amortisation	928,536	702,262
Share based payments	59,603	130,392
Transaction costs incurred on business acquisitions (expensed) and one-off ASX fees	144,830	27,751
Net interest (revenue) / expense	12,833	5,764
Income tax expense / (benefit)	21,122	(45,326)
Underlying EBITDA*	<u>15,553</u>	<u>(161,141)</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>3.71</u>	<u>3.12</u>

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#### 4. Control gained over entities

Refer to note 25 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 2021 is attached.

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#### 12. Signed



Signed \_\_\_\_\_

Date: 30 August 2021

Cristiano Nicolli  
Chairman



**Readcloud Limited**  
ABN 44 136 815 891

# 2021 Annual Report



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Directors	Mr Cristiano Nicolli (Non-Executive Chairman) Mr Paul Collins (Non-Executive Director) Mr Guy Mendelson (Non-Executive Director) Mr Lars Lindstrom (Managing Director and Chief Executive Officer) Mr Darren Hunter (Executive Director and Chief Information Officer)
Company secretary	Ms Melanie Leydin
Registered office	284 Bay Street Brighton VIC 3185 Phone: +61 3 9078 4833
Principal place of business	284 Bay Street Brighton VIC 3186 Phone: +61 3 9078 4833
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 2021.

### **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 Cristiano Nicolli - Non-Executive Chairman (appointed to the Board 1 September 2020, Chairman from 31 December 2020)

Mr Paul Collins - Non-Executive Director (Non-Executive Chairman up to 31 December 2020)

Mr Guy Mendelson - Non-Executive Director

Mr Lars Lindstrom - Managing Director and Chief Executive Officer

Mr Darren Hunter - Executive Director and Chief Information Officer

### **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 subsidiaries Australian Institute of Education and Training Unit Trust ("AIET"), PKY Media Pty Ltd (trading as College of Sound and Music Production) and Ripponlea Institute Pty Ltd, which collectively offer over 50 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**

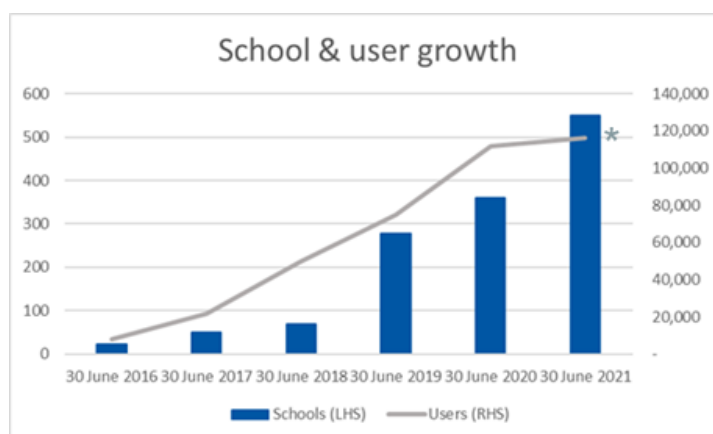
Operational highlights for FY21 include:

- Strong growth in ReadCloud platform user and school customer numbers:
  - 21% increase in Direct full-curriculum user numbers to 57,000 (compared to June 2020)
  - 56% increase in VET-in-Schools user numbers to 14,000 (compared to June 2020)
- ReadCloud now has over 116,000 users on its platform with over 550 schools and educational institution customers
- Completion of the strategic acquisitions of College of Sound & Music Production ("COSAMP") and Ripponlea Institute
- ReadCloud is now the second largest private operator in the Vocational Education & Training-in-Schools market in Australia by number of students and the largest by number of VET qualifications offered
- Further enhancement of the market leading ReadCloud software platform during the year to improve scalability and maintain our competitive advantage
- Investment from the fourth quarter in business development and a new outbound sales force to drive accelerated growth in FY22

Financial highlights for FY21 include:

- Maiden full-year Underlying EBITDA profit of \$15,553 for FY21 (FY20: Underlying EBITDA loss of \$161,141)

- 3% increase in consolidated revenue to \$7.69 million (FY20: \$7.46 million)
- 43% increase in VET segment revenue to \$3.32 million (FY20: \$2.32 million)
- 17% decline in full-curriculum segment revenue to \$4.36 million (FY20: 5.13 million), reflecting a \$1.0 million reduction in Reseller revenue compared to FY20
- Current annualised run rate of over \$9.0 million pro-forma revenue for FY21 (assuming COSAMP and Ripponlea Institute were owned for all of FY21)
- The Group is well capitalised to pursue growth initiatives, with net cash of \$5.86 million cash as at 30 June 2021



\* Lower rate of user growth - loss of Reseller school users, which have been replaced by higher margin direct full curriculum and VET-in-school users

### **Full-curriculum segment (eBook solutions)**

ReadCloud signed up 22 new school customers for delivery of the full curriculum in 2021. This was a strong performance in a difficult year when our sales efforts were heavily impacted by COVID-19 through the challenging priorities faced by schools and the difficulty in marketing and presenting ReadCloud solutions to schools.

As previously reported, four existing direct full-curriculum school customers did not renew for 2021, having moved to a single publisher model for their eBook requirements. Unlike most of ReadCloud's direct full-curriculum school customers, these particular schools were not leveraging the ReadCloud platform's multi-publisher content aggregation capabilities. As such, the risk of further schools moving to a single publisher model is considered low.

As a result of a concerted strategy to accelerate growth of the Reseller sales channel, ReadCloud was successful in signing up three new full-curriculum Resellers during FY21, with one in each of Victoria, Western Australia and South Australia. These new Resellers won a number of new schools for delivery of the full curriculum in 2021.

At the conclusion of FY21 ReadCloud had over 57,000 direct full-curriculum school customer users (up 21% compared to June 2020) and over 45,000 Reseller full-curriculum school customer users (down 20% compared to June 2020). The 20% decline in Reseller full-curriculum school customer users reflects significant school customer losses suffered by one of our Reseller partners due to servicing issues unrelated to the ReadCloud platform. ReadCloud has invested in working more closely with the new management team at this Reseller in order to assist in rebuilding their schools business through extensive training of their sales staff and joint marketing efforts.

### **Vocational Education & Training segment**

Increased strategic focus on the VET-in-schools segment during FY21 saw a 56% increase in VET-in-school user numbers to 14,000 (compared to 9,000 users in June 2020), driven by a combination of organic and acquisitive growth.

ReadCloud's existing VET business Australian Institute of Education and Training ("AIET") signed up 30 new school customers for the delivery of VET courses in the 2021 school year across Victoria, Queensland, South Australia and Western Australia. As in prior years, there was some customer churn in the AIET VET business mainly as a result of the Group's strict approach to compliance (schools not being offered services for the 2021 school year due to the schools' trainers not having an adequate level of qualifications for the courses they wish to deliver). Changes



to the West Australian Certificate of Education (WACE) enabling Year 12 students to count non-accredited VET courses towards their WACE score also resulted in a small number of school losses. However, overall AIET achieved an 11% increase in VET-in-school users for FY21, which translated to a 12% increase in revenue (revenue from Victorian schools increased by 36%, revenue from WA schools declined by 15% and revenue from other States increased by 40%).

In October 2020 ReadCloud completed the acquisition of COSAMP, the market leading Registered Training Organisation ("RTO") in VET courses for the music industry (a top 10 vertical in the VET-in-schools market). Headquartered in Melbourne, COSAMP provides nationally accredited VET programs for the music industry to over 180 secondary schools throughout Australia, including Certificate II and Certificate III in Music Industry and Diploma of Music Industry qualifications. Integration into the ReadCloud Group has gone well and the digitisation of COSAMP's course resources to enable digital delivery via the ReadCloud platform will be ready for the 2022 school year. COSAMP contributed revenue of \$0.71 million and a profit after tax of \$0.06 million for FY21.

In June 2021 ReadCloud completed the acquisition of Ripponlea Institute Pty Ltd ("Ripponlea Institute"), the national market leader in VET-in-Schools courses for Applied Languages (another key vertical in the VET sector). Headquartered in Melbourne, the business provides nationally accredited VET programs mainly in the language segment to 70 secondary schools throughout Australia, including Certificate II and Certificate III in Applied Languages. Ripponlea Institute also offers courses in Fashion, Music (similar to COSAMP's VET courses) and Small Business.

Of key strategic interest to ReadCloud, Ripponlea offers the TAE40116 Certificate IV in Training and Assessment ("TAE") with a growing reputation for high-quality delivery of this course. The Certificate IV is a required qualification for all teachers of VET across the entire sector. Prior to the acquisition ReadCloud didn't offer VET language courses or TAE courses for teachers, which provides an immediate cross-sell opportunity to ReadCloud's existing 500+ school customers.

Since the acquisition was completed just prior to year-end, Ripponlea Institute did not contribute any revenue or profit to the FY21 consolidated result.

### **Financial Results**

ReadCloud recorded a maiden Underlying EBITDA\* profit for FY21 of \$15,553 (FY20 Underlying EBITDA loss \$161,141), driven by a change in revenue mix towards higher margin revenue.

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. Underlying EBITDA for the second half of the financial year was \$490,015 (positive) versus an Underlying EBITDA loss for the first half of the financial year of \$474,462, reflecting the normally strong bias of revenue from VET auspicing services towards the second half of each financial year.

	<b>Consolidated</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
Sales & fee revenue	7,172,072	6,956,136
Other revenue	515,304	500,096
<b>Total revenue</b>	<b>7,687,376</b>	<b>7,456,231</b>
Less operating expenses:		
Advertising and marketing	(114,172)	(115,831)
Employment expenses	(3,373,377)	(2,628,224)
Legal & compliance	(87,033)	(143,465)
Professional services expenses	(391,871)	(301,014)
Publisher and bookseller fees expense	(3,050,995)	(3,891,795)
Telephone, internet & data hosting	(90,364)	(80,811)
Travel expenses	(92,059)	(136,713)
Other expenses	(470,527)	(315,720)
Finance costs	(14,257)	(9,536)
Add net interest expense / (revenue)	12,833	5,764
<b>Underlying EBITDA*</b>	<b>15,553</b>	<b>(161,141)</b>
Less: Depreciation and amortisation	(928,536)	(702,262)
Share based payments	(59,603)	(130,392)
Transaction costs incurred on business acquisition (expensed) and one-off ASX fees	(144,830)	(27,751)
Net interest (expense) / revenue	(12,833)	(5,764)
Income tax expense / (benefit)	(21,122)	45,326
<b>Reported (statutory) net loss after tax</b>	<b>(1,151,371)</b>	<b>(981,984)</b>

\* 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.

#### Revenue and gross margins

ReadCloud's FY21 consolidated revenue increased by 3% to \$7.69 million (FY20: \$7.46 million), reflecting strong growth in the VET segment and a revenue decline in the full-curriculum segment. As at 30 June 2021 had over 550 school and educational institution customers with over 116,000 users on its platform (including 2,000 students taking Ripponlea Institute VET and TAE courses), split by sales channel as follows:

Channel	June 2020	June 2021	% Change
Direct full-curriculum schools	47,000	57,000	+21.3%
Reseller schools	56,000	45,000	-19.6%*
VET-in-Schools	9,000	14,000	+55.6%
<b>Totals</b>	<b>112,000</b>	<b>116,000</b>	<b>+3.6%</b>

\* The decline in Reseller school user numbers was due to significant school customer losses suffered by one of our Reseller partners.

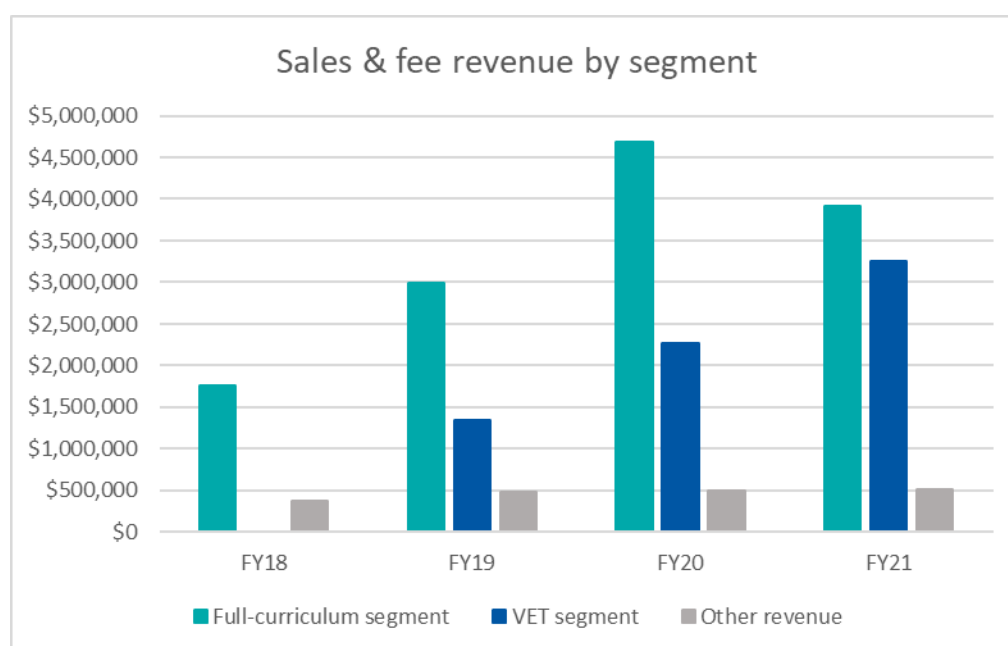
Average sales and fee revenue per user for FY21 (excluding 2,000 students using Ripponlea Institute from which there was no FY21 revenue contribution) was \$63 (FY20: \$65), with the slight decline reflecting a greater proportionate decline in Reseller channel revenue for FY21 versus the decline in user numbers.

Sales and fee revenue for the full-curriculum segment for FY21 declined by 17% to \$3.92 million (FY20: \$4.69 million), reflecting:

- a \$1.0 million reduction in Reseller revenue (compared to FY20) attributable to one Reseller; and
- the loss of four existing direct full-curriculum school customers that contributed revenue of \$0.52 million in FY20; offset by
- increased eBook sales to continuing direct full-curriculum customer schools and sales to new direct full-curriculum customer schools for FY21.

More importantly, the FY21 gross profit for the full-curriculum segment (sales and fee revenue less publisher and bookseller fees) of \$1.18 million was consistent with FY20 (\$1.11 million) despite the decline in (lower margin) revenue attributable to one Reseller and four lost direct full-curriculum customer schools.

FY21 Sales and fee revenue for the VET segment grew by 44% to \$3.26 million (FY20: \$2.27 million), reflecting a 12% increase in revenue from the AIET business and the FY21 revenue contribution from the COSAMP acquisition. Gross profit for the VET segment for FY21 (sales and fee revenue less direct costs mainly comprising publisher fees) increased by 52% to \$2.90 million (FY20: 1.91 million), reflecting increased usage of AIET-owned VET course materials for the delivery of VET programs to schools in FY21 (i.e. less reliance on external publishers) as well as the fact that COSAMP has developed and owns its own proprietary VET course materials for its music industry programs and has minimal reliance on external publishers.



### Operating expenses

Significant expenses included in the statutory net loss after tax for FY21 are discussed below.

#### Publisher and bookseller expenses

Publisher and bookseller expenses, representing the cost of digital only and print-digital learning resources sold to schools, were \$3.05 million for FY21 (FY20: \$3.89 million). Publisher and bookseller expenses as a percentage of consolidated sales and fee revenue decreased in FY21, reflecting an increase in gross margins on eBook sales as a result of:

- a change in the sales mix for FY21 (higher margin sales to direct full-curriculum school customer schools accounting for a greater proportion of full-curriculum segment sales and fee revenue); and
- a new digital distribution agreement with one of the major textbook publishers; and

- increased use of Group-owned course materials in conjunction with the delivery of VET courses by the VET segment.

#### *Employment expenses*

Employment expenses were \$3.37 million for FY21 (FY20: \$2.63 million), with the increase over the prior comparable period attributable to the COSAMP and Ripponlea Institute acquisitions (\$0.45 million) and investment in additional sales and marketing and operational staff in both the VET and full-curriculum segments.

#### *Professional services expenses*

FY21 Professional services expenses (excluding transaction costs associated with the COSAMP and Ripponlea Institute acquisitions) were \$0.39 million (FY20: \$0.30 million), with the main components including audit fees, share registry costs, company secretarial fees, contract bookkeeping costs, tax consulting fees and RTO compliance consulting services (with additional investment in RTO compliance monitoring and systems via the use of external consultants in FY21). The investment in RTO compliance and the quality delivery of ReadCloud services continues to be a key driver of improving ReadCloud's standing as a compliant and high-quality services delivery organisation.

#### *Depreciation and amortisation expense*

FY21 Depreciation and amortisation expense was \$0.93 million (FY20: \$0.70 million), with the increase due to more capitalised software development costs from previous financial years commencing amortisation during 2H FY21 and the depreciation and amortisation of property, plant & equipment and intangible assets acquired in connection with the acquisition of COSAMP.

#### *Other expenses*

FY21 Other expenses were \$0.47 million (FY20: \$0.32 million), with the main components including payroll tax, software licences, insurance and occupancy expenses.

### ***Funding / Cash flow***

As at 30 June 2021 the Group had a strong balance sheet with cash at bank of \$6.30 million (30 June 2020: \$3.39 million) and \$0.46 million of debt. Cash at bank increased by \$2.91 million for the year, with significant cash flows during the year including:

- net cash used in operating activities for FY21 was \$0.09 million (FY20: \$0.31 million);
- cash consideration of \$2.04 million (net of cash acquired) paid for the acquisitions of COSAMP and Ripponlea Institute;
- investment in software development associated with the ReadCloud platform of \$0.64 million; and
- proceeds received from the exercise of share options (net of transaction costs) of \$6.0 million.

The Group is well capitalised to pursue growth initiatives.

### ***Platform update***

During FY21 ReadCloud continued to invest in the Company's proprietary eReader platform to improve user experience, remove pain points for our customers and maintain a strong competitive advantage in regard to the platforms' feature set, ease of use and efficient onboarding of schools and students. In addition to customer-centric enhancements, the Company has also successfully rolled out a new sales quoting, ordering and provisioning system for Direct full-curriculum customer schools that greatly enhances the scalability of this business (more schools can be on-boarded with the same customer support team). The VET-in-schools platform has also been further advanced with more features and an improved onboarding process will be implemented for 2022.

### ***Outlook***

Following the acquisition of COSAMP and Ripponlea Institute, ReadCloud's annualised revenue run-rate at the end of FY21 stands at over \$9.0 million (assuming COSAMP and Ripponlea Institute were owned for all of FY21). ReadCloud is confident that its strategy to accelerate growth through investment in organic marketing and business development combined with targeted acquisitions will result in strong revenue growth in FY22 underpinned by:

<p>Cross-selling within the VET segment and between the VET and full-curriculum segments:</p>	<p>Of the three ReadCloud RTO's collective schools, 85% of those schools use only one of ReadCloud's VET providers (AIET, COSAMP or Ripponlea). This presents a substantial cross-selling opportunity over the coming years to:</p> <ul style="list-style-type: none"> <li>• deliver proprietary music industry, fashion and applied languages VET courses to AIET and ReadCloud full-curriculum school customers; and</li> <li>• deliver ReadCloud's pre-acquisition offering of 43 VET courses and ReadCloud's full digital education platform to COSAMP's and Ripponlea Institute's school customers.</li> </ul> <p>Schools in general prefer to deal with fewer RTOs to simplify the compliance process requirements and gain familiarity with only one software platform.</p> <p>This opportunity is already being capitalised on, with existing ReadCloud VET school customers contracted to deliver COSAMP VET courses in 2021 as a direct result of cross-selling initiatives. Management expects to see further positive results from the cross-selling between the three ReadCloud-owned RTOs in FY22.</p>
<p>Investment in the full-curriculum sales channel</p>	<p>In recent months, partially in response to COVID lockdown restrictions, ReadCloud has implemented a new outbound phone / online video sales force servicing the full-curriculum segment. The outbound sales strategy is being well received as schools are more receptive to finding solutions that can support a remote learning environment in light of the last COVID-impacted year.</p> <p>Given COVID learnings to date, this additional sales strategy, supported by dedicated sales staff actively managing numerous opportunities across each key market, has yielded a comprehensive pipeline that is being worked on for the 2022 school selling season.</p>
<p>Growth of the Reseller (full-curriculum) sales channel</p>	<p>ReadCloud continues discussions with a number of school booksellers about becoming a ReadCloud Reseller. The ReadCloud platform provides traditional booksellers with a platform for digital delivery of the full-curriculum that they do not currently offer.</p> <p>Since the end of FY21 ReadCloud has signed up a further two new Reseller partners (one in each of Queensland and New South Wales). ReadCloud's sales team is now currently working with these new partners to train their respective sales teams and develop joint marketing plans.</p> <p>With the recruitment of the two new Resellers and targeted recruitment of additional new resellers, further growth in FY22 is anticipated in the Reseller full-curriculum segment.</p>

The Directors expect to be in a position to provide an update on the sales outlook for the 2022 school year at the Company's Annual General Meeting in November 2021.

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

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

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

Since 30 June 2021 the Group has repaid the bank loan from Commonwealth Bank of Australia that was assumed with the acquisition of Ripponlea Institute Pty Ltd in full (the outstanding balance of this loan at 30 June 2021 was \$462,837).

No other matter or circumstance has arisen since 30 June 2021 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 and booksellers 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:	Cristiano Nicolli
Title:	Non-Executive Chairman
Qualifications:	Bachelor Management & Business Studies, FAICD
Experience and expertise:	Cris has an extensive career as an influential leader and highly successful businessman in the technology sector. From 2010 to 2016, Cris was the Group Managing Director and CEO of ASX-listed IT services company UXC Limited. During his 13 years with UXC, Cris was instrumental in leading the growth of UXC's IT-services business from \$60 million annual revenue to \$750 million (via both organic growth and acquisitions) and employing 3,000 staff. Under Cris' leadership, UXC became widely recognised as the largest and one of the most respected ASX-listed IT companies in Australia. Cris oversaw the acquisition of UXC by global IT firm CSC in late 2016 for in excess of \$400 million.
Other current directorships:	Cris is currently Non-Executive Chairman of Playside Studios Limited (ASX: PLY), Australia's largest publicly listed video game developer, a Non-Executive Director of ASX/NZX listed Vista Group International Limited (ASX: VGL), a leading provider of software and cloud solutions to the global film industry, and a Non-Executive Director of ASX listed international IT services provider Empired Limited (ASX: EPD).
Former directorships (last 3 years):	Playside Studios (ASX: PLY) Non-Executive Chairman since October 2020 Vista Group International Limited (ASX/NZX: VGL) Non-Executive Director since February 2017 Empired Limited (ASX: EPD) Non-Executive Director since October 2018 Other Levels Limited (ASX: OLV) Non-Executive Director January 2018 to August 2020
Interests in shares:	125,000 fully paid ordinary shares
Name:	Paul Collins
Title:	Non-Executive Director
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):	None
Interests in shares:	1,185,411 fully paid ordinary shares
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: 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

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: 7,084,880 fully paid ordinary shares

'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, BBus (Acc. Corp Law) CA FGIA

Melanie Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Institute of Chartered Accountants, Fellow of the Governance Institute of Australia and is a Registered Company Auditor. She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of Leydin Freyer. The practice provides outsourced company secretarial and accounting services to public and private companies across a host of industries including but not limited to the Resources, technology, bioscience, biotechnology and health sectors.

Melanie has over 25 years' experience in the accounting profession and over 15 years as a Company Secretary. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of companies and shareholder relations.

## 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 2021, 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
Cristiano Nicolli	8	8	1	1	-	1
Paul Collins	11	11	3	3	2	2
Guy Mendelson	11	11	3	3	2	2
Lars Lindstrom	11	11	-	-	-	-
Darren Hunter	11	11	2	2	1	1

### 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 KMP of the Group during the year ended 30 June 2021 consisted of the following Directors and executives:

- Mr Cristiano Nicoli – Non-Executive Chairman (appointed to the Board 1 September 2020, Chairman from 31 December 2020)
- Mr Paul Collins - Non-Executive Director (Non-Executive Chairman up to 31 December 2020)
- Mr Guy Mendelson - Non-Executive Director
- Lars Lindstrom - Managing Director and Chief Executive Officer
- Mr Darren Hunter - Executive Director and Chief Information Officer
- Mr Luke Murphy - Chief Financial Officer
- Mr Joshua Fisher - Chief Product 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:	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.

Name:	Joshua 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.

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:

- Remuneration is competitive to allow the Company to attract and retain the best talent
- Drivers and outcomes of remuneration align with shareholder outcomes

- Remuneration outcomes are closely aligned with performance of the Group
- Remuneration structure is simple and transparent

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 options and/or 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.

#### *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.

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**

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
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Cristiano Nicolli	42,618	-	-	4,049			46,667
Paul Collins	45,479	-	-	4,321			49,800
Guy Mendelson	46,667	-	-				46,667
<i>Executive Directors:</i>							
Lars Lindstrom	237,443	9,018	-	22,557	4,485		273,503
Darren Hunter	237,443	7,191	-	22,557	4,485		271,676
<i>Other Key Management Personnel:</i>							
Luke Murphy	158,295	6,868	-	15,038	2,307	25,622	208,130
Joshua Fisher	210,305	-	-	19,979	3,450	-	233,734
	<u>978,250</u>	<u>23,077</u>	<u>-</u>	<u>88,501</u>	<u>14,727</u>	<u>25,622</u>	<u>1,130,177</u>



	<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>2020</b>							
<i>Non-Executive Directors:</i>							
Paul Collins	40,000	-	-	3,800	-	-	43,800
Guy Mendelson	30,000	-	-	-	-	-	30,000
<i>Executive Directors:</i>							
Lars Lindstrom	237,443	3,255	-	22,557	2,983	-	266,238
Darren Hunter	237,443	15,619	-	22,557	2,983	-	278,602
<i>Other Key Management Personnel:</i>							
Luke Murphy*	146,119	4,652	-	13,881	833	61,710	227,195
Joshua Fisher	179,604	3,489	-	17,062	2,357	-	202,512
	870,609	27,015	-	79,857	9,156	61,710	1,048,347

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>	
	2021	2020	2021	2020	2021	2020
<i>Non-Executive Directors:</i>						
Cristiano Nicolli	100%	-	-	-	-	-
Paul Collins	100%	100%	-	-	-	-
Guy Mendelson	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Lars Lindstrom	100%	100%	-	-	-	-
Darren Hunter	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Luke Murphy	88%	73%	-	-	12%	27%
Joshua Fisher	100%	100%	-	-	-	-

### Service agreements

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

Name: Cristiano Nicolli  
Title: Chairman  
Term of agreement: No fixed term.  
Details: Annual fee of \$60,000 including statutory superannuation.

Name: Paul Collins  
Title: Chairman  
Term of agreement: No fixed term.  
Details: Annual fee of \$45,000 including statutory superannuation.

Name: Guy Mendelson  
Title: Non-Executive Director  
Term of agreement: No fixed term.  
Details: Annual fee of \$50,000 including Committee chair fees.

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 \$260,000 per annum, inclusive of superannuation.

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 \$260,000 per annum, inclusive of superannuation.

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 \$180,000 per annum, inclusive of superannuation. The employee has also been issued options 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 \$200,000 per annum, inclusive of superannuation.

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

### **Share-based compensation**

#### *Issue of shares*

There were no shares issued to Directors and other KMP as part of compensation during the year ended 30 June 2021.

#### *Options issued during the year*

There were no options over ordinary shares granted to Directors and other KMP as part of compensation during the year ended 30 June 2021.

Details of options issued as part of compensation during the year ended 30 June 2021 and prior years and held by Directors and other KMP as at the date of this report are as follows:

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	100% of these Options have vested
Options over ordinary shares, exercisable at \$0.34 per share and expiring on 12 July 2022	Luke Murphy – 150,000	100% of these Options have vested
Options over ordinary shares, exercisable at \$0.20 per share and expiring on 7 February 2022	Luke Murphy – 75,000	100% of these Options have vested

*Options vested or lapsed during the year*

During the year, the following options vested to KMP (no options held by KMP lapsed during the year):

Class	KMP Holder
Options over ordinary shares, exercisable at \$0.41 per share and expiring on 17 July 2022	Luke Murphy – 120,000
Options over ordinary shares, exercisable at \$0.34 per share and expiring on 12 July 2022	Luke Murphy – 75,000
Options over ordinary shares, exercisable at \$0.20 per share and expiring on 7 February 2022	Luke Murphy – 75,000

*Performance rights issued during the year*

There were no performance rights granted to or held by Directors and other KMP as part of compensation during the year ended 30 June 2021.

**Additional information**

The earnings of the Group for the three years to 30 June 2021 are summarized below:

	2021 \$	2020 \$	2019 \$
Sales revenue	7,172,072	6,956,136	4,316,479
Underlying EBITDA	15,553	(161,141)	(421,960)
Loss after income tax	(1,151,371)	(981,984)	(1,630,423)

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

	2021	2020	2019
Share price at financial year end (\$)	0.33	0.28	0.32

**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	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>				
Cristiano Nicolli	-	125,000	-	125,000
Paul Collins	1,060,411	125,000	-	1,185,411
Guy Mendelson	1,435,318	-	-	1,435,318
Lars Lindstrom	8,534,128	-	-	8,534,128
Darren Hunter	7,009,880	75,000	-	7,084,880
Luke Murphy	50,000	25,000	-	75,000
Joshua Fisher	5,013,610	-	-	5,013,610
	<u>23,103,347</u>	<u>350,000</u>	<u>-</u>	<u>23,453,347</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>						
Cristiano Nicolli	-	-	125,000	125,000	-	-
Paul Collins	125,000	-	-	125,000	-	-
Darren Hunter	75,000	-	-	75,000	-	-
Luke Murphy	610,000	-	-	25,000	-	585,000
	<u>810,000</u>	<u>-</u>	<u>125,000</u>	<u>350,000</u>	<u>-</u>	<u>585,000</u>

	Unvested	Vested and exercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Luke Murphy	195,000	390,000	585,000
	<u>195,000</u>	<u>390,000</u>	<u>585,000</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
13 March 2018	07 February 2022	\$0.200	75,000
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	180,000
12 July 2019	12 July 2022	\$0.340	250,000
13 July 2020	2 July 2023	\$0.280	100,000
30 March 2021	9 March 2025	\$0.430	300,000
			<u>1,565,000</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**

At the date of this report there are no unissued ordinary shares of the Company under performance rights. No ordinary shares of the Company were issued on the exercise of performance rights during the year ended 30 June 2021 or since this date.

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

During the year ended 30 June 2021 20,261,995 ordinary shares of the Company were issued on the exercise of options.

### **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 19 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 19 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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Cristiano Nicolli  
Chairman

30 August 2021



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

In relation to our audit of the financial report of ReadCloud Limited for the year ended 30 June 2021, 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.



PKF  
Melbourne, 30 August 2020



Steven Bradby  
Partner

**ReadCloud Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**30 June 2021**



	Note	Consolidated 2021	Consolidated 2020
		\$	\$
<b>Revenue</b>			
Sales revenue	5	7,172,072	6,956,136
Other income	5	<u>515,304</u>	<u>500,095</u>
<b>Total revenue</b>		7,687,376	7,456,231
<b>Expenses</b>			
Advertising and marketing		(114,172)	(115,831)
Depreciation and amortisation expense	6	(928,536)	(702,262)
Employment expenses	6	(3,373,377)	(2,628,224)
Legal & compliance		(129,563)	(171,215)
Professional services expenses		(494,171)	(301,014)
Publisher and bookseller fees expense		(3,050,995)	(3,891,795)
Share-based payments	6	(59,603)	(130,392)
Telephone, internet & data hosting		(90,364)	(80,811)
Travel expenses		(92,059)	(136,713)
Other expenses		(470,527)	(315,721)
Finance costs		<u>(14,258)</u>	<u>(9,563)</u>
<b>Loss before income tax expense/(benefit)</b>		(1,130,249)	(1,027,310)
Income tax expense/(benefit)	7	<u>21,122</u>	<u>(45,326)</u>
<b>Loss after income tax expense/(benefit) for the year attributable to the Owners of ReadCloud Limited</b>		(1,151,371)	(981,984)
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year attributable to the Owners of ReadCloud Limited</b>		<u><u>(1,151,371)</u></u>	<u><u>(981,984)</u></u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings / (loss) per share	28	(1.04)	(1.01)
Diluted earnings / (loss) per share	28	(1.04)	(1.01)

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



	Note	Consolidated 2021	Consolidated 2020
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		6,295,556	3,387,609
Trade and other receivables	8	928,268	597,366
Prepayments		59,927	55,946
Total current assets		<u>7,283,751</u>	<u>4,040,921</u>
<b>Non-current assets</b>			
Property, plant and equipment	9	267,675	111,385
Intangible assets	10	8,038,723	4,450,488
Right-of-use assets	11	300,603	290,143
Total non-current assets		<u>8,607,001</u>	<u>4,852,016</u>
<b>Total assets</b>		<u>15,890,752</u>	<u>8,892,937</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	627,330	389,416
Employee entitlements	13	247,273	149,263
Provision for income tax		112,190	-
Borrowings	14	462,837	-
Contract liabilities	15	299,830	207,308
Contingent consideration	25	550,000	-
Lease Liabilities	11	171,079	164,064
Total current liabilities		<u>2,470,539</u>	<u>910,051</u>
<b>Non-current liabilities</b>			
Employee entitlements	13	82,777	30,731
Lease liabilities	11	156,966	152,823
Contingent consideration	25	450,000	-
Total non-current liabilities		<u>689,743</u>	<u>183,554</u>
<b>Total liabilities</b>		<u>3,160,282</u>	<u>1,093,605</u>
<b>Net assets</b>		<u>12,730,470</u>	<u>7,799,332</u>
<b>Equity</b>			
Contributed equity	16	17,408,754	11,385,848
Reserves	17	446,650	407,513
Accumulated losses		<u>(5,124,934)</u>	<u>(3,994,029)</u>
<b>Total equity</b>		<u>12,730,470</u>	<u>7,799,332</u>

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

	Issued capital \$	Share based payments Reserve \$	Retained Profits \$	Total equity \$
<b>Consolidated</b>				
Balance at 1 July 2019	8,067,274	407,002	(3,141,926)	5,332,350
Loss after income tax expense/(benefit) for the year (restated)	-	-	(981,984)	(981,984)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(981,984)	(981,984)
<i>Transactions with Owners in their capacity as Owners:</i>				
Contributions of equity (net of transaction costs)	1,878,574	-	-	1,878,574
Issue of shares as consideration for acquisition (note 16)	1,440,000	-	-	1,440,000
Share-based payments (note 29)	-	130,392	-	130,392
Lapse of performance rights	-	(129,881)	129,881	-
Balance at 30 June 2020	<u>11,385,848</u>	<u>407,513</u>	<u>(3,994,029)</u>	<u>7,799,332</u>
	Issued capital \$	Share based payments reserve \$	Retained profits \$	Total equity \$
<b>Consolidated</b>				
Balance at 1 July 2020	11,385,848	407,513	(3,994,029)	7,799,332
Loss after income tax expense/(benefit) for the year	-	-	(1,151,371)	(1,151,371)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(1,151,371)	(1,151,371)
<i>Transactions with Owners in their capacity as Owners:</i>				
Contributions of equity (net of transaction costs)	6,022,906	-	-	6,022,906
Share-based payments (note 29)	-	59,603	-	59,603
Exercise of performance rights	-	-	-	-
Lapse of options	-	(20,466)	20,466	-
Balance at 30 June 2021	<u>17,408,754</u>	<u>446,650</u>	<u>(5,124,934)</u>	<u>12,730,470</u>

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



	Note	Consolidated 2021 \$	2020 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		6,918,920	6,898,163
Payments to suppliers (inclusive of GST)		(7,519,664)	(7,702,751)
Research and development tax incentive refund		390,673	393,123
Interest income		1,425	3,799
Other Government grant income		<u>117,500</u>	<u>100,000</u>
Net cash used in operating activities	27	<u>(91,146)</u>	<u>(307,666)</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	25	(2,044,220)	(360,000)
Payments for property, plant and equipment	9	(45,394)	(95,530)
Payments for software development	10	(642,568)	(676,295)
Purchase of intangible assets	10	<u>(67,297)</u>	<u>-</u>
Net cash used in investing activities		<u>(2,799,479)</u>	<u>(1,131,825)</u>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities		(189,326)	(109,510)
Interest paid on lease liabilities and borrowings		(12,570)	(9,563)
Proceeds from issue of shares	16	6,044,099	2,030,000
Share issue transaction costs		(21,193)	(151,426)
Repayment of borrowings		<u>(22,438)</u>	<u>-</u>
Net cash from financing activities		<u>5,798,572</u>	<u>1,759,501</u>
Net increase/(decrease) in cash and cash equivalents		2,907,947	320,010
Cash and cash equivalents at the beginning of the financial year		<u>3,387,609</u>	<u>3,067,599</u>
Cash and cash equivalents at the end of the financial year		<u><u>6,295,556</u></u>	<u><u>3,387,609</u></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 2021. The financial statements are presented in Australian dollars, which is ReadCloud Limited'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 30 August 2021. The Directors have the power to amend and reissue the financial statements.

## **Note 2. Significant accounting policies**

### **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.

### **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.

### **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 24.

### **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 2021 and the results of all subsidiaries for the period then ended. 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.

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

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

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the 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.

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

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

### **Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation commences from the time the asset is available for its intended use.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives of 2-4 years.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date to ensure it is not in excess of the asset's recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted in determining recoverable amounts.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### **Leases**

In accordance with AASB 16 Leases 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 11 Leases).

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%.

#### **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.

### **Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market; or in the absence of a principal market, in the most advantageous market.

## Note 2. Significant accounting policies (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## 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. Where relevant, current assessment incorporated a consideration of uncertainties associated with COVID-19. 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 10. 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.

### *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.

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

#### *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.

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

**Consolidated – 30 June 2021**

	eBook solutions	Vocational Education and Training	Unallocated public company costs	Total
	\$	\$	\$	\$
Sales revenue	3,915,960	3,256,112	-	7,172,072
Other income	447,804	67,500	-	515,304
Total revenue	4,363,764	3,323,612	-	7,687,376
Underlying EBITDA	(397,395)	730,313	(317,366)	15,552
Depreciation and amortisation	(717,959)	(210,577)	-	(928,536)
Share based payments	(46,283)	(13,320)	-	(59,603)
Transaction costs incurred on business acquisitions (expensed)	(144,830)	-	-	(144,830)
Net interest revenue / (expense)	(6,362)	(6,470)	-	(12,833)
Income tax benefit / (expense)	-	(21,122)	-	(21,122)
Reported (statutory) net loss after tax	(1,312,829)	478,824	(317,366)	(1,151,371)
Total segment assets	8,339,989	7,550,763	-	15,890,752
Total segment liabilities	(2,025,604)	(1,134,678)	-	(3,160,282)

**Consolidated – 30 June 2020**

	eBook solutions	Vocational Education and Training	Unallocated public company costs	Total
	\$	\$	\$	\$
Sales revenue	4,690,321	2,265,815	-	6,956,136
Other income	444,320	55,775	-	500,095
Total revenue	5,134,641	2,321,590	-	7,456,231
Underlying EBITDA	(319,971)	402,616	(243,786)	(161,141)
Depreciation and amortisation	(581,970)	(120,292)	-	(702,262)
Share based payments	(116,859)	(13,533)	-	(130,392)
Transaction costs incurred on business acquisition (expensed) and one off ASX fees	(27,751)	-	-	(27,751)
Net interest revenue	(2,113)	(3,651)	-	(5,764)
Income tax benefit / (expense)	45,326	-	-	45,326
Reported (statutory) net loss after tax	(1,003,338)	265,140	(243,786)	(981,984)

*Major customers*

During the year ended 30 June 2021 approximately 5% (2020: 20%) of the Group's external revenue was derived from sales to one reseller. The underlying customers on whose behalf this reseller transacts comprise approximately 25 schools. Approximately 5% (2020: 6%) of the Group's external revenue was derived from sales to one direct school customer.

## Note 5. Revenue

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<i>Sales revenue</i>		
eBook Sales	3,518,276	4,289,991
Licence Fee	488,937	403,780
Auspicing fees	3,067,523	2,217,973
Sales & fees - other	97,336	44,392
	<u>7,172,072</u>	<u>6,956,136</u>
<i>Other income</i>		
Government grants - R&D	396,379	390,019
Interest revenue calculated using the effective interest method	1,425	3,799
Other revenue	117,500	106,277
	<u>515,304</u>	<u>500,095</u>
Revenue	<u>7,687,376</u>	<u>7,456,231</u>

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

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Goods transferred at a point in time	3,615,611	4,334,383
Services transferred over time	3,556,460	2,621,753
Revenue	<u>7,172,072</u>	<u>6,956,136</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 any 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.

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

## Note 5. Revenue (continued)

the contract and the transaction price is determined. Adjustments are made for the time value of money excluding credit risk and the transaction price is allocated to the separate performance obligations on a basis of relative stand-alone selling price of each distinct service/good. The estimation approach is taken if no distinct observable prices exists and revenue is recognised when each performance obligation is satisfied.

Credit risk is presented separately as an expense, rather than adjusted to revenue. For goods, the performance obligation is satisfied when the customer takes control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, the 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 one of the Group's Registered Training Organisation ("RTO") licences (there are three RTO licences held by the Company's subsidiaries Australian Institute of Education and Training, PKY Media Pty Ltd and Ripponlea Institute Pty Ltd). 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*

The Research and Development Tax Incentive is recognised as a government grant as described in Note 7, Income tax.

### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

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:



#### Note 5. Revenue (continued)

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>Auspicings fees</b>	
Performance obligation 1 – the pre-approval of a school to offer a nationally-recognised VET qualification under the auspices of one of the Group's RTO licences and set-up of a school, classes and students (including provision of all course resources) 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
<b>Training &amp; student fees</b>	
Performance obligation 1 – provision of access to online course materials	Point in time (upon customer commencing a VET qualification)
Performance obligation 2 – marking of student assessments and issue of certificates / statements of attainment	Over time, which usually relates to a school year
<b>Studio services</b>	
One performance obligation, being the provision of sound recording services	Point in time (upon control over audio files being transferred to the customer)

#### Note 6. Expenses

	Consolidated 2021 \$	2020 \$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	55,842	33,412
Leasehold improvements	34,416	10,487
Right of use assets	190,024	136,255
	280,282	180,154
<i>Amortisation</i>		
Software development	567,083	486,916
Registered Training Organisation licence	40,788	7,692
Intellectual property in Vocational Education & Training course materials	40,383	27,500
	648,254	522,108
Total depreciation and amortisation	928,536	702,262
Defined contribution superannuation expense	331,050	275,709
Share-based payments expense	59,603	130,392
Employee benefits expense excluding superannuation	3,042,327	2,352,515

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

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Income tax expense / (benefit)	21,122	(45,326)
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax expense/(benefit)	(1,130,248)	(1,027,310)
Tax at the statutory tax rate of 27.5%	(310,818)	(282,510)
Non-assessable R&D tax incentive	(103,058)	(107,255)
Non-deductible R&D expenditure subject to incentive	69,459	60,582
Share based payments	15,497	35,858
ATO Cash flow boost	(22,750)	-
Other net non-deductible expenditure	4,333	135,918
Recognition of and movement in temporary differences	99,899	(12,594)
Unrecognised income tax losses carried forward	268,560	124,675
Income tax expense / (benefit)	<u>21,122</u>	<u>(45,326)</u>

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Deferred tax liability comprises temporary differences attributable to:		
Provisions, accruals and other amounts not yet deductible	(269,233)	(198,606)
Capitalised software costs deducted	621,862	602,309
Unused income tax losses	(352,629)	(403,703)
Total deferred tax liability	-	-
Deferred tax assets not recognised	268,560	124,675

The above deferred tax asset (potential tax benefit) has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

*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.

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

- iv. 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).
- v. 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>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	491,981	177,097
Deposits	40,563	30,250
R&D tax incentive receivable	395,724	390,019
	<u>436,287</u>	<u>420,269</u>
	<u>928,268</u>	<u>597,366</u>

Refer to note 19 for further information on financial instruments.

##### *Allowance for expected credit losses*

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.

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

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
0 to 3 months	344,494	131,230
3 to 6 months	147,487	45,867
	<u>491,981</u>	<u>177,097</u>

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

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

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

A provision for impairment of trade receivables is recognised where there is objective evidence that the 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 – Property, plant & equipment**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Computer & office equipment - at cost	248,144	133,695
Less: Accumulated depreciation	(112,365)	(56,523)
	<u>135,779</u>	<u>77,172</u>
Leasehold improvements - at cost	178,541	46,442
Less: Accumulated depreciation	(46,645)	(12,229)
	<u>131,896</u>	<u>34,213</u>
	<u><u>267,675</u></u>	<u><u>111,385</u></u>

*Reconciliations*

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

<b>Consolidated</b>	<b>Computer &amp; office equipment \$</b>	<b>Leasehold improvements \$</b>	<b>Total \$</b>
Balance at 1 July 2019	54,965	4,789	59,754
Additions	55,620	39,910	95,530
Depreciation expense	(33,412)	(10,487)	(43,899)
Balance at 30 June 2020	77,173	34,212	111,385
Additions	35,295	10,100	45,395
Additions through business combinations	79,153	122,000	201,153
Depreciation expense	(55,842)	(34,416)	(90,258)
Balance at 30 June 2021	<u><u>135,779</u></u>	<u><u>131,896</u></u>	<u><u>267,675</u></u>

Please refer to Note 2 for Property, plant and equipment accounting policy.

## Note 10. Non-current assets - intangibles

	Consolidated 2021 \$	2020 \$
Goodwill - at cost	5,400,553	2,213,929
Software - at cost	4,202,350	3,559,782
Less: Accumulated amortisation	(1,936,652)	(1,369,569)
	2,265,698	2,190,213
Registered Training Organisation Licence	150,000	50,000
Less: Accumulated amortisation	(53,609)	(12,821)
	96,391	37,179
Intellectual property in Vocational Education & Training course materials	362,297	55,000
Less: Accumulated amortisation	(86,216)	(45,833)
	276,081	9,167
	<u>8,038,723</u>	<u>4,450,488</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 2019	2,000,834	2,213,929	44,871	36,667	4,296,301
Additions	676,295	-	-	-	676,295
Amortisation expense	(486,916)	-	(7,692)	(27,500)	(522,108)
Balance at 30 June 2020	2,190,213	2,213,929	37,179	9,167	4,450,488
Additions	642,568	-	-	67,297	709,865
Additions through business combinations	-	3,186,624	100,000	240,000	3,526,624
Amortisation expense	(567,083)	-	(40,788)	(40,383)	(648,254)
Balance at 30 June 2021	<u>2,265,698</u>	<u>5,400,553</u>	<u>96,392</u>	<u>276,081</u>	<u>8,038,724</u>

### Accounting policy for Goodwill

Goodwill arises on the acquisition of a business. It is recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired at date of acquisition.

Goodwill is not amortised. Instead, it 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.

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 10. Non-current assets – intangibles (continued)

##### *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.

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.

##### *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 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% (FY20: 11%), based on the weighted average cost of capital adjusted to reflect an estimate of specific risks assumed in the cash flow projections. Those projections are based on the financial budget for the 12 months immediately following the reporting date, cash flows beyond 12 months extrapolated through a 4-year outlook utilising annual growth rates based on current and forecast trading conditions and the growth objectives of business plans, and a terminal value growth rate of 2.0% (FY20: 2.5%).

The Board has reviewed and is comfortable with the significant assumptions determined by Management and utilised in the value-in-use calculations. Upon applying the test to purchased goodwill, it is concluded that no impairment has occurred. Considering the early stage of the Group's business and operating cash outflows during the year, Management applied the value-in-use model to assess the recoverable amount of all intangibles on a Group-wide basis, again concluding that the carrying value of goodwill and other intangibles does not exceed their value-in-use, and no impairment charge is required.

Sensitivity analysis on the key assumptions employed in the value-in-use calculations has been performed by Management. The sensitivities applied were decreasing sales and associated cost of goods sold by 15% throughout the model period (whilst holding operating costs stable), increasing the weighted average cost of capital by 9 percentage points (to 20%) and reducing the terminal value growth to nil. 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 11. Leases

### A. Expenses

Expenses from transactions not recognised as leases:

	Consolidated 2021 \$	2020 \$
Rental expense relating to leases of low-value assets	5,931	21,932

### B. Cash flows

	Consolidated 2021 \$	2020 \$
Total cash outflow for leases:		
Office leases	169,625	77,096
Photocopying equipment	31,482	41,977
	<u>201,107</u>	<u>119,073</u>

### C. Right-of-use assets

	Consolidated 2021 \$	2020 \$
Right-of-use assets – Office leases	555,890	355,405
Less: Accumulated amortisation	(255,287)	(95,688)
	<u>300,603</u>	<u>259,717</u>
Right-of-use assets – Photocopying equipment	70,993	70,993
Less: Accumulated amortisation	(70,993)	(40,567)
	<u>-</u>	<u>30,426</u>
Balance at 30 June	<u>300,603</u>	<u>290,143</u>

### Reconciliations

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

	Office leases \$	Photocopying Equipment \$	Total \$
Opening balance at 1 July 2019 (upon adoption of AASB16 Leases)	60,151	70,993	131,144
Additions (new leases)	295,254	-	295,254
Depreciation charge	(95,688)	(40,567)	(136,255)
Balance at 30 June 2020	<u>259,717</u>	<u>30,426</u>	<u>290,143</u>
Additions	64,002	-	64,002
Additions through business combinations	136,482	-	136,482
Depreciation charge	(159,598)	(30,426)	(190,024)
Balance at 30 June 2021	<u>300,603</u>	<u>-</u>	<u>300,603</u>



## Note 11. Leases (continued)

### D. Lease liabilities

	Consolidated	
	2021	2020
	\$	\$
Current	171,079	164,064
Non-current	156,966	152,823
Balance at 30 June	<u>328,045</u>	<u>316,887</u>

Refer to note 19 for further information on financial instruments.

### Additional information

#### *Accounting policies relative to leases*

##### *Right-of-use assets*

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset 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.

Right-of-use assets are 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. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

##### *Lease liabilities*

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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 office lease term, weighted by the outstanding lease liability as 30 June 2021, is 2.24 years.



## Note 12. Current liabilities - trade and other payables

	Consolidated	
	2021	2020
	\$	\$
Trade payables	276,246	240,847
Accrued expenses	31,999	37,777
GST payable / (receivable)	(32,695)	(40,378)
Other payables	351,780	151,170
	<u>627,330</u>	<u>389,416</u>

Refer to note 19 for further information on financial instruments.

### *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 13. Employee entitlements

	Consolidated	
	2021	2020
	\$	\$
Annual leave and long service leave (current)	<u>247,273</u>	<u>149,263</u>
Long service leave (non-current)	<u>82,777</u>	<u>30,731</u>

### *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.

#### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *Defined contribution superannuation expense*

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

## Note 14. Current liabilities - Borrowings

	Consolidated	
	2021	2020
	\$	\$
Bank loan	<u>462,837</u>	<u>-</u>

Since 30 June 2020 the Group has repaid the bank loan from Commonwealth Bank of Australia that was assumed with the acquisition of Ripponlea Institute Pty Ltd in full.



**Note 15. Current liabilities – Contract liabilities**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Unearned revenue - software	27,405	23,306
Unearned revenue - distribution agreement	100,000	100,000
Unearned revenue – auspicing fees	97,961	84,002
Contract Liability	74,464	-
	<u>299,830</u>	<u>207,308</u>

*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.

*Unearned revenue – Software licence fees and Auspicing fees*

Refer to note 5 for further information on the timing of revenue recognition in relation to these revenue streams.

## Note 16. Equity - contributed equity

	2021 Shares	Consolidated 2020 Shares	2021 \$	2020 \$
Ordinary shares - fully paid	<u>118,317,551</u>	<u>98,055,556</u>	<u>17,408,754</u>	<u>11,385,848</u>

### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	30 June 2019	88,750,000	\$0.00	8,067,274
Shares issued pursuant to placement	6 August 2019	5,555,556	\$0.36	2,000,000
Share issue transaction costs				(149,504)
Shares issued as final consideration for acquisition of AIET	23 September 2019	3,600,000	\$0.40	1,440,000
Shares issued pursuant to exercise of options	5 June 2020	150,000	\$0.20	30,000
Share issue transaction costs				(1,922)
Balance	30 June 2020	98,055,556		11,385,848
Shares issued pursuant to exercise of options	Jul-Dec 2020	19,826,995	\$0.30	5,948,099
Shares issued pursuant to exercise of options	17 December 2020	60,000	\$0.35	21,000
Shares issued pursuant to exercise of options	Jan-Feb 2021	375,000	\$0.20	75,000
Share issue transaction costs				(21,193)
Balance	30 June 2021	<u>118,317,551</u>		<u>17,408,754</u>

### 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.

### 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 17. Equity – reserves

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Share-based payments reserve	446,650	407,513

### *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:

	<b>Consolidated</b>	
	<b>Share based payments reserve</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
Balance at 1 July 2019	407,002	407,002
Share based payments	130,392	130,392
Lapse of performance rights	(129,881)	(129,881)
Balance at 30 June 2020	407,513	407,513
Share based payments expense	59,603	59,603
Lapse of options	(20,466)	(20,466)
Balance at 30 June 2021	446,650	446,650

## Note 18. Equity - dividends

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

## Note 19. 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 19. 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>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Cash and cash equivalents	6,295,556	3,387,609
Trade and other receivables	887,705	567,116
	<u>7,183,261</u>	<u>3,954,725</u>
<b>Financial liabilities</b>		
Trade and other payables	627,330	389,416
Lease Liabilities	318,045	306,887
Borrowings	462,837	-
	<u>1,408,212</u>	<u>696,303</u>

### *Accounting policy for financial instruments*

#### *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### *Trade and other receivables*

Trade and other receivables are initially recognised at their face value, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

#### *Trade and other payables*

These amounts represent liabilities for goods and services provided to the Group which at period-end are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, and accordingly they are measured at their face value.

### **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.

## Note 19. Financial instruments (continued)

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.

### 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 - 2021</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	627,330	-	-	-	627,330
<i>Interest bearing</i>						
Lease liabilities	3.74%	180,005	83,298	60,512	-	323,815
Borrowings	4.85%	462,837	-	-	-	462,837
Total non-derivatives		1,270,172	83,298	60,512	-	1,413,982

	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 - 2020</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	389,416	-	-	-	389,416
<i>Interest bearing</i>						
Lease liabilities	3.84%	172,778	110,000	24,109	-	306,887
Total non-derivatives		562,194	110,000	24,109	-	696,303

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 20. 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:

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	1,001,327	897,624
Post-employment benefits	88,501	79,857
Long-term benefits	14,727	9,156
Share-based payments	25,622	61,710
	<u>1,130,177</u>	<u>1,048,347</u>

## Note 21. 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	
	2021	2020
	\$	\$
<i>Audit services - PKF Melbourne Audit &amp; Assurance Pty Ltd</i>		
Audit or review of the financial statements	<u>70,500</u>	<u>60,000</u>
<i>Non-audit services - PKF Melbourne Corporate Pty Ltd</i>		
Payroll tax and GST advice	<u>-</u>	<u>1,200</u>
	<u>70,500</u>	<u>61,200</u>

## Note 22. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2021 (2020: \$Nil).

## Note 23. 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 20 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 24. Parent entity information

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

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

	2021 \$	Parent 2020 \$
Loss after income tax	(1,630,196)	(1,247,124)
Total comprehensive income	(1,630,196)	(1,247,124)

### Statement of financial position

	2021 \$	Parent 2020 \$
Total current assets	5,823,201	3,513,920
Total assets	14,774,989	8,703,988
Total current liabilities	(3,301,446)	(1,313,556)
Total liabilities	(3,422,415)	(1,488,407)
Net assets	11,352,574	7,215,581

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

With the exception of a guarantee in respect of PKY Media Pty Ltd (up to a maximum of \$0.5 million), the parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021.

### 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.
- 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 wholly owned subsidiaries:

- Australian Institute of Education and Training
- PKY Media Pty Ltd
- Ripponlea Institute Pty Ltd

## **Note 25. Business combinations**

The Company acquired PKY Media Pty Ltd (trading as College of Sound and Music Production, “COSAMP”) with effect from 28 October 2020 for a total consideration of \$1,450,000. Headquartered in Melbourne, COSAMP provides nationally accredited Vocational Education and Training (“VET”) programs for the music industry to over 180 secondary schools throughout Australia. The acquisition expands ReadCloud’s product offering and market presence in the VET-in-schools market, a key strategic focus for the Group together with in-school education eLearning software solutions.

The goodwill of \$1,337,670 represents the value of COSAMP’s brand, reputation and relationships in the VET-in-schools market. The acquired business contributed revenues of \$712,901 and a profit after tax of \$64,519 to the Group for the period from 28 October 2020 to 30 June 2021. If the acquisition occurred on 1 July 2020, the full year contributions would have been revenues of \$921,855 and a loss after tax of \$11,679. The values identified in relation to the acquisition of PKY Media are final as at 30 June 2021.

Details of the acquisition are as follows:

	<b>Fair value \$</b>
Cash and cash equivalents	16,845
Trade receivables	168,851
Property, plant & equipment	198,000
Right-of-use assets (property lease)	136,483
Acquired intangible assets	140,000
Trade & other payables	(16,044)
Income tax payable	(46,655)
Hire purchase liabilities	(22,438)
Lease liability	(136,482)
Contract liabilities	(311,215)
Provision for employee entitlements	(15,015)
<b>Net assets acquired</b>	<b>112,330</b>
<b>Goodwill</b>	<b>1,337,670</b>
<b>Acquisition-date fair value of the total consideration transferred</b>	<b>1,450,000</b>
Representing:	
Cash paid to the vendors	1,050,000
Contingent consideration*	400,000
	<b>1,450,000</b>
<b>Acquisition costs expensed to profit or loss</b>	<b>127,132</b>
Cash used during the financial year to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	1,450,000
Less: Cash and cash equivalents acquired	(16,845)
Less: contingent consideration due within one year	(250,000)
Less: contingent consideration due in greater than one year	(150,000)
<b>Net cash used during the year</b>	<b>1,033,155</b>

\* Contingent consideration comprises up to \$400,000 of ReadCloud shares, which is contingent on PKY Media achieving defined revenue targets for FY21 and FY22.

## **Note 25. Business combinations (continued)**

The Company acquired Ripponlea Institute Pty Ltd ("Ripponlea Institute") with effect from 8 June 2021 for a total consideration of \$2,300,000. Ripponlea Institute is a Registered Training Organisation ("RTO") and the national market leader in VET-in-Schools courses for Applied Languages, a key vertical in the VET sector. It provides programs to 70 secondary schools throughout Australia. It also offers the Certificate IV in Training and Assessment ("TAE"), a required qualification for all teachers of VET across the entire sector.

The goodwill of \$1,848,955 represents the value of Ripponlea Institute's brand, reputation and relationships in the VET-in-schools market. The acquired business contributed revenues of \$nil and a profit after tax of \$22 to the Group for the period from 8 June 2021 to 30 June 2021. If the acquisition occurred on 1 July 2020, the full year contributions would have been revenues of \$910,275 and profit after tax of \$377,709.

The values identified in relation to the acquisition of Ripponlea Institute are provisional as at 30 June 2021.

Details of the acquisition are as follows:

	<b>Fair value \$</b>
Cash and cash equivalents	688,935
Trade receivables	140,257
Other receivables	2,110
Property, plant & equipment	3,153
Acquired intangible assets	200,000
Trade & other payables	(24,387)
Bank loan	(461,128)
Income tax payable	(44,411)
Contract liabilities	(29,583)
Provision for employee entitlements	(23,901)
Net assets acquired	<u>451,045</u>
Goodwill	1,848,955
Acquisition-date fair value of the total consideration transferred	<u>2,300,000</u>
Representing:	
Cash paid to the vendors	1,700,000
Contingent consideration*	<u>600,000</u>
	<u>2,300,000</u>
Acquisition costs expensed to profit or loss	<u>17,698</u>
Cash used during the financial year to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	2,300,000
Less: Cash and cash equivalents acquired	(688,935)
Less: contingent consideration due within one year	(300,000)
Less: contingent consideration due in greater than one year	<u>(300,000)</u>
Net cash used during the year	<u><u>1,011,065</u></u>

\* Contingent consideration comprises up to \$600,000 of ReadCloud shares, which is contingent on Ripponlea Institute achieving defined revenue targets for FY21 and FY22.

## Note 25. 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 26. Events after the reporting period

Since 30 June 2021 the Group has repaid the bank loan from Commonwealth Bank of Australia that was assumed with the acquisition of Ripponlea Institute Pty Ltd in full (the outstanding balance of this loan at 30 June 2021 was \$462,837).

No other matter or circumstance has arisen since 30 June 2021 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 27. Reconciliation of loss after income tax to net cash used in operating activities**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax expense/(benefit) for the year	(1,151,371)	(981,984)
Adjustments for:		
Depreciation and amortisation	928,536	702,262
Share-based payments	59,603	130,392
Interest paid on lease liabilities	14,258	9,563
Fair value movement on contingent consideration	-	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(12,001)	(167,385)
Decrease/(Increase) in prepayments	(3,982)	19,174
Increase/(decrease) in trade and other payables	189,822	(79,112)
Increase/(decrease) in income tax payable	21,123	-
Increase in employee benefits	111,142	61,561
Increase in unearned revenue	(248,276)	43,189
(Decrease) in deferred tax liability	-	(45,326)
Net cash used in operating activities	<u>(91,146)</u>	<u>(307,666)</u>

**Note 28. Earnings per share**

	<b>Consolidated</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax attributable to the Owners of ReadCloud Limited	<u>(1,151,371)</u>	<u>(981,984)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>110,715,618</u>	<u>96,808,037</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>110,715,618</u>	<u>96,808,037</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings / (loss) per share	(1.04)	(1.01)
Diluted earnings / (loss) per share	(1.04)	(1.01)

## Note 28. Earnings per share (continued)

### 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.

#### 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 29)	1,565,000

## Note 29. 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:

### 2021

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	7/02/2021	\$0.20	375,000	-	(375,000)	-	-
13/03/2018	7/02/2022	\$0.20	75,000	-	-	-	75,000
28/05/2018	7/05/2022	\$0.33	300,000	-	-	-	300,000
21/09/2018	17/07/2022	\$0.41	360,000	-	-	-	360,000
9/01/2019	14/12/2021	\$0.35	240,000	-	(60,000)	-	180,000
12/07/2019	12/07/2022	\$0.34	450,000	-	-	(200,000)	250,000
13/07/2020	2/07/2023	\$0.28	-	100,000	-	-	100,000
30/03/2021	9/03/2025	\$0.43	-	300,000	-	-	300,000
			1,800,000	400,000	(435,000)	(200,000)	1,565,000
Weighted average exercise price			\$0.320	\$0.390	\$0.220	\$0.340	\$0.360



## Note 29. Share-based payments (continued)

### 2020

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	-	(150,000)	-	75,000
28/05/2018	27/03/2021	\$0.330	120,000	-	-	(120,000)	-
28/05/2018	7/05/2022	\$0.330	300,000	-	-	-	300,000
21/09/2018	17/07/2022	\$0.410	360,000	-	-	-	360,000
9/01/2019	14/12/2021	\$0.350	360,000	-	-	(120,000)	240,000
12/07/2019	12/07/2022	\$0.340	-	450,000	-	-	450,000
			1,740,000	450,000	(150,000)	(240,000)	1,800,000
Weighted average exercise price			\$0.310	\$0.340	\$0.200	\$0.340	\$0.320

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.49 years (2020: 1.67 years).

There were no performance rights granted under the plan as part of compensation during the year ended 30 June 2021. At both the commencement and the end of the financial year there were no unissued ordinary shares of the Company under performance rights.

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
13/07/2020	2/07/2023	\$0.350	\$0.28	67.32%	-	0.16%	\$0.155
30/03/2021	9/03/2025	\$0.390	\$0.43	74.17%	-	0.11%	\$0.175

#### 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.

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.

**Note 29. Share-based payments (continued)**

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 2021 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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Cristiano Nicolli  
Chairman

30 August 2021

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

### Report on the Financial Report

#### Auditor's Opinion

We have audited the accompanying financial report of ReadCloud Limited (the Company) and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 of of ReadCloud Limited 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 2021 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

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

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

#### 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 – Business combinations	How our audit addressed this matter
<p>As described in Note 25 of the financial report, the Group entered into agreements to acquire 100% of the equity of the following entities: PKY Media Pty Ltd (trading as College of Sound and Music Production, 'COSAMP'), completed on 28 October 2020, and Ripponlea Institute Pty Ltd ('RIPL'), completed on 8 June 2021.</p> <p>The acquisitions were accounted in accordance with AASB 3 <i>Business Combinations</i>.</p> <p>The acquisition-date fair value of the total consideration transferred in respect of each acquisition amounted to:</p> <ul style="list-style-type: none"> <li>• COSAMP \$1,450,000</li> <li>• RIPL \$2,300,000</li> </ul> <p>Significant judgements were formed by Management in valuing the acquired identifiable assets and liabilities assumed and allocating residual goodwill to the Group's Vocational Education and Training ('VET') cash generating unit ('CGU').</p> <p>Based on this we have considered resultant business combinations 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>• evaluating the Group's accounting treatment against the requirements of AASB 3, the respective Share Purchase Agreements, and our understanding of each business acquired;</li> <li>• assessing Management's determination of the point at which control was gained of each acquiree;</li> <li>• assessing the methodology applied to provisionally or finally recognise the fair value of identifiable assets acquired and liabilities assumed, and the fair value of the consideration transferred;</li> <li>• assessing the calculation of the contingent consideration and its accuracy in accordance with the contractual arrangements and relevant accounting standards;</li> <li>• validating inputs of the components of the business combination to underlying support, and considering the appropriateness of allocation of goodwill to the VET CGU; and</li> <li>• assessing the appropriateness of the related disclosures in Notes 10 and 25 for consistency with the relevant financial reporting standards.</li> </ul>

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<b>Key audit matter – Capitalisation of software development costs as intangible assets</b>	<b>How our audit addressed this matter</b>
<p>As disclosed in note 10 of the financial report, the carrying amount of the Group's internally developed software is \$2,265,698 (2020: \$2,190,213). The accounting policy in respect of this asset is also outlined in Note 10.</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>Capitalised software is considered a Key Audit Matter due to the judgements applied in 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>Our procedures included, but were not limited to, the following:</p> <ul style="list-style-type: none"> <li>• testing, on a sample basis, of 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, historical sales levels 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 any indicators exist 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 recoverability 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 10.</li> </ul>
<b>Key audit matter – Recoverability of goodwill and other intangible assets</b>	<b>How our audit addressed this matter</b>
<p>As disclosed in Note 10 of the financial report, the carrying amount of goodwill and related acquired intangibles allocated to the VET CGU is \$5,773,026 (2020: \$2,260,275). Internally developed software is carried at \$2,265,698 (2020: \$2,190,213). Relevant accounting policies are also disclosed in Note 10.</p> <p>The carrying amount of goodwill and related acquired intangible assets is considered with reference to the Group's analysis of future cash flows using a value-in-use (VIU) model, applied to the VET CGU.</p> <p>The Group's early stage of maturity anticipates the continuing investment of cash resources to enable cash positive operating activities. Net operating cash outflows during the year are an indicator of impairment of internally developed software, causing the Group to extend its VIU model to consider this asset, which is utilised Group-wide.</p> <p>The Group's VIU model is internally developed, using a range of internal and external data, and forward-looking assumptions and judgements that may not materialise as expected.</p> <p>The key assumptions in the VIU model include:</p> <ul style="list-style-type: none"> <li>• preparation of forecast cash flows, incorporating forecast growth rates during the forecast period;</li> <li>• determination of a terminal growth factor; and</li> <li>• determination of a discount rate.</li> </ul> <p>Our assessment of Management's evaluation of the recoverable amount of intangibles in accordance with the requirements of AASB 136 <i>Impairment of Assets</i> is a Key Audit Matter.</p>	<p>Our procedures included, but were not limited to, assessing and challenging:</p> <ul style="list-style-type: none"> <li>• the reasonableness of the financial year 2022 budget approved by the Directors, comparing to current actual results, and considering trends, strategies and outlooks;</li> <li>• the testing of inputs used in the VIU model, including the approved budget;</li> <li>• the determination of the discount rate applied in the VIU model, comparing to available industry data;</li> <li>• the short to medium term growth rates applied in the forecast cash flow, considering historical results including the growth achieved from services to new client schools and their student population, and available industry data;</li> <li>• the arithmetic accuracy of the VIU model;</li> <li>• the appropriateness of CGU determination;</li> <li>• Management's sensitivity analysis around the key drivers of the cash flow projections, to consider the likelihood of such movements occurring, sufficient to give rise to impairment; and</li> <li>• the appropriateness of the disclosures including those relating to sensitivities in assumptions used in note 10.</li> </ul>

**Other Information**

The Directors are responsible for the Other Information. Other Information comprises the information included in the Group's annual report for the year ended 30 June 2021 but does not include the financial report and our auditor's report thereon.

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 are required to report that fact. We have nothing to report in this regard.

**Directors' Responsibilities for the Financial Report**

The Directors of the Company are responsible for:

- preparing the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*;
- implementing necessary internal control 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; and
- in preparing the financial report, 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 Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error; and
- issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with 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.

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, actions taken to eliminate threats or safeguards applied.

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 the 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**

#### ***Auditor's Opinion***

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of the Company for the year ended 30 June 2021 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 2021



Steven Bradby  
Partner



The shareholder information set out below was applicable as at 6 August 2021.

### Distribution of equity securities

	Number of holders of ordinary shares	Number of holders of voluntarily escrowed shares	Number of holders of unquoted employee options
1 to 1,000	132	-	-
1,001 to 5,000	902	-	-
5,001 to 10,000	371	-	-
10,001 to 100,000	472	-	2
100,001 and over	74	1	4
	<b>1,951</b>	<b>1</b>	<b>6</b>
Holding less than a marketable parcel	371	-	-

### Equity security holders

#### Twenty largest quoted equity security holders

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

	Ordinary shares Number held	% of total quoted shares issued
Citicorp Nominees Pty Ltd	19,299,786	16.31%
UBS Nominees Pty Ltd	11,695,118	9.88%
Mr Lars Peder Lindstrom	8,454,128	7.15%
J P Morgan Nominees Australia Pty Limited	6,546,524	5.53%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5,760,000	4.87%
Mr Jonathan Brett Isaacs	4,301,667	3.64%
Hunmar Holdings Pty Ltd	3,817,786	3.23%
National Nominees Limited	3,587,862	3.03%
Sandhurst Trustees Ltd <Cyan C3G Fund A/C>	3,194,444	2.70%
Mr Darren Hunter	2,750,000	2.32%
Ms Kimberley Juanita Therese Marshall	2,510,920	2.12%
Ms Natanya Pesha Fisher	2,026,955	1.71%
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	1,949,710	1.65%
Mr Nicholas Mardling*	1,800,000	1.52%
Mr Joshua Fisher	1,500,000	1.27%
Mrs Natanya Pesh Fisher & Mr Joshua Luke Fisher <Fisher Super>	1,486,655	1.26%
Mr Guy Samuel Mendelson	1,435,318	1.21%
Mr Raymond Jowett & Ms Claudia Gardiner <Jowett Superfund>	1,034,702	0.87%
Ms Nicole Sharp	968,375	0.82%
HSBC Custody Nominees (Australia) Limited	838,907	0.71%
	<b>84,958,857</b>	<b>71.81%</b>

\* These quoted ordinary shares are subject to voluntary escrow until 13 September 2021.

#### *Unquoted equity securities*

	<b>Number on issue</b>	<b>Number of holders</b>
Employee options with various exercise prices and expiry dates	1,565,000	6

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

<b>Name</b>	<b>Class</b>	<b>Number held</b>
Mr Luke Murphy	Unquoted options	585,000
Mr Peter Wiseman	Unquoted options	400,000

#### **Substantial holders**

Substantial holders in the Company are set out below:

	<b>Ordinary shares % of total shares issued</b>
<b>Number held</b>	
Thorney Technologies Ltd*	12,877,044 10.88%
TIGA Trading Pty Ltd*	12,877,044 10.88%
Kinderhook 2 LP	9,889,488 8.36%
Lars Lindstrom	8,534,128 7.21%
Darren Hunter	7,084,880 5.99%
West Elk Partners LP	6,834,545 5.78%

\* Represents the relevant interests of these shareholders in the shares of ReadCloud

#### **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.

#### **Annual General Meeting**

ReadCloud Limited advises that its Annual General Meeting will be held on or about 23 November 2021. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon despatch. The Closing date for receipt of nomination for the position of Director is 5 October 2021. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on 5 October 2021 at the Company's Registered Office. The Company notes that the deadline for nominations for the position of Director is separate to voting on Director elections. Details of the Directors to be elected will be provided in the Company's Notice of Annual General Meeting in due course.