



AUSTRALIA'S
SOVEREIGN CLOUD
IAAS PROVIDER

Sovereign Cloud Holdings Limited

ABN: 80 622 728 189

Annual Report

For the year ended 30 June 2021

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Chairman's Address

Dear Shareholder,

On behalf of the Board of Directors of Sovereign Cloud Holdings Limited ("Company" or "SOV"), we are pleased to present to you our 2021 Annual Report. As most of you are aware, the company operates under the name "AUCloud".

AUCloud is an Australian sovereign cloud Infrastructure as a Service ("IaaS") provider exclusively focused on the Australian Government, the Australian Defence Force ("ADF") and Critical National Industry Communities ("CNI").

AUCloud's IaaS service provides its customers with a highly secure, scalable, automated cloud solution, delivering an efficient and effective hosting environment for critical and sensitive applications and systems. The services and data managed by AUCloud are all hosted and maintained in Australia. AUCloud's focus is to secure contracts from the Australian Government, ADF and CNI where it has the strategic advantage.

The Company has invested significantly over the past two years into creating two autonomous inter-connected Sovereignty Zones in Canberra and Sydney. Through the development of the Company's ecosystem of over 60 channel partners, AUCloud has built a significant pipeline of sales opportunities.

In the first half of Financial Year ("FY21") the Company completed an IPO which resulted in the listing of its shares on the ASX in December 2020. This provides the resources for the Company to continue to fund its operations as its revenue base continues to grow.

A key driver of revenue growth is expected to come as the Government transitions from self-managed (or on-premise) legacy infrastructure to cloud infrastructure. As this occurs, we expect the Company's growth to benefit from its key competitive strengths of sovereignty, security and performance.

AUCloud currently has limited market share of the target addressable market in Australia, with the bulk of the potential workload still residing in on premise legacy infrastructure. As the transition to cloud infrastructure gains momentum, we consider our key competitors to be the large global cloud service providers. However, with recent changes to Federal Government policy, we believe it will become more difficult for global cloud services providers to service Government customers as they consider the specific sovereignty related risks associated with data classification requirements. The Government's policy in this regard is still evolving.

The Company expects to significantly grow the customer base in FY22 under its 'land, expand and extend' strategy, which will in turn lead to an uptake in the balance of Total Contract Value held and revenue in FY22 and beyond, as the contracted services are consumed.

Our working capital requirements have to date been primarily funded through various equity capital raisings over the past three years. The Directors will continue to monitor the Company's liquidity and funding requirements, and if necessary, seek further capital through this avenue.

On behalf of the Board, I would like to acknowledge the effort and commitment of all our staff, who continue to perform especially well during these difficult times impacted by Covid-19. I would also like to thank our shareholders, both those who have been with us for the entire journey and those who have joined us since our admission to the ASX, for their ongoing support of the Company's strategy. I remain firmly of the opinion that the investments made by the Company over the past few years will support and create value for the business in FY22 and beyond.



Cathie Reid
Chairman

Managing Director's Address

Dear Shareholder,

AUCloud has made considerable progress during FY21. Against the backdrop of COVID-19 challenges, we completed the listing of "SOV" on the ASX and saw the mega trends of cloud, sovereignty and particularly cybersecurity continue to develop and shape the behaviour of our target market of Government, Defence and Critical National Industries (CNI).

The company closed \$7.7m in Total Contract Value (TCV) during FY21 and recorded \$2.55m of IaaS revenue. A highlight was securing the contract to provide services to the Australian Electoral Commission to support the upcoming Federal Election.

Throughout FY21 the Australian Federal Government has continued to embed sovereignty into minimum security standards. Both the Cloud Assessment and Authorisation Framework (CAAF) and the Hosting Certification Framework (HCF) now explicitly require clarification of non-Australian ownership or control within cloud and service providers.

Cyber security risks are increasingly recognised as core organisational threats, with changes to Australian security legislation increasing the breadth of sectors classified as CNI and the depth of impact that government standards will likely have on them; effectively increasing the target addressable market where AUCloud's proposition is relevant.

AUCloud's focus for FY22 is to expand our market footprint within Canberra based Federal Government agencies, to build upon existing partner activity and to initiate direct activity position within State based Governments and CNI; initially in NSW with other states to follow.

In this most challenging of years, where lockdowns have impacted the cadence of almost all businesses, our growth and ongoing development has been achieved through the efforts and commitment of the entire AUCloud team, whether based from offices in Canberra, Brisbane, Sydney or in home-based lockdown. I thank all of them and their supportive families for their dedication in delivering service excellence across our customers and for their adaptability to excel in a world of changing circumstances.

On behalf of the team, I would also thank our existing customers, current partners and development partners working with AUCloud on innovative IaaS offerings and most importantly, you, for continuing to support SOV with your investment.



Phil Dawson
Managing Director

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

The directors present their report together with the financial report of Sovereign Cloud Holdings Limited (the "Company") and its controlled entity (together the "Group"), for the year ended 30 June 2021 and auditor's report thereon.

1. Directors

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

- Cathie Reid AM (Chair)
- Phil Dawson (Managing Director)
- Ross Walker (Non-executive Director)
- Allan Brackin (Non-executive Director), appointed 16 October 2020.

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

2. Principal activities

The Group's principal activity is to deliver sovereign cloud services to Australian Governments and critical national industries. Since formation the Group has built a cloud based platform, which is accredited to by Government standards to PROTECTED controls or higher. The platform is available to rent computation cycles and data storage to customers on a pay-as-you-go basis, referred to as Infrastructure as a Service (IaaS).

No significant change in the nature of these activities occurred during the year.

3. Operating Metrics

During FY21 the Group adopted new operating metrics adopted by management for measuring the progress of business:

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

4. Review of Operations

Group Financial Results

The Group recorded a net loss for the year of \$11.6 million (FY20: loss of \$8.2 million).

During FY20 the Group transitioned from platform development/testing (by qualified channel partners) to onboarding a small number of contracted customers. This was further assisted by the revenue acceleration funding support received from a major IT equipment supplier who supported IaaS services provided by the Group to enable projects and opportunities with potential customers trialling the platform.

By the second half of FY20, the Group had secured a small number of contracts/purchase orders which generated IaaS consumption and implementation revenue.

In the first half of FY21, the Company raised further capital, including the IPO capital raising in December 2020, which provided funding to the Group to increase resources and to continue delivering an efficient and effective hosting environment for critical and sensitive applications and systems.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

The nature of the Group's business model involves significant investment upfront, both in human capital and computer equipment (cloud platforms), to provide customers with a highly secure, scalable, automated cloud solution. Under the Group's pay-as-you-go revenue model, the increase in revenue will typically lag the increase in costs, which is evident in the loss generated in FY21.

Revenue

Revenue in FY21 was \$2.5 million compared to \$1.3 million over the previous corresponding year.

During the first half of FY20 the Company was in the process of building its second technology platform (Sovereignty Zone 2) at Eastern Creek in Sydney and had engaged with a number of key channel partners and direct customers for beta testing. Revenue during this period (H1 FY20) was mostly generated through paid development to support initial reference projects and customer beta testing (\$0.5 million). By the second half of FY20, the Group secured a number of initial contracts/purchase orders.

Total revenue recorded in FY21 of \$2.5 million comprised \$2.4 million in IaaS Consumption and \$0.1 million in consulting and implementation. While the amount revenue (consumption) recorded in FY21 was relatively low, the Group secured a number of new contracts through contract extensions, expansion of work with existing customers and the addition of new customers.

Overall the Group secured \$7.7 million in TCV during FY21, compared to \$2.1 million in FY20. At 30 June 2021, TCV Outstanding was approximately \$6.0 million compared to \$0.8 million at 30 June 2020 as shown below.

| Summary of TCV Metrics | Q1 FY21 | Q2 FY21 | Q3 FY21 | Q4 FY21 |
|---------------------------|---------|---------|---------|---------|
| | \$'m | \$'m | \$'m | \$'m |
| Opening TCV Outstanding | 0.80 | 0.84 | 2.07 | 2.65 |
| Increase in quarterly TCV | 0.57 | 1.78 | 1.29 | 4.06 |
| Revenue/consumption | (0.53) | (0.55) | (0.71) | (0.74) |
| Closing TCV Outstanding | 0.84 | 2.07 | 2.65 | 5.96 |

Expenses

Total expenses in FY21 were \$14.5 million compared to \$9.6 million in FY20 (an increase of \$4.9 million). The increase in expenses was mostly due to additional employee headcount, increase in depreciation and amortisation following completion of second technology platform build and expensing one-off IPO costs.

Financial Position

The Company's net asset position increased in FY21 by \$13.0 million to \$19.2 million at 30 June 2021, mostly due to total capital raised of \$24.3 million (net of transaction costs) which included the IPO in December 2020 and listing of the Company's shares on ASX.

The Company also invested \$3.1 million in computer equipment and other assets to increase its storage and computer capacity at both Sydney and Canberra data centres to accommodate existing and anticipated customer usage. This investment was funded from an increase in the leased finance facility provided by a major equipment supplier.

5. Strategy and future prospects

The Group intends to grow its business by establishing a leadership position in Sovereign and secure IaaS services to Australian Government, Australian Defence Force and critical natural industries.

A key driver of revenue growth is expected as the Government transitions from self-managed (or on-premise) legacy infrastructure to cloud infrastructure. As this occurs, the Group's growth is expected to benefit from its key competitive strengths of sovereignty, security, service and performance.

The Group currently has limited market share of the target addressable market in Australia, with the bulk of the potential workload still residing in on premise legacy infrastructure. As the transition to the cloud infrastructure gains momentum, the Group considers its key competitors to be the large global cloud services providers. However, with recent changes to Federal Government policy, the Group believes it will become more difficult for global clouds services providers to serve Government customers as they consider the specific related risks associated with data classification requirements. The Government's policy in this regard is still evolving.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

The Group's current market strategy is a 'land and expand' approach, which involves winning an initial engagement, either directly through tender or digital marketplace engagements, or via its channel partners. Once the service is established, the Group has the opportunity to increase revenue via usage increase, cross sales and expansion of the service provided to the customer directly, or via a channel partner. Referrals between government departments commonly occur, creating increased expansion opportunities from initial engagement.

The Group expects to significantly grow the customer base and TCV in FY22 under the above strategy, which will in turn lead to an uptake in revenue in FY22 as the contracted services are consumed.

Platform expansions are required from time to time as the existing facilities begin to reach their compute and storage capacity, which then need to be expanded to meet customer demand. Capital expenditure is typically regarded as either development or growth capex. The two cloud platforms in Canberra and Sydney were considered to be development capex whereas platform expansions are regarded as growth capex. Ongoing capital expenditure will mostly comprise growth capex in line with revenue growth.

The Group expects to fund the majority of its platform expansion capex from finance facilities sourced from its major IT suppliers, similar to the lease facilities provided by these suppliers in the past.

The Group's working capital requirements have to date been primarily funded through various equity capital raisings over the past three years. The Directors will continue to monitor the Group's liquidity and funding requirements, and if necessary, seek further capital through similar means.

The industries in which the Group operate are inherently uncertain. As a consequence, there are significant uncertainties associated with forecasting future revenues and expenses associated with its activities. As such, the Directors believe that, given these inherent uncertainties, it is not possible to provide reliable forecasts in respect to its future earnings.

6. After balance date events

Except as disclosed in note 29 of the financial statements, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

7. Environmental regulation

The group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

8. Dividends paid, recommended and declared

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

9. Information on directors and company secretary

Cathie Reid AM

Bachelor of Pharmacy

Chair/Non-executive director

Cathie is the Co-Founder of Icon Group, a provider of integrated cancer care services with operations in Australia, Singapore, New Zealand, Hong Kong, Vietnam and China, Epic Pharmacy Group and the Epic Good Foundation. She is also a Director of the Brisbane Lions Australian Rules Football Club. Cathie has been the recipient of numerous business awards throughout her career, and in 2019 was appointed a Member of the Order of Australia (AM) for services to healthcare and philanthropy.

Other listed company directorships in the last 3 years: Chair of Flamingo AI Ltd (2014 - 2018).

Phil Dawson

*MBA & Bachelor of Science
(Hons) in Chemistry*

Managing Director

Phil was the Co-Founding CEO of UKCloud Limited, a cloud based technology company in the UK and previously a co-founder of a number of technology and mobile start-ups.

Phil is an elected Board member of the ACT/Federal Council of the AIIA and has participated in both the ACSC Industry Forum on Cloud Security Guidance, the Federal Government's Digital Task Force and recently as a witness to the Parliamentary Joint Committee on Intelligence and Security. In the UK, he was a Board member of TechUK, and a member of the UK's Information Economy Council and co-author with Professor Nigel Shadbolt, of the UK's Data Capability Strategy.

Ross Walker

Bachelor of commerce, FCA

Non-Executive Director

Ross is a Chartered Accountant who worked with Arthur Anderson from 1978 to 1985 (including 3 years in the USA) before joining Pitcher Partners Brisbane (formerly Johnston Rorke). Ross was Managing Partners at Pitcher Partners for 20 years until his retirement from equity in 2017. He was involved in corporate finance, valuations, audit, capital raisings, and mergers and acquisitions.

Ross is also a Non-Executive Director of:

- RPM Global Limited (ASX: RUL); and
- Wagners Holding Company Limited (ASX: WGN).

Allan Brackin

Bachelor of Applied Science

Non-Executive Director

Allan has been involved in the technology industry for over 30 years and is an experienced Director and Chairman of several public and private technology companies. Allan was formally Director and Chief Executive Office of Volante Group Limited, one of Australia's largest IT Services companies, from 2000 - 2004. From 1986 to 2000 Allan cofounded a number of IT companies which became part of the Volante Group.

Allan is also a Non-Executive Director of:

- Integral Research Ltd (ASX: IRI) - Appointed 18 January 2021
- 3 P Learning Limited (ASX: 3PL) - Appointed 6 August 2021

Other listed company directorships in the last 3 years - Chairman of GBST Holdings Limited (2005 - 2019), Chairman of OptiComm Limited (2014 - 2020), Chairman of RPM Global Holdings Limited (2011 - 2020). Chairman of Sensera Limited (2018 – 2020).

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

Michelle Crouch

*Bachelor of Business,
Chartered Accountant*

Company secretary/Interim Chief Financial Officer

Michelle Crouch is currently employed by Pitcher Partners, who has been providing accounting, tax and financial services advise to AUCloud since inception, and will continue to provide these services until an appropriate candidate has been identified for the Chief Financial Officer.

10. Meetings of directors

| Directors | Directors' meetings | | Audit committee meetings | | Remuneration committee meetings | |
|--------------------------------------|---------------------|----------|--------------------------|----------|---------------------------------|----------|
| | Held | Attended | Held | Attended | Held | Attended |
| Cathie Reid AM | 12 | 12 | 1 | 1 | 1 | 1 |
| Phil Dawson | 12 | 12 | 1 | 1 | 1 | 1 |
| Ross Walker | 12 | 12 | 1 | 1 | 1 | 1 |
| Allan Brackin (appointed 16/10/2020) | 7 | 6 | 1 | 1 | 1 | 1 |

Held: Represents the number of meetings held during the time the Director held office or was a member of the relevant committee. Non-committee members are invited and attend the various committee meetings.

11. Directors' Interests

The relevant interest of each Director in the shares and options issued by the Company at the date of this report is as follows:

Sovereign Cloud Holdings Limited

| | Ordinary Shares | Options over Ordinary shares |
|-----------|-----------------|------------------------------|
| C Reid | 14,262,448 | - |
| R Walker | 1,660,085 | - |
| A Brackin | 806,667 | - |
| P Dawson* | 6,934,000 | 1,055,961 |

* The shares held by P Dawson are held by Assured Digital Group (a UK based company) in which Mr Dawson and spouse hold a 39% interest.

12. Shares under option

Unissued ordinary shares of Sovereign Cloud Holdings Limited under option at the date of this report are as follows:

| Date granted | No of Options | | Exercise price (see below) | Expiry date |
|--------------|---------------|-----------|-------------------------------|-------------|
| | Issued | Vested | | |
| 01/07/2018 | 1,927,243 | 1,927,236 | \$0.60 | 30/06/2022 |
| 13/08/2019 | 268,936 | 179,290 | \$0.60 | 30/06/2023 |
| 30/09/2020 | 1,056,407 | 352,135 | \$0.60 | 30/06/2024 |
| | 3,252,586 | 2,458,661 | | |

The exercise price of the Options of \$3 per option reduces to \$0.60 per option if the Employee Option holder remains an employee of the Company in accordance with certain vesting dates.

No option holder has any right under the options to participate in any other share issue of the group.

No shares were issued during the year on exercise of options.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

13. Indemnification 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 personally liable, except where there is a lack of good faith.

During the financial year, the Company paid insurance premiums to insure the Directors and Officers of the Company against certain risks associated with their activities as Officers of the Company. The terms of that policy prohibit disclosure of the nature of the liability covered, the limit of such liability and the premium paid.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

14. Auditor's independence declaration

A copy of the auditor's independence declaration under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

15. Non-audit Services

There was no amounts paid or payable to the company's auditor and related practices of the auditor for non-audit services during the 2020 and 2021 Financial Years.

16. Legal Proceedings on Behalf of the Company

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

This report is made in accordance with a resolution of the Directors.



Cathie Reid

Chair

Dated: 19 August 2021

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

REMUNERATION REPORT

The Directors Sovereign Cloud Holdings Limited present the Remuneration Report (the 'Report') for the Company and its subsidiaries (together, the 'Group') for the financial year ended 30 June 2021.

The information provided in the Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The remuneration report is set out under the following sections:

1. Principles Used to Determine the Nature and Amount of Remuneration;
2. Service Agreements;
3. Details of Remuneration;
4. Phil Dawson Share Based Compensation Benefits;
5. Equity Instruments Held by Key Management Personnel; and
6. Other Transactions with Key Management Personnel.

1. Principles Used to Determine the Nature and Amount of Remuneration

Remuneration and compensation have the same meaning in this report.

This report discusses the company's policies in regard to compensation of key management personnel. Key management personnel ('KMP') include all directors of the Company and certain executives who, in the opinion of the Board and Managing Director, have authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The Board has considered these factors in relation to the senior management team and do not believe any of those individuals would be defined as a KMP for reporting purposes.

The Board has established a HR and Remuneration committee to assist with remuneration and incentive policies enabling the Group to attract and retain KMP and Directors who will create value for shareholders and support the Group's mission. The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic, operational objectives and achieve the broader outcome of creation of value for shareholders.

Executive Remuneration Policy and Practices

The Group's remuneration framework is designed to attract, retain, motivate and reward employees for performance that is competitive and appropriate for the results delivered. The framework aligns remuneration with the achievement of strategic goals and the creation of value for shareholders.

The key criteria supporting the Group's remuneration framework are:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage/alignment of executive compensation; and
- Transparency.

Executive KMP remuneration consists of fixed remuneration, short-term incentives and long-term incentives plans. Executive KMP remuneration includes both fixed and variable components, with variable rewards consisting of short and long term incentives that are based on Group performance outcomes.

(a) Fixed Compensation

Fixed compensation is calculated on a total cost basis and includes salary, allowances, non-cash benefits, employer contributions to superannuation funds and any fringe benefits tax charges related to employee benefits, including motor vehicles parking provided.

Compensation levels are reviewed using an individual approach, based on evaluation of the individual, and a comparison to the market. A KMP's compensation is also reviewed on promotion.

(b) Performance Linked Compensation

Performance linked compensation includes both short-term incentives and is designed to reward each KMP for meeting and exceeding their Key Performance Objectives (KPO's). The Short-Term Incentive (STI) is an 'at risk' incentive provided in the form of cash, while the Long-Term Incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan (ESOP).

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

REMUNERATION REPORT

(i) Short-term incentive plan

STI is an 'at risk' incentive provided in the form of cash. The Company has a variable pay structure through the STI for each person in the senior management team. The objective of the STI is to create clear alignment between individual and business performance and remuneration by providing a performance-based reward to participants in line with their relative contribution to the Company. The STI achieves the alignment by focusing participants on achieving goals which contribute to sustainable shareholder value and providing a clear link between performance and the Company's financial result.

The STI compensation is based on a percentage of the individual's base salary and varies from 25% to 50%. The amount of any STI in any financial year is determined by the Board in its sole discretion based on the achievement of certain performance targets. The current STI plan is the same for all senior management, such that they all have the same performance hurdles, which are based on the Company's financial performance in terms of achieving IaaS revenue and EBITDA milestones.

In FY21 the Group did not achieve the IaaS revenue and EBITDA milestones, thereby not satisfying the Group STI performance target.

(ii) Long-term incentive plan

LTI is provided as Options over ordinary shares of the Company under the rules of the Employee Share Option Plan ("ESOP"). ESOP was approved by the Board on 15 June 2018. Eligible participants of the ESOP include any person who is a director, employee or consultant and are granted at the discretion of the Board of Directors. Options were issued in 2019, 2020 and 2021 financial years under the Company's ESOP.

The Remuneration Committee consider this equity performance-linked remuneration structure to be appropriate as KMP only receive a benefit when there is a corresponding direct benefit to shareholders.

Phil Dawson (Managing Director) was the only KMP who was issued Options during the financial year. Details of the performance options issued to Phil Dawson, and vested during the financial year, are set out in Section 4 of this report.

Non-Executive Director Remuneration Policy and Practices

Under the Constitution, the Board may decide the remuneration to which each Director is entitled for his or her services as a Director. In addition, under the ASX Listing Rules, the total amount payable to all Directors for their services (excluding for these purposes, the remuneration of any Executive Director) must not exceed an aggregate in any financial year the amount fixed in general meeting (currently \$500,000 per annum).

The current Non-executive Directors fees are \$80,000 per annum (inclusive of superannuation where applicable) and Directors may also be reimbursed for all travelling and other expenses incurred in connection with their Company duties. Non-executive Chairman fees are \$90,000 per annum.

This aggregate annual sum does not include any special remuneration which the Board may grant to the Directors for special exertions or additional services performed by a Director for or at the fees.

2. Service Agreements

There are no formal service agreements with the Non-Executive Directors. On appointment to the Board, the Directors receive an appointment letter with the Company, confirming the terms of his or her appointment, his or her role and responsibility and the Company's expectations of him or her as a Director.

Non-executive Directors are paid a fixed remuneration, comprising base and/or salary and superannuation (as applicable). Non-Executive Directors, do not receive bonus payments or participate in security-based compensation plans and are not provided with retirement benefits.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

REMUNERATION REPORT

Executive Director

The Board has entered into an employment contract with Phil Dawson, the managing Director. His employment contract includes the provision to increase base salary on a tiered basis, up to a maximum base salary of \$500,000 (excluding superannuation), based on the Company achieving certain revenue and EBITDA targets on a quarterly basis. It includes a Short-Term Incentive ('STI') of up to 100% of his base salary initially with that percentage reducing as his base salary increases, subject to achieving personal performance targets. In the event that his base salary increases, he is also entitled to a Long-Term Incentive ('LTI') of up to 50% of his base salary, subject to achieving personal performance targets.

The number of Options to be offered to the Managing Director under the LTI component of his remuneration, on achieving each performance target, is to be calculated based on the Company's two week volume weighted average share price at the time the performance targets are met. There are separate performance targets, each measured in terms of quarterly IaaS revenue and EBITDA milestones, to be achieved within certain timeframes otherwise the Options lapse.

The incentive arrangements have been structured such that his incentives (STI and LTI) will not exceed his base salary and if his base salary increases (as a result of achieving the recurring revenue and EBITDA targets) his STI and LTI will decrease (as a percentage of his base salary).

3. Details of Remuneration

Details of remuneration of each Director and key management personnel of Sovereign Cloud Holdings Limited for the financial years ended 30 June 2020 and 2021 are set out below.

| | | Short-term | | | Post - Employment | Long-term | Security-based Payments | | Performance Related % |
|---------------------------------------|-------------|--------------------|--------------------------|-------------------|-------------------|--------------------|----------------------------------|----------------|-----------------------|
| | Year | Salary and fees \$ | Non-monetary benefits \$ | STI Cash bonus \$ | Superannuation | Long service leave | Share-based payment (options) \$ | Total \$ | |
| Directors | | | | | | | | | |
| C Reid | 2021 | 82,500 | - | - | - | - | - | 82,500 | - |
| | 2020 | 60,000 | - | - | - | - | - | 60,000 | - |
| R Walker | 2021 | 70,000 | - | - | - | - | - | 70,000 | - |
| | 2020 | 60,000 | - | - | - | - | - | 60,000 | - |
| A Brackin * | 2021 | 53,333 | - | - | - | - | - | 53,333 | - |
| | 2020 | - | - | - | - | - | - | - | - |
| P Dawson | 2021 | 250,000 | - | - | 23,750 | 6,730 | 99,868 | 380,348 | 26% |
| | 2020 | 250,000 | - | 30,000 | 26,600 | - | 28,459 | 335,059 | 17% |
| Other Key Management Personnel | | | | | | | | | |
| M Crouch ** | 2021 | 140,000 | - | - | - | - | - | 140,000 | - |
| | 2020 | - | - | - | - | - | - | - | - |
| TOTAL | 2021 | 595,833 | - | - | 23,750 | 6,730 | 99,868 | 726,182 | - |
| TOTAL | 2020 | 370,000 | - | 30,000 | 26,600 | - | 28,459 | 455,059 | - |

* A Brackin was appointed on 16 October 2020.

** M Crouch was appointed on 16 October 2020 as Company Secretary/Interim Chief Financial Officer. The payments to M Crouch are made to Pitcher Partners, which M Crouch is an employee.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

REMUNERATION REPORT

4. Share Based Compensation Benefits

Phil Dawson (Managing Director) is the only KMP who has received Options under the LTI. Details of the performance options issued to Phil Dawson and vested during the financial year, are set out below.

| Grant Date | Vesting Date | Tranche | Balance 01/07/2020 | No of Options | | Balance 30/06/2021 | Fair Value Per Option \$ |
|------------|--------------|---------|-----------------------|---------------|---------|-----------------------|--------------------------------|
| | | | | Issued | Expired | | |
| 02/07/2018 | 02/07/2018 | #1 | 118,722 | - | - | 118,722 | \$0.11 |
| | 01/07/2019 | #1 | 195,633 | - | - | 195,633 | \$0.13 |
| | 01/07/2020 | #1 | 195,633 | - | - | 195,633 | \$0.15 |
| | 01/07/2021 | #1 | 195,633 | - | - | 195,633 | \$0.16 |
| 30/09/2020 | 01/07/2021 | #2 | - | 116,780 | - | | \$0.18 |
| | 01/07/2022 | #2 | - | 116,780 | - | | \$0.18 |
| | 01/07/2023 | #2 | - | 116,780 | - | | \$0.18 |
| | | | 705,621 | 350,340 | - | 1,055,961 | |

The exercise price of \$3 per Option reduces to \$0.60 per Option if Phil Dawson remains an employee of the Company at the respective vesting dates.

As set out in Section 2 of this report, Phil Dawson is also entitled to a Long Term Incentive ("LTI") of up to 50% of his based salary, subject to achieving personal performance targets (referred to as Tranche 3). The LTI is payable in the form of options to be issued under the Employee Share Option Plan. The number of Options to be offered under the LTI component of his remuneration, on achieving each performance target, is to be calculated based on the Company's two week volume weighted average share price at the time the performance targets are met. There are three separate performance targets, each measured in terms of quarterly laaS revenue and EBITDA milestones, to be achieved within certain timeframes otherwise the Options lapse. Each option will have an exercise price of \$0.20. The options expire on 30 September 2025 or if he ceases to be employed or engaged with the Group. The options will vest 12 months after the performance target is achieved. No options under this arrangement have been issued to date.

Fair Value of Options Granted

The assessed fair value at the date of grant of options issued is determined using an option pricing model that takes into account the exercise price, the underlying option price at the time of issue, the term of option, the underlying option's expected volatility, expected dividends and risk free interest rate for the expected life of the instrument.

Details of performance rights over ordinary options in the company provided remuneration to the key management personnel (Phil Dawson) of the Group are set out below. When exercisable, each option is convertible into one ordinary option.

The value of the options were calculated using the inputs shown below:

| Inputs into Pricing Model | Tranche 1 | Tranche 2 | Tranche 3 |
|------------------------------------|---------------|---------------|--------------|
| Grant Date | 2 July 2018 | 30 Sep 2020 | 30 Sep 2020 |
| Exercise Price | \$0.60* | \$0.60* | \$0.20 |
| Vesting Conditions | Employment | Employment | Refer above |
| Option price at grant date | \$0.50 | \$0.60 | \$0.60 |
| Expiry Date | 30 June 2022 | 30 June 2024 | 30 June 2025 |
| Life of the instruments | 4 years | 4 years | 5 years |
| Underlying option price volatility | 50% | 50% | N/A |
| Expected dividends | - | - | N/A |
| Risk free interest rate | 2.25% | 0.17% | N/A |
| Pricing model | Black Scholes | Black Scholes | ** |
| Fair value per instrument | Refer above | Refer above | ** |

* The exercise price is \$3 per option, however, the exercise price reduces to \$0.60 unless the participant (Phil Dawson) ceased to be employed for any reason before the vesting date.

** The Tranche 3 options refer to the LTI component of Phil Dawson's remuneration as outlined above.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

REMUNERATION REPORT

The number of options to be offered under the LTI component of his remuneration will only be known if and when the three separate performance targets are achieved. At that point the number of options will be derived as a percentage of his base salary at the time and the Company's weighted average share price. For the purpose of assessing the fair value of the Tranche 3 options, an estimate was made of the vesting date (when the performance hurdles would be achieved), the base salary at the time and the Company's share price, as well as profitability factor of achieving the performance hurdles.

5. Equity Instruments Held by Key Management Personnel

Ordinary Shares

| | Balance at 1 July 2020 | Acquired during the Year | Transfer from Silver Linings Trust | Share Placement (Aug 2020) | Sold During the Year | Balance at 30 June 2021 |
|-----------------------|---------------------------|--------------------------------|--|----------------------------------|-------------------------|----------------------------|
| C Reid | 14,780,413 | - | 531,879 | - | (1,049,844) | 14,262,448 |
| R Walker | 1,024,244 | 416,667 | 52,507 | 166,667 | - | 1,660,085 |
| A Brackin | 220,000 | 416,667 | - | 170,000 | - | 806,667 |
| P Dawson ¹ | 6,934,000 | - | - | - | - | 6,934,000 |

¹ The shares held by Mr Dawson include 6,934,000 shares held by Assured Digital Group Limited (a UK based company) in which Mr Dawson spouse hold 39% interest.

Options

| | Balance at 1 July 2020 | Granted as Compensation | Forfeited, Exercised and expired | Balance at 30 June 2021 | Vested and Exercisable 30 June 2021 | Average Value at exercise date |
|----------|---------------------------|----------------------------|--|----------------------------|---|--------------------------------------|
| P Dawson | 705,621 | 350,340 | - | 1,055,961 | 509,988 | |

Other Transactions with Key Management Personnel

There were no transactions with KMP during the 2021 Financial Year.

Signed on behalf of the board of directors.



Cathie Reid

Chair

Dated: 19 August 2021

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF SOVEREIGN CLOUD HOLDINGS LIMITED
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2021 there have been:

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



Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants



Stewart Douglas
Director
Brisbane
19 August 2021

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

| | Note | 2021 \$ | 2020 \$ |
|--|------|---------------------|--------------------|
| Revenue and other income | | | |
| Revenue from contracts with customers | 3 | 2,548,645 | 1,311,487 |
| Interest income | 4 | 16,343 | 27,679 |
| Other income | 4 | 350,869 | 50,000 |
| | | <u>2,915,857</u> | <u>1,389,166</u> |
| Expenses | | | |
| Employee benefits expense | | (6,372,984) | (4,939,768) |
| Depreciation and amortisation | 5 | (3,472,900) | (1,735,340) |
| Licensing fees | | (1,498,988) | (377,048) |
| Professional fees | | (271,412) | (194,940) |
| IPO Costs | | (497,119) | - |
| Travel and conferences | | (276,441) | (254,941) |
| Finance costs | 5 | (382,626) | (329,035) |
| Other expenses | | (1,730,367) | (1,782,650) |
| | | <u>(14,502,837)</u> | <u>(9,613,722)</u> |
| Loss before income tax expense | | (11,586,980) | (8,224,556) |
| Income tax expense | 6 | - | - |
| Loss for the year | | <u>(11,586,980)</u> | <u>(8,224,556)</u> |
| Other comprehensive income for the year | | - | - |
| Total comprehensive loss | | <u>(11,586,980)</u> | <u>(8,224,556)</u> |
| Earnings per share | | Cents | Cents |
| Basic earnings per share | 23 | (13.4) | (15.5) |
| Diluted earnings per share | 23 | (13.4) | (15.5) |

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

| | Note | 2021 \$ | 2020 Restated* \$ |
|--------------------------------|-------------|--------------------------|--|
| Current assets | | | |
| Cash and cash equivalents | 7 | 13,504,819 | 1,129,906 |
| Receivables | 8 | 464,709 | 196,408 |
| Other assets | 9 | 476,398 | 72,220 |
| Total current assets | | <u>14,445,926</u> | <u>1,398,534</u> |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 3,372,293 | 3,922,573 |
| Intangible assets | 11 | 73,068 | 101,318 |
| Right of use lease assets | 12 | 9,346,919 | 8,573,360 |
| Other assets | 9 | 249,077 | 4,801 |
| Total non-current assets | | <u>13,041,357</u> | <u>12,602,052</u> |
| Total assets | | <u>27,487,283</u> | <u>14,000,586</u> |
| Current liabilities | | | |
| Payables | 13 | 890,446 | 540,285 |
| Lease liabilities | 14 | 3,207,133 | 2,571,203 |
| Provisions | 15 | 310,920 | 228,414 |
| Total current liabilities | | <u>4,408,499</u> | <u>3,339,902</u> |
| Non-current liabilities | | | |
| Lease liabilities | 14 | 3,828,838 | 4,439,286 |
| Provisions | 15 | 61,168 | - |
| Total non-current liabilities | | <u>3,890,006</u> | <u>4,439,286</u> |
| Total liabilities | | <u>8,298,505</u> | <u>7,779,188</u> |
| Net assets | | <u>19,188,778</u> | <u>6,221,398</u> |
| Equity | | | |
| Share capital | 16 | 53,527,207 | 29,214,908 |
| Reserves | 17 | 562,354 | 320,293 |
| Accumulated losses | 18 | (34,900,783) | (23,313,803) |
| Total equity | | <u>19,188,778</u> | <u>6,221,398</u> |

* Refer to Note 2 for details of the restatement of comparatives.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

| | Contributed equity \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
|---|--------------------------------------|------------------------|--------------------------------------|----------------------------|
| Consolidated Balance as at 1 July 2019 | 25,064,137 | 243,113 | (15,089,247) | 10,218,003 |
| Loss for the year | - | - | (8,224,556) | (8,224,556) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions | 4,150,771 | - | - | 4,150,771 |
| Share based payments expensed | - | 77,180 | - | 77,180 |
| Balance as at 1 July 2020 | 29,214,908 | 320,293 | (23,313,803) | 6,221,398 |
| Loss for the year | - | - | (11,586,980) | (11,586,980) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions, net of transaction costs | 24,312,299 | - | - | 24,312,299 |
| Share based payments expensed | - | 242,061 | - | 242,061 |
| Total transactions with owners in their capacity as owners | 24,312,299 | 242,061 | - | 24,554,360 |
| Balance as at 30 June 2021 | 53,527,207 | 562,354 | (34,900,783) | 19,188,778 |

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

| | Note | 2021 \$ | 2020 Restated* \$ |
|--|-------------|--------------------------|---------------------------------------|
| Cash flow from operating activities | | | |
| Receipts from customers | | 2,535,209 | 1,323,821 |
| Operating grant receipts | | 350,869 | 50,000 |
| Payments to suppliers and employees | | (10,317,615) | (7,601,167) |
| Interest received | | 16,343 | 27,679 |
| Right of use lease interest | | (382,626) | (329,035) |
| IPO expenses | | (497,119) | - |
| Net cash provided by / (used in) operating activities | 20 | <u>(8,294,939)</u> | <u>(6,528,702)</u> |
| Cash flow from investing activities | | | |
| Payments for property, plant and equipment | | (521,852) | (406,087) |
| Payments for intangible assets | | (9,449) | (65,050) |
| Net cash provided by / (used in) investing activities | | <u>(531,301)</u> | <u>(471,137)</u> |
| Cash flow from financing activities | | | |
| Proceeds from share issue | | 25,425,900 | 4,900,771 |
| Principal portion of lease payments | | (3,111,146) | (1,982,268) |
| Payment of share issue costs | | (1,113,601) | - |
| Net cash provided by financing activities | | <u>21,201,153</u> | <u>2,918,503</u> |
| Reconciliation of cash | | | |
| Cash at beginning of the financial year | | 1,129,906 | 5,211,242 |
| Net increase / (decrease) in cash held | | <u>12,374,913</u> | <u>(4,081,336)</u> |
| Cash at end of financial year | 7 | <u><u>13,504,819</u></u> | <u><u>1,129,906</u></u> |

* Refer to Note 2 for details of the restatement of comparatives.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Sovereign Cloud Holdings Limited is a listed public company, incorporated and domiciled in Australia.

The financial report comprises the consolidated entity ("Group") consisting of Sovereign Cloud Holdings Limited and its subsidiaries.

The financial report was authorised for issue on 19 August 2021.

(a) 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 and the *Corporations Act 2001 (Cth)*. Sovereign Cloud Holdings Limited is a for-profit entity for the purposes of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of Sovereign Cloud Holdings Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical Cost Convention

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

(b) Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimated. Areas where assumptions are significant to the financial statements, or involving a higher degree of judgement due to complexity are as follows:

- the determination of depreciation rates on property, plant and equipment (Note 10 and 1(k)); and
- the incremental borrowing rate and estimated exercise of option terms in relation to the calculations of right-of-use assets (Note 12) and lease liabilities (Note 14).
- The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by an external valuation using a binomial option pricing model incorporating various assumptions and taking into account the terms and conditions upon which the instruments were granted (note 21).

(c) Going concern

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

The group incurred a loss of \$11,586,980 during the year ended 30 June 2021 (2020: a loss of \$8,224,556). As at 30 June 2021 the Group had cash at bank of \$13,504,819.

The Group expects to significantly grow the customer base in FY22, which in turn will lead to an uptake in revenue in FY22 as the contracted services are consumed. While costs are also expected to increase in FY22, in line with head count and capacity, the growth in revenue is projected to result in the Group becoming earnings positive within 12-18 months.

The Group's working capital requirements have to date been primarily funded through various equity capital raisings over the past three years. The Directors will continue to monitor the Group's liquidity and funding requirements, and if necessary, seek further capital through similar means.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

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. Deferred consideration payable is measured at its acquisition date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is measured at its acquisition date fair value.

Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the amount of any non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in the profit or loss.

Acquisition related costs are expensed as incurred.

(e) Principles of consolidation

The consolidated financial statements are those of the consolidated entity ("the group"), comprising the financial statements of the parent entity and all of the entities the parent controls. The group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entity to affect the amount of its returns.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the group and are de-recognised from the date that control ceases.

Equity interests in a subsidiary not attributable, directly or indirectly, to the group are presented as non-controlling interests. Non-controlling interests are initially recognised either at fair value or at the non-controlling interests' proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Non-controlling interests in the results of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position respectively.

(f) Revenue from contracts with customers

The group derives revenue by providing customers with access to IT hardware and services in a secure cloud environment. This offering is commonly referred to as Infrastructure as a Service (IaaS). Revenue is billed based on a self-service pay-as-you-go model with no set-up fees and no usage commitments. Revenue is recognised over time as the customer utilises the infrastructure, based on an agreed hourly rates of usage of computing cycles and data storage.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables from contracts with customers

A receivable from a contract with a customer represents the group's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Subsequent to initial recognition, receivables from contracts with customers are measured at amortised cost and are tested for impairment.

(g) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(i) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Classification of financial assets

Financial assets recognised by the group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

- (a) the group's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the group are subsequently measured at amortised cost.

Trade and other receivables

Trade and other receivables arise from the group's transactions with its customers and are normally settled within 30 days.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consistent with both the group's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

Impairment of financial assets

The following financial assets are tested for impairment by applying the 'expected credit loss' impairment model:

- (a) debt instruments measured at amortised cost;
- (b) debt instruments classified at fair value through other comprehensive income; and
- (c) receivables from contracts with customers, contract assets and lease receivables.

The group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for receivables from contracts with customers, contract assets and lease receivables. Under the AASB 9 simplified approach, the group determines the allowance for credit losses for receivables from contracts with customers, contract assets and lease receivables on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

For all other financial assets subject to impairment testing, when there has been a significant increase in credit risk since the initial recognition of the financial asset, the allowance for credit losses is recognised on the basis of the lifetime expected credit losses. When there has not been an increase in credit risk since initial recognition, the allowance for credit losses is recognised on the basis of 12-month expected credit losses. '12-month expected credit losses' is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The group consider a range of information when assessing whether the credit risk has increased significantly since initial recognition. This includes such factors as the identification of significant changes in external market indicators of credit risk, significant adverse changes in the financial performance or financial position of the counterparty, significant changes in the value of collateral, and past due information.

The group assumes that the credit risk on a financial asset has not increased significantly since initial recognition when the financial asset is determined to have a low credit risk at the reporting date. The group considers a financial asset to have a low credit risk when the counterparty has an external 'investment grade' credit rating (if available) of BBB or higher, or otherwise is assessed by the group to have a strong financial position and no history of past due amounts from previous transactions with the group.

The group assumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

The group determines expected credit losses using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The group has identified contractual payments more than 90 days past due as default events for the purpose of measuring expected credit losses. These default events have been selected based on the group's historical experience. Because contract assets are directly related to unbilled work in progress, contract assets have a similar credit risk profile to receivables from contracts with customers. Accordingly, the group applies the same approach to measuring expected credit losses of receivables from contracts with customers as it does to measuring impairment losses on contract assets.

The measurement of expected credit losses reflects the group's 'expected rate of loss', which is a product of the probability of default and the loss given default, and its 'exposure at default', which is typically the carrying amount of the relevant asset. Expected credit losses are measured as the difference between all contractual cash flows due and all contractual cash flows expected based on the group's exposure at default, discounted at the financial asset's original effective interest rate.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets are regarded as 'credit-impaired' when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset. Indicators that a financial asset is 'credit-impaired' include observable data about the following:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) breach of contract;
- (c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, has granted concessions to the borrower that the lender would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

The gross carrying amount of a financial asset is written off (i.e., reduced directly) when the counterparty is in severe financial difficulty and the group has no realistic expectation of recovery of the financial asset. Financial assets written off remain subject to enforcement action by the group. Recoveries, if any, are recognised in profit or loss.

(j) Impairment of non-financial assets

Goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

Assets other than goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use (where 'value in use' is determined as the present value of the future cash flows expected to be derived from an asset or cash-generating unit).

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is measured at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for the same asset. Impairment losses in respect of cash generating units are allocated first against the carrying amount of any goodwill attributed to the cash generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash generating unit.

A reversal of an impairment loss for an asset measured at cost is recognised in profit or loss. A reversal of an impairment loss for an asset measured at a revalued amount is treated as a revaluation increase and is recognised in other comprehensive income, except to the extent that an impairment loss on the same asset was previously recognised in profit or loss, in which case a reversal of that impairment loss is also recognised in profit or loss.

(k) Segment Reporting

The Group has identified its operating segments as being the cloud service sector in Australia. Management currently identifies the cloud service sector as being the Group's sole operating segment. There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from the segment are equivalent to the financial statements of the Group as a whole.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property, plant and equipment

Each class of plant and equipment is measured at cost or fair value less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Plant and equipment

Plant and equipment is measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation

Land is not depreciated. The depreciable amount of all other property, plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held available for use, consistent with the estimated consumption of the economic benefits embodied in the asset.

| Class of fixed asset | Depreciation rates | Depreciation basis |
|-----------------------------|---------------------------|---------------------------|
| Improvements under lease | 2.5% | Straight line |
| Office equipment at cost | 20% | Straight line |
| Computer equipment at cost | 20% | Straight line |

(m) Intangible assets

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Separately acquired intangible assets

Except for indefinite useful life intangible assets, which are not amortised but are tested annually for impairment, separately acquired intangible assets are recognised at cost and amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, separately acquired intangible assets are measured at cost, less accumulated amortisation (where applicable) and any accumulated impairment losses. The amortisation period of intangible assets is 3 - 5 years.

Intangible assets acquired in a business combination

Intangibles acquired in a business combination are initially recognised at fair value (which, for accounting purposes, is treated as the cost of the intangible asset), and are subsequently amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost, less accumulated amortisation and any accumulated impairment losses.

(n) Leases

At the commencement date of a lease (other than leases of 12-months or less and leases of low value assets), the group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the group, and an estimate of costs to be incurred by the group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any remeasurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments (i.e., the lease payments that are unpaid at the commencement date of the lease). These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the group's incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments (i.e., the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12-months or less and leases of low value assets

Lease payments made in relation to leases of 12-months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense on a straight-line basis over the lease term.

(o) Employee benefits

(i) Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave and other employee benefits (other than termination benefits) expected to be settled wholly before twelve months after the end of the reporting period are measured at the (undiscounted) amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables in the consolidated statement of financial position.

(ii) Long-term employee benefit obligations

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For currencies in which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency are used. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

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STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other long-term employee benefit obligations are presented as current liabilities in the consolidated statement of financial position if the group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur. All other long-term employee benefit obligations are presented as non-current liabilities in the consolidated statement of financial position.

(iii) Retirement benefit obligations

Defined contribution superannuation plan

The group makes superannuation contributions to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the related employee services are received. The group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the consolidated statement of financial position.

(iv) Share-based payments

The group operates share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(p) Goods and services tax (GST)

Revenues, expenses and purchased assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to change in presentation for the current financial year.

(r) Earnings per Share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in 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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

2: RE-STATEMENT OF COMPARATIVES

During March 2019 the Group entered into a hire purchase agreement with approximately \$6 million from major IT equipment suppliers to fund the purchase of IT equipment and related services and licenses, which formed part of the second cloud platform build. The software and technical support services component of the overall equipment purchase was included in the total amount financed.

For accounting purposes the Group initially recognized the amount attributed to the software and technical support as an asset, which was subsequently being expensed over the term of the agreement as the services were provided.

Accounting Standard AASB16 Leases: Applied for the first time from 1 July 2019 which introduced a single, on-balance sheet accounting model for lessees. Where a contract contains a lease component and one or more additional lease or non-lease components, AASB16 allows the lessee to elect to either separate the non-lease component (such as the support services element) or not separate and account for each lease component and associated non-lease components as a single lease.

Previous Accounting Policy

In FY19 and FY20, the Company adopted to not separate the support services element from the lease and account for lease and associated support services as a single lease. This resulted in the recognition of an asset (being the component of unused support services included in the agreement), a right-of-use asset and a corresponding lease liability.

New Accounting Policy

The Group has decided to change the method of accounting for the support services agreement, not as one overall single lease, but to recognize the support services separately. As this change in accounting policy has no impact on profit and loss or retained earnings a third balance sheet has not been presented. The impact on the balance sheet is to offset certain assets and liabilities as shown below.

| Restatement of financial position (extract) | 1 July 2019 Original \$ | Increase/ (Decrease) \$ | 1 July 2019 Restated \$ | 2020 Original \$ | Increase/ (Decrease) \$ | 2020 Restated \$ |
|---|-------------------------------|-------------------------------|-------------------------------|------------------------|-------------------------------|------------------------|
| <i>Current Assets</i> | | | | | | |
| Receivables | 983,140 | (155,547) | 827,593 | 351,955 | (155,547) | 196,408 |
| Other assets | 317,430 | (281,914) | 35,516 | 354,134 | (281,914) | 72,220 |
| <i>Non-Current Assets</i> | | | | | | |
| Receivables | 259,997 | (259,997) | - | 104,449 | (104,449) | - |
| Other assets | 404,179 | (399,378) | 4,801 | 122,265 | (117,464) | 4,801 |
| | <u>1,964,746</u> | <u>(1,096,836)</u> | <u>867,910</u> | <u>932,803</u> | <u>(659,374)</u> | <u>273,428</u> |
| <i>Current Liabilities</i> | | | | | | |
| Lease liabilities | 1,997,807 | (437,461) | 1,560,346 | 3,008,663 | (437,460) | 2,571,203 |
| <i>Non-Current Liabilities</i> | | | | | | |
| Lease liabilities | 3,302,147 | (659,375) | 2,642,772 | 4,661,200 | (221,914) | 4,439,286 |
| | <u>5,299,954</u> | <u>(1,096,836)</u> | <u>4,203,118</u> | <u>7,669,863</u> | <u>(659,374)</u> | <u>7,010,489</u> |

| Restatement of cash flow (extract) | 2020 \$ | Increase/ (Decrease) \$ | 2020 Restated \$ |
|--|-------------|-------------------------------|------------------------|
| <i>Cash flow from operating activities</i> | | | |
| Receipts from customers | 1,479,369 | (155,548) | 1,323,821 |
| Payments to suppliers | (7,387,959) | (281,914) | (7,669,875) |
| <i>Cash flow from financing activities</i> | | | |
| Principal portion of lease payments | (2,419,730) | 437,462 | (1,982,268) |
| <i>Net increase/(decrease) in cash</i> | <u>-</u> | <u>-</u> | <u>-</u> |

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

| | 2021 | 2020 |
|---|-------------|-------------|
| | \$ | \$ |
| 3: REVENUE FROM CONTRACTS WITH CUSTOMERS | | |
| Revenue from contracts with customers | | |
| Provision of IaaS | 2,548,645 | 1,311,487 |
| 4: OTHER REVENUE AND OTHER INCOME | | |
| Other revenue | | |
| Interest income | 16,343 | 27,679 |
| Other income | | |
| R & D Refundable tax offset | 300,869 | - |
| Subsidies and grants | 50,000 | 50,000 |
| | 350,869 | 50,000 |
| 5: OPERATING PROFIT | | |
| Profit / (losses) before income tax has been determined after: | | |
| Superannuation guarantee contributions | 462,157 | 387,556 |
| Finance costs | | |
| - Lease liabilities - finance charges - data centres | 137,718 | 109,659 |
| - Lease liabilities - finance charges - software & computer equipment | 244,908 | 219,376 |
| | 382,626 | 329,035 |
| Depreciation | | |
| - right of use - data centres | 978,045 | 649,341 |
| - office furniture and equipment | 7,835 | 1,412 |
| - computer equipment | 1,061,482 | 920,496 |
| - right of use - software | 235,480 | 128,249 |
| | 2,282,842 | 1,699,498 |
| Amortisation of non-current assets | | |
| - leased assets | 1,149,545 | - |
| - leasehold improvements | 2,815 | - |
| - software and other intangibles | 37,698 | 35,842 |
| | 1,190,058 | 35,842 |
| Total depreciation and amortisation | 3,472,900 | 1,735,340 |
| 6: INCOME TAX | | |
| Income tax reconciliation | | |
| The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows: | | |
| Prima facie income tax payable on loss before income tax at 26.0% (2020: 27.5%) | (3,012,615) | (2,261,753) |
| Tax effect of: | | |
| Non-assessable income | (78,226) | (13,750) |
| Non-deductible expenses | 123,750 | 24,315 |
| Tax losses and deferred tax not recognised | 2,967,091 | 2,251,188 |
| Income tax expense attributable to loss | - | - |
| Deferred tax assets not brought to account | | |
| Temporary differences | 257,330 | 136,248 |
| Tax losses | 6,963,705 | 4,520,272 |
| Unrecognised deferred tax assets | 7,221,035 | 4,656,520 |

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

| | 2021 | 2020 |
|---|-------------------|------------------|
| | \$ | \$ |
| 7: CASH AND CASH EQUIVALENTS | | |
| Cash at bank | 13,504,819 | 1,129,906 |
| | <u>13,504,819</u> | <u>1,129,906</u> |
| 8: RECEIVABLES | | |
| CURRENT | | |
| Receivables from contracts with customers | 446,800 | 194,650 |
| Other receivables | 17,909 | 1,758 |
| | <u>464,709</u> | <u>196,408</u> |
| <i>Receivables from contracts with customers</i> | | |
| A receivable from a contract with a customer represents the group's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Invoicing of customers generally occurs on a monthly basis. Outstanding invoices are due for payment within 30 days of the invoice date. | | |
| At 30 June 2021 and 2020 there were no receivables past due nor impaired. | | |
| 9: OTHER ASSETS | | |
| CURRENT | | |
| Prepayments | 476,398 | 72,220 |
| NON CURRENT | | |
| Prepayments | 200,194 | - |
| Other assets | 48,883 | 4,801 |
| | <u>249,077</u> | <u>4,801</u> |
| 10: PROPERTY, PLANT AND EQUIPMENT | | |
| Leasehold improvements | | |
| Improvements under lease | 279,572 | - |
| Accumulated depreciation | (2,815) | - |
| | <u>276,757</u> | <u>-</u> |
| Office equipment at cost | 97,137 | 17,543 |
| Accumulated depreciation | (25,378) | (17,543) |
| | <u>71,759</u> | <u>-</u> |
| Computer equipment at cost | 5,459,697 | 5,297,012 |
| Accumulated depreciation | (2,435,920) | (1,374,439) |
| | <u>3,023,777</u> | <u>3,922,573</u> |
| Total property, plant and equipment | <u>3,372,293</u> | <u>3,922,573</u> |
| Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year | | |
| <i>Leasehold Improvements</i> | | |
| Opening carrying amount | - | - |
| Additions | 279,572 | - |
| Depreciation expense | (2,815) | - |
| Closing carrying amount | <u>276,757</u> | <u>-</u> |
| <i>Office equipment</i> | | |
| Opening carrying amount | - | - |
| Additions | 79,593 | 1,412 |
| Depreciation expense | (7,834) | (1,412) |
| Closing carrying amount | <u>71,759</u> | <u>-</u> |

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

| | 2021 | 2020 |
|--|------------------|------------------|
| | \$ | \$ |
| <i>Computer equipment</i> | | |
| Opening carrying amount | 3,922,573 | 8,536,231 |
| Additions | 162,685 | 404,675 |
| Depreciation expense | (1,061,481) | (920,496) |
| Reclassified on implementation of AASB 16* | - | (4,097,837) |
| Closing carrying amount | <u>3,023,777</u> | <u>3,922,573</u> |

* On the initial application of AASB 16 *Leases*, as at 1 July 2019, the carrying amount of equipment under hire purchase lease arrangements was reclassified from 'property, plant and equipment' to 'lease assets'. Refer to Note 12 for further information about the group's lease assets.

11: INTANGIBLE ASSETS

| | | |
|--|-----------------|-----------------|
| Patents, trademarks and licences at cost | 9,449 | - |
| Software intangibles at cost | 145,050 | 145,050 |
| Accumulated amortisation and impairment | <u>(81,431)</u> | <u>(43,732)</u> |
| | 63,619 | 101,318 |
| Total intangible assets | <u>73,068</u> | <u>101,318</u> |

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

| | | |
|---------------------------|--------------|----------|
| <i>Trademarks at cost</i> | | |
| Opening balance | - | - |
| Additions | 9,449 | - |
| Closing balance | <u>9,449</u> | <u>-</u> |

| | | |
|---|---------------|----------------|
| <i>Software and other intangibles at cost</i> | | |
| Opening balance | 101,318 | 535,584 |
| Additions | - | 65,050 |
| Depreciation and amortisation | (37,699) | (35,842) |
| Reclassified on implementation of AASB 16 | - | (463,474) |
| Closing balance | <u>63,619</u> | <u>101,318</u> |

12: RIGHT OF USE LEASE ASSETS

| | | |
|--------------------------|--------------------|------------------|
| Data centres under lease | 4,892,533 | 4,384,858 |
| Accumulated depreciation | <u>(1,627,385)</u> | <u>(649,341)</u> |
| | 3,265,148 | 3,735,517 |

| | | |
|--|------------------|------------------|
| Software and other intangibles under lease | 868,255 | 868,255 |
| Accumulated depreciation and amortisation | <u>(363,730)</u> | <u>(128,249)</u> |
| | 504,525 | 740,006 |

| | | |
|--------------------------------|--------------------|-----------|
| Computer equipment under lease | 6,726,792 | 4,097,837 |
| Accumulated depreciation | <u>(1,149,546)</u> | <u>-</u> |
| | 5,577,246 | 4,097,837 |

| | | |
|---------------------------------------|------------------|------------------|
| Total carrying amount of lease assets | <u>9,346,919</u> | <u>8,573,360</u> |
|---------------------------------------|------------------|------------------|

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Reconciliations of Leased Assets

Reconciliation of the carry amount of lease assets at the beginning and end of the financial year:

Data centres

| | | |
|---|------------------|------------------|
| Opening carrying amount | 3,735,517 | - |
| Additions | 507,675 | 1,500,506 |
| Depreciation | (978,044) | (649,341) |
| Recognised on implementation of AASB 16 | - | 2,884,352 |
| Closing carrying amount | <u>3,265,148</u> | <u>3,735,517</u> |

Software and other intangibles

| | | |
|---|----------------|----------------|
| Opening carrying amount | 740,006 | - |
| Additions | - | 404,781 |
| Depreciation and amortisation | (235,480) | (128,249) |
| Reclassified on implementation of AASB 16 | - | 463,474 |
| Closing carrying amount | <u>504,526</u> | <u>740,006</u> |

Computer equipment

| | | |
|---|------------------|------------------|
| Opening carrying amount | 4,097,837 | - |
| Additions | 2,628,954 | - |
| Depreciation | (1,149,545) | - |
| Reclassified on implementation of AASB 16 | - | 4,097,837 |
| Closing carrying amount | <u>5,577,246</u> | <u>4,097,837</u> |

13: PAYABLES

CURRENT

Unsecured liabilities

| | | |
|-------------------------------|----------------|----------------|
| Trade creditors | 426,062 | 272,521 |
| Sundry creditors and accruals | 464,384 | 267,764 |
| | <u>890,446</u> | <u>540,285</u> |

14: LEASE LIABILITIES

CURRENT

| | | |
|---|------------------|------------------|
| Lease liability - Data Centres | 1,062,841 | 869,783 |
| Lease liability - Computer equipment & software | <u>2,144,292</u> | <u>1,701,420</u> |
| | 3,207,133 | 2,571,203 |

NON CURRENT

| | | |
|---|------------------|------------------|
| Lease liability - Data Centres | 2,391,644 | 2,979,325 |
| Lease liability - Computer equipment & software | <u>1,437,194</u> | <u>1,459,961</u> |
| | 3,828,838 | 4,439,286 |

| | | |
|--|------------------|------------------|
| Total carrying amount of lease liabilities | <u>7,035,971</u> | <u>7,010,489</u> |
|--|------------------|------------------|

15: PROVISIONS

CURRENT

| | | |
|-------------------|---------|---------|
| Employee benefits | 310,920 | 228,414 |
|-------------------|---------|---------|

NON CURRENT

| | | |
|-------------------|--------|---|
| Employee benefits | 61,168 | - |
|-------------------|--------|---|

| | | |
|-----------------------------------|----------------|----------------|
| Total employee benefits liability | <u>372,088</u> | <u>228,414</u> |
|-----------------------------------|----------------|----------------|

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

16: SHARE CAPITAL

Issued and paid-up capital

Ordinary shares - (2021: 99,507,063) (2020: 63,847,231)

Performance shares – (2021: -) (2020: 20,000,000)

53,527,207 29,214,882

- 26

53,527,207 29,214,908

| | 2021 | | 2020 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Number | \$ | Number | \$ |
| Ordinary shares | | | | |
| Opening balance | 63,847,231 | 29,214,882 | 46,929,280 | 25,064,098 |
| Shares issued: | | | | |
| 24 January 2020 Conversion of Class B performance shares | - | - | 10,000,000 | 13 |
| 27 March 2020 Entitlement offer | - | - | 6,792,951 | 4,075,771 |
| 25 June 2020 Exercise of employee options | - | - | 125,000 | 75,000 |
| 14 August 2020 Share placement | 4,166,667 | 2,500,000 | - | - |
| 18 August 2020 Share placement | 4,876,499 | 2,925,900 | - | - |
| 22 October 2020 Redemption of Class A & C performance shares | - | 26 | - | - |
| 8 December 2020 IPO prospectus | 26,666,666 | 20,000,000 | - | - |
| Transaction costs relating to shares issued | - | (1,113,601) | - | - |
| Closing balance | <u>99,557,063</u> | <u>53,527,207</u> | <u>63,847,231</u> | <u>29,214,882</u> |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

| | 2021 | | 2020 | |
|---|---------------|-----------|-------------------|-----------|
| | Number | \$ | Number | \$ |
| Performance shares | | | | |
| Opening balance | 20,000,000 | 26 | 30,000,000 | 39 |
| 24 January 2020 Conversion of Class B performance shares to ordinary shares | - | - | (10,000,000) | (13) |
| 22 October 2020 Redemption of Class A & C performance shares | (20,000,000) | (26) | - | - |
| Closing balance | <u>-</u> | <u>-</u> | <u>20,000,000</u> | <u>26</u> |

As part of the December 2017 subscription agreement, the Company issued a number of performance shares to the same shareholders. The performance shares convert to ordinary shares based on certain milestones, and have an end date of 31 December 2022.

The performance shares were non-transferable, have no voting rights and do not entitle the holder to any dividends.

Capital management

When managing capital, management's objective is to ensure the group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows. In order to maintain or adjust the capital structure, the group may seek to issue new shares.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

17: RESERVES

| | | |
|------------------------------|----------------|----------------|
| Share based payments reserve | 562,354 | 320,293 |
| | <u>562,354</u> | <u>320,293</u> |

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

Movements in reserve

| | | |
|-------------------------------|----------------|----------------|
| Opening balance | 320,293 | 243,113 |
| Share based payments expensed | 242,061 | 77,180 |
| Closing balance | <u>562,354</u> | <u>320,293</u> |

18: ACCUMULATED LOSSES

| | | |
|---|---------------------|---------------------|
| Accumulated losses at beginning of year | (23,313,802) | (15,089,247) |
| Net profit / (loss) | (11,586,980) | (8,224,556) |
| Accumulated losses at end of year | <u>(34,900,782)</u> | <u>(23,313,803)</u> |

19: INTERESTS IN SUBSIDIARIES

Subsidiaries

The following are the group's significant subsidiaries:

| Subsidiaries of Sovereign Cloud Holdings Limited: | Country of incorporation | Ownership interest held by the group | |
|---|-----------------------------|---|-----------|
| | | 2021 % | 2020 % |
| Sovereign Cloud Australia Pty Ltd | Australia | 100 | 100 |

20: CASH FLOW INFORMATION

Reconciliation of cash flow from operations with profit after income tax

| | | |
|---|--------------|-------------|
| Profit / (loss) from ordinary activities after income tax | (11,586,980) | (8,224,556) |
|---|--------------|-------------|

Adjustments and non-cash items

| | | |
|-----------------------------|-----------|-----------|
| Amortisation | 37,699 | 35,842 |
| Depreciation | 3,435,201 | 1,699,498 |
| Share based payment expense | 242,061 | 77,180 |

Changes in operating assets and liabilities

| | | |
|---------------------------------------|--------------------|--------------------|
| (Increase) / decrease in receivables | (268,301) | (118,815) |
| (Increase) / decrease in other assets | (648,454) | (36,706) |
| Increase / (decrease) in payables | 350,161 | (30,321) |
| Increase / (decrease) in provisions | 143,674 | 69,176 |
| Cash flows from operating activities | <u>(8,294,939)</u> | <u>(6,528,702)</u> |

Reconciliation of liabilities arising from financing activities

| | | |
|--|--------------------|--------------------|
| Lease liability opening balance | 7,010,489 | 4,203,118 |
| Lease liability additions against ROU assets | 3,136,628 | 4,789,639 |
| Financing activities cashflows | <u>(3,111,146)</u> | <u>(1,982,268)</u> |
| | <u>7,035,971</u> | <u>7,010,489</u> |

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

21: SHARE BASED PAYMENTS

(a) Equity-settled share-based payments

(i) Employee option plan

The company continued the Employee Share Options Plan ("ESOP") as part of its overall long term employee incentive arrangements.

In September 2020 the Company granted 1,102,707 options over ordinary shares under the ESOP.

Details of the options granted are provided below:

2021

| Grant date | Expiry date | Exercise price* | Balance at beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at the end of the year | Exercisable at end of the year |
|------------|-------------|-----------------|----------------------------------|-------------------------|---------------------------|-------------------------|--------------------------------|--------------------------------|
| 01/07/2018 | 30/06/2022 | \$ 0.60 | 1,927,242 | - | - | - | 1,927,242 | 1,324,401 |
| 13/08/2019 | 30/06/2023 | \$ 0.60 | 291,574 | - | - | (22,637) | 268,937 | 89,645 |
| 30/09/2020 | 30/06/2024 | \$ 0.60 | - | 1,102,707 | - | (46,300) | 1,056,407 | - |
| | | | 2,218,816 | 1,102,707 | - | (68,937) | 3,252,586 | 1,414,046 |

Weighted average exercise price*: \$0.60 \$0.60 \$- \$- \$0.60 \$0.60

* Exercise price is \$3, however, the exercise price reduces to \$0.60 unless the participant has ceased to be employed for any reason before the vesting dates which are 1 July 2018, 1 July 2019, 1 July 2020, 1 July 2021, 1 July 2022 and 1 July 2023 respectively

2020

| Grant date | Expiry date | Exercise price* | Balance at beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at the end of the year | Exercisable at end of the year |
|------------|-------------|-----------------|----------------------------------|-------------------------|---------------------------|-------------------------|--------------------------------|--------------------------------|
| 01/07/2018 | 30/06/2022 | \$ 0.60 | 2,725,029 | - | (125,000) | (672,787) | 1,927,242 | 721,563 |
| 13/08/2019 | 30/06/2023 | \$ 0.60 | - | 353,253 | - | (61,679) | 291,574 | - |
| | | | 2,725,029 | 353,253 | (125,000) | (721,453) | 2,218,816 | 721,563 |

Weighted average exercise price*: \$0.60 \$0.60 \$- \$- \$0.60 \$0.60

The weighted average share price for share options exercised during the period was \$nil. (2020: \$0.60).

The weighted average remaining contractual life for share options outstanding at the end of the period was 1.7 years (2020: 2.1 years).

Fair value of options granted:

| | Grant Date | Grant Date | Grant Date |
|---|---------------|----------------|-------------------|
| Grant Date | 2 July 2018 | 13 August 2019 | 30 September 2020 |
| Exercise Price | \$0.60* | \$0.60* | \$0.60* |
| Expiry Date | 30 June 2022 | 30 June 2023 | 30 June 2024 |
| Expected price volatility of the group's shares | 50% | 50% | 50% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% |
| Risk free interest rate | 2.25% | 0.68% | 0.17% |
| Pricing model | Black Scholes | Black Scholes | Black Scholes |
| Fair value per option | \$0.21 | \$0.19 | \$0.17 |

The exercise price of the Options of \$3 per option reduces to \$0.60 per option if the Employee Option holder remains an employee of the Company in accordance with certain vesting dates

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

(ii) *Executive Director Options*

The employment contract with the executive director, Phil Dawson, provides for a Long Term Incentive ("LTI") of up to 50% of his based salary, subject to achieving personal performance targets (referred to as Tranche 3). The number of Options to be offered under the LTI component of his remuneration, on achieving each performance target, is to be calculated based on the Company's two week volume weighted average share price at the time the performance targets are met. There are three separate performance targets, each measured in terms of quarterly IaaS revenue and EBITDA milestones, to be achieved within certain timeframes otherwise the Options lapse. Each option will have an exercise price of \$0.20. The options expire on 30 September 2025 or if he ceases to be employed or engaged with the Group. The options will vest 12 months after the performance target is achieved. No options under this arrangement have been issued to date.

Fair Value of Executive Director Options

The number of options to be offered under the LTI component of his remuneration will only be known if and when the three separate performance targets are achieved. At that point the number of options will be derived as a percentage of his base salary at the time and the Company's weighted average share price. For the purpose of assessing the fair value of the Tranche 3 options, an estimate was made of the vesting date (when the performance hurdles would be achieved), the base salary at the time and the Company's share price, as well as profitability factor of achieving the performance hurdles.

(iii) *Expenses recognised from share-based payment transactions*

The expense recognised in relation to the share-based payment transactions was recognised within employee benefit expense within the statement of profit or loss were as follows:

| | 2021 \$ | 2020 \$ |
|---|------------|------------|
| Options issued under employee option plan | 242,061 | 77,180 |
| Total expenses recognised from share-based payment transactions | 242,061 | 77,180 |

22: CONTINGENT LIABILITIES

Technology Licence Agreement

As part of the acquisition of Sovereign Cloud Australia Pty Ltd ("SCA") the company has a licence agreement with UKCloud Ltd, dated 16 January 2017 and amended on 9 October 2020. The agreement provides SCA exclusivity for 5 years to utilise UKCloud's intellectual property (knowhow) in Australia (until January 2022). The company is obliged to pay royalties to UKCloud at varying rates depending on whether the agreement is exclusive or nonexclusive. Royalties are payable based on a percentage of IaaS (Infrastructure-as-a-Service) contract revenues. The company can terminate the agreement after the first 5 year contract period. UKCloud can terminate the agreement if there is a material breach or if a receiver or administrator is appointed to the company.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

23: EARNINGS PER SHARE

| | 2021 | 2020 |
|--|---------------|---------------|
| | Cents | Cents |
| Basic earnings per share | (13.4) | (15.5) |
| Diluted earnings per share | (13.4) | (15.5) |
| | 2021 | 2020 |
| | \$ | \$ |
| Earnings used in Calculating Earnings Per Share | | |
| Loss attributable to the ordinary equity holders used in calculating earnings per share | (11,586,980) | (8,224,556) |
| | 2021 | 2020 |
| | Number | Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 86,626,154 | 53,000,390 |
| <i>Dilutive options</i> | | |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 86,626,154 | 53,000,390 |
| Options are anti-dilutive when converted to ordinary shares as they reduce loss per share. | | |

24: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, Sovereign Cloud Holdings Limited, financial statements:

(a) Summarised statement of financial position

Assets

| | | |
|--------------------|-------------------|-------------------|
| Current assets | 46,705,010 | 23,436,802 |
| Non-current assets | 5,324,156 | 5,314,707 |
| Total assets | <u>52,029,166</u> | <u>28,751,509</u> |

Liabilities

| | | |
|-------------------------|-------------------|-------------------|
| Current liabilities | 116,678 | 60,000 |
| Non-current liabilities | - | - |
| Total liabilities | <u>116,678</u> | <u>60,000</u> |
| Net assets | <u>51,912,489</u> | <u>28,691,509</u> |

Equity

| | | |
|------------------------------|-------------------|-------------------|
| Share capital | 53,527,208 | 29,214,908 |
| Retained earnings | (2,177,073) | (843,692) |
| Share based payments reserve | 562,354 | 320,293 |
| Total equity | <u>51,912,489</u> | <u>28,691,509</u> |

(b) Summarised statement of comprehensive income

| | | |
|---|--------------------|------------------|
| Loss for the year | (1,333,380) | (302,748) |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | <u>(1,333,380)</u> | <u>(302,748)</u> |

Contingent liabilities

As at 30 June 2021, Sovereign Cloud Holdings Limited is not aware of contingent liabilities.

Contractual commitments

As at 30 June 2021, contractual commitments entered into by Sovereign Cloud Holdings Limited is \$Nil (2020: \$Nil)

Guarantees

Sovereign Cloud Holdings Limited has not entered into any guarantees, in the current previous financial years, in relation to debts of its subsidiaries.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

25: FINANCIAL RISK MANAGEMENT

The group is exposed to the following financial risks in respect to the financial instruments that it held at the end of the reporting period:

- (a) Interest rate risk
- (b) Credit risk
- (c) Liquidity risk
- (d) Fair values compared with carrying amounts

The board of directors have overall responsibility for identifying and managing operational and financial risks.

The group holds the following financial instruments:

| | 2021 | 2020 |
|------------------------------|-------------------|------------------|
| | \$ | \$ |
| Financial assets | | |
| <i>Amortised cost</i> | | |
| - Cash and cash equivalents | 13,504,819 | 1,129,906 |
| - Receivables | 464,709 | 196,408 |
| | <u>13,969,528</u> | <u>1,326,314</u> |
| Financial liabilities | | |
| <i>Amortised cost</i> | | |
| - Payables | 890,446 | 540,285 |
| - Lease liabilities | 7,035,971 | 7,010,489 |
| | <u>7,926,417</u> | <u>7,550,774</u> |

a) Interest rate risk

The group is exposed to interest rate risk in relation to its cash at bank. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Groups borrowings are subject to fixed interest rates.

The following table outlines that group's exposure to interest rate risk in relation to future cashflows and the effective weighted average interest rates on classes of financial assets and financial liabilities:

| Financial instruments | 2021 | | 2020 | |
|------------------------------|-------------------------|---|-------------------------|---|
| | Interest bearing | Weighted average effective interest rate | Interest bearing | Weighted average effective interest rate |
| | \$ | | \$ | |
| <i>Financial assets</i> | | | | |
| Cash | <u>13,504,819</u> | 0.5% | <u>1,129,906</u> | 0.5% |

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

Sensitivity

If interest rates were to increase/decrease by 50 basis points (2020: 100 basis points) from the rates prevailing at the reporting date, assuming all other variables remain constant, then the impact of profit for the year and equity would be as follows:

| | 2021 | 2020 |
|--|-------------|-------------|
| | \$ | \$ |
| + / - 50 basis points (2020: 100 basis points) | | |
| Impact on profit after tax | 67,524 | 5,650 |
| Impact on equity | 67,524 | 5,650 |

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in consolidated statement of financial position and notes to financial statements.

The group does not have any material credit risk exposure to any single counterparty or group of counterparties under financial instruments entered into by the group.

(i) Cash deposits

Credit risk for cash deposits is managed by holding all cash deposits with major Australian banks, primarily Commonwealth Bank of Australia and the Macquarie Bank.

(ii) Receivables from contracts with customers

Credit risk for receivables from contracts with customers is managed by transacting with a large number of customers, undertaking credit checks for all new customers and setting credit limits for all customers commensurate with their assessed credit risk. Outstanding receivables are regularly monitored for payment in accordance with credit terms.

(iii) Other receivables

Other receivables relate mainly to GST receivables from the Australian Taxation Office.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in bank deposits. At the reporting date the group did not have access to any undrawn borrowing facilities.

The following table outlines the group's remaining contractual maturities for non-derivative financial instruments. The amounts presented in the table are the undiscounted contractual cash flows of the financial liabilities, allocated to time bands based on the earliest date on which the group can be required to pay.

| Year ended 30 June 2021 | < 6 months \$ | 6-12 months \$ | 1-5 years \$ | Total contractual cash flows \$ | Carrying amount \$ |
|--------------------------------|------------------|-------------------|-----------------|--|--------------------------|
| Payables | 890,446 | - | - | 890,446 | 890,446 |
| Lease liabilities | 1,998,911 | 1,359,970 | 3,854,333 | 7,213,214 | 7,035,971 |
| Net maturities | 2,889,357 | 1,359,970 | 3,854,333 | 8,103,660 | 7,926,417 |
| Year ended 30 June 2020 | | | | | |
| Payables | 540,285 | - | - | 540,285 | 540,285 |
| Lease liabilities | 1,365,702 | 1,391,190 | 4,445,013 | 7,201,905 | 7,010,489 |
| Net maturities | 1,905,987 | 1,391,190 | 4,445,013 | 7,742,190 | 7,550,774 |

(d) Fair values compared with carrying amounts

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in consolidated statement of financial position and notes to financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

26: COVID-19 IMPACT ASSESSMENT

The Company have been monitoring the potential impact of COVID-19 on its operations. The Company has plans in place to minimise the impact of any disruptions to its operations. Given the uncertainty of the situation, the Company is not in a position to determine the full impact that COVID-19 will have on its operations, or quantify the financial impact.

27: REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditors of the Group, its related entities, its network firms and unrelated firms.

| | 2021 \$ | 2020 \$ |
|--|------------|------------|
| Auditors of the Group - Bentleys | | |
| Audit and review of the financial statements | 60,000 | 63,400 |
| Non-audit services | | |
| Accounting assistance | - | - |

The audit and review of the financial statements fees in FY20 include fees for the audit for the 2018, 2019 and 2020 financial years.

28: EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material matters or circumstances which have arisen between 30 June 2021 and the date of this report that have significantly affected or may affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial periods except as follows:

- The Company has agreed additional lease finance facilities with a major supplier to fund the purchase of computer equipment and software, including the purchase of computer and storage computer equipment at a cost of \$2,637,734 (exclusive of GST) payable on delivery acceptance.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Sovereign Cloud Holdings Limited, the directors of the Company declare that:

- (a) the consolidated financial statements and notes, as set out on pages 15 to 39, are in accordance with the *Corporations Act 2011*, including:
 - (i) complying with the Corporations Regulations 2001 and Australian Accounting Standards and Interpretations, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - (ii) giving a true and fair view of the consolidated Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- (b) in the directors' opinion there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable; and
- (c) the directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer, for the financial year ended 30 June 2021.

Signed in accordance with a resolution of the Directors.



Cathie Reid

Chair

Dated: 19 August 2021

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



Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Sovereign Cloud Holdings Limited and controlled entity (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2021 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the director's declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year then ended; and
- (ii) 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 Australian Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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 period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the key audit matter |
|--|---|
| <p>Share Based Payments</p> <p>As disclosed in Note 21 in the financial statements, during the year ended 30 June 2021, the Group incurred share-based payments totaling \$242,061.</p> <p>Share based payments are considered to be a key audit matter due to:</p> <ul style="list-style-type: none">- the value of the transactions;- the complexities involved in recognition and measurement of these instruments; and- the judgement involved in determining the inputs used in the valuation. <p>Management engaged an external valuer to determine the fair value of the options granted. This process involved significant estimation and judgement required to determine the fair value of the equity instruments granted.</p> | <p>Our procedures amongst others included:</p> <ul style="list-style-type: none">- Verifying the completeness of options on issue with reference to ASX announcements and other third party supporting information- Analysing contractual agreements to identify the key terms and conditions of share based payments issued and relevant vesting conditions in accordance with AASB 2 Share Based Payments;- Evaluating the valuation model used by the external valuer and assessing the assumptions and inputs used; <p>Assessing the adequacy of the disclosures included in Note 21 to the financial report.</p> |

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SOVEREIGN CLOUD HOLDINGS LIMITED
(Continued)**



Other Required Information

The directors are responsible for the other required information. The other required 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 required information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other required information and, in doing so, consider whether the other required 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 this other required information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SOVEREIGN CLOUD HOLDINGS LIMITED
(Continued)**



Auditor's Responsibilities for the Audit of the Financial Report (continued)

- 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 those charged with governance 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, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Sovereign Cloud Holdings Limited, 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.

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas
Director
Brisbane
19 August 2021

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement – Year Ended 30 June 2021

The Board and Management of Sovereign Cloud Holdings Limited (ASX: SOV) (the “Company”) consider that it is crucial to the Company’s long term performance and sustainability and to protect and enhance the interests of the Company’s shareholders and other stakeholders, that it adopts an appropriate corporate governance framework pursuant to which the Company will conduct its operations in Australia with integrity, accountability, and in a transparent and open manner.

The Company regularly reviews its governance arrangements as well as developments in market practice, expectations and regulation. The Company’s Corporate Governance Statement, which is available to view at www.australiacloud.com.au/Corporate-Governance-Statement has been approved by the Board of Sovereign Cloud Holdings Limited and explains how the Group addresses the requirements of the Corporations Act 2001, the ASX Listing Rules 2001 and the 4th Edition of the ASX Principles and Recommendations (the ‘ASX principles and Recommendations’) and is current as at 17 September 2021.

The Company’s ASX Appendix 4G, which is available to view at www.australiacloud.com.au/Investors, is a checklist cross-referencing the ASX Principles and Recommendations to the relevant disclosures in the Company’s Corporate Governance Statement, this 2021 Annual Report and other relevance governance documents and materials on the Company’s website, which are provided in the Corporate Governance section of the Company’s website at www.australiacloud.com.au/Corporate-Governance-Statement. The Corporate Governance Statement together with the ASX Appendix 4G and the Company’s 2021 Annual Report, were also lodged with the ASX on 17 September 2021.

The Board of the Company strives to meet the highest standards of Corporate Governance and also recognises that it is also crucial that the Company’s governance framework appropriately reflects the current size, operations and industry in which the Company operates.

The Company has complied with the majority of the recommendations of the ASX Principles and Recommendations. The Board believes the areas of non-conformance, which are explained in the Corporate Governance Statement and the ASX Appendix 4G, do not materially impact on the Company’s ability to achieve the highest standards of Corporate Governance, whilst at the same time ensuring the Company is able to achieve the expectations of its shareholders and other stakeholders.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

SHAREHOLDER INFORMATION

The shareholder information set out below as applicable as at 12 August 2021.

A. Distribution of Equity Securities

Analysis of number of equity security holders by size of holding:

| | No. Holders | No of Shares | % of Shares |
|--------------------|-------------|--------------|-------------|
| 1 – 1,000 | 251 | 179,211 | 0.2% |
| 1,001 – 5,000 | 738 | 2,141,720 | 2.2% |
| 5,001 – 10,000 | 333 | 2,512,352 | 2.5% |
| 10,001 – 100,000 | 462 | 14,401,372 | 14.4% |
| 100,001 – and over | 94 | 80,322,409 | 80.7% |
| | 1,878 | 99,557,064 | 100% |

B. Equity Security Holders

The names of the twenty largest holders of quoted equity securities (as at 12 August 2021) are listed below:

| Rank | Name | Number Held | % |
|------|---|-------------|--------|
| 1. | Badger 31 Pty Ltd | 13,730,569 | 13.79 |
| 2. | Citicorp Nominees Pty Ltd | 7,517,940 | 7.55 |
| 3. | Assured Digital Group Limited | 6,934,000 | 6.96 |
| 4. | Edwards Bay Capital Pty Ltd | 6,865,284 | 6.90 |
| | Petromac Holding Pty Ltd | 6,865,284 | 6.90 |
| 5. | Berne Berne No 132 Nominees Pty Ltd | 4,833,334 | 4.85 |
| 6. | National Nominees Limited | 3,179,607 | 3.19 |
| 7. | HSBC Custody Nominees (Australia) Limited | 2,415,739 | 2.43 |
| 8. | Jam Group Pty Ltd | 1,893,183 | 1.90 |
| 9. | Ms Paula Grimes & Mr David Grimes | 1,710,116 | 1.72 |
| 10. | Bretton Pty Ltd | 1,660,085 | 1.67 |
| 11. | CS Third Nominees Pty Limited | 1,162,634 | 1.17 |
| 12. | Allan Brackin Retirement Fund Pty Ltd | 806,667 | 0.81 |
| 13. | Crilly Super Pty Ltd | 731,287 | 0.73 |
| 14. | Scalpel Nominees Pty Ltd | 600,000 | 0.60 |
| 15. | SG03 Pty Ltd | 531,879 | 0.53 |
| 16. | Kaccam Pty Ltd | 507,120 | 0.51 |
| 17. | Batel Pty Ltd | 500,000 | 0.50 |
| 18. | Hodgey Enterprises Pty Ltd | 476,750 | 0.48 |
| 19. | Moyston Investments Pty Ltd | 472,223 | 0.47 |
| 20. | P Cross Super Pty Ltd | 460,000 | 0.46 |
| | Total: Top 20 holders | 63,853,701 | 64.16 |
| | Total: Remaining balance | 35,703,363 | 35.86 |
| | | 99,557,064 | 100.00 |

C. The names of the substantial shareholders listed in the holding register as at 12 August 2021 are:

| Name | Number Held | % |
|------------------------------------|-------------|------|
| Badger 31 Pty Ltd | 13,730,569 | 13.8 |
| Assured Digital Group Limited (UK) | 6,934,000 | 6.9 |
| Edwards Bay Capital Pty Ltd | 6,865,284 | 6.9 |
| Petromac Holding Pty Ltd | 6,865,284 | 6.9 |
| WAM Microcap Limited | 6,511,344 | 6.5 |
| Eley Griffiths Group Pty Ltd | 2,710,470 | 5.2 |

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

SHAREHOLDER INFORMATION

D. Voting Rights

All shares in the Company are ordinary shares. Voting rights for ordinary shares are:

- On a show of hands, one vote for each shareholder
- On a poll, one vote for each fully paid ordinary share.

Option holders have no rights until the options are exercised. There is no current on-market buy-back.

E. Escrow Arrangements

The following shares and options are subject to voluntary escrow arrangements.

Escrowed Securities

47,072,715 shares

1,055,961 options

Escrowed Until

10 December 2022

10 December 2022

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

CORPORATE DIRECTORY

Directors

Mrs Cathie Reid
Non-executive Chair

Mr Phil Dawson
Managing Director

Mr Allan Brackin
Non-executive Director

Mr Ross Walker
Non-executive Director

Company Secretary

Michelle Crouch

Head Office

Suite 3, Level 4 Plaza Offices – West
21 Terminal Avenue
CANBERRA AIRPORT ACT 2609

Fyshwick Office:
Unit 7, 15-21 Beaconsfield Street
FYSHWICK ACT 2609

Registered Office

Level 38 Central Plaza One
345 Queen Street
BRISBANE QLD 4000

Auditor

Bentleys Brisbane (Audit) Pty Ltd

Level 9, 123 Albert Street
BRISBANE QLD 4000

Share Registry

Link Market Services Limited

Level 12, 680 George Street
SYDNEY NSW 2000

Stock Exchange Listing

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

ABN: 80 622 728 189



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