



AUSTRALIA'S
SOVEREIGN CLOUD
IAAS PROVIDER

Sovereign Cloud Holdings Limited

ABN: 80 622 728 189

Annual Report

For the year ended 30 June 2023

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Letter from the Chair and CEO

Dear Shareholder

On behalf of the Board of Directors of Sovereign Cloud Holdings Limited (“Company” or “SOV”), we are pleased to present our 2023 Annual Report. As most of you are aware, the company operates under the name “AUCloud”.

AUCloud is a Cyber Security Managed Security Service Provider (MSSP) and Sovereign Cloud Service (IaaS) specialist that supports the Australian Government, Critical National Industries (CNIs) and secure enterprise organisations with the latest sovereign cloud infrastructure, backup and cyber security threat defence and response services.

AUCloud's Sovereign Cloud Service (IaaS) and Cyber Security Solutions are underpinned by a range of security certifications, including “Certified Strategic” on Digital Transformation Agency's Hosting Certification Framework (HCF), assessed to the PROTECTED controls of the Australian Signals Directorate's (ASD) Information Security Manual (ISM) through to the Australian Cyber Security Centre's Cloud Assessment and Authorisation Framework (CAAF), inclusive of the Information Security Registered Assessors Program (IRAP) certification and ISO 27001. This provides AUCloud's customers with confidence that their data is secure and that services are delivered to the highest standards.

In February 2023 the Company appointed a new Chief Executive Officer (CEO), Peter Maloney. The Group's vision to become the leading sovereign cloud provider in Australia remains unchanged, the strategy to expand geographically by building new cloud platforms has now been completed.

The new CEO conducted a strategic review of the business which was communicated in the Investor Presentation that accompanied the Entitlement Offer in June 2023. The strategic review highlighted the following areas of focus:

- Strengthen sales and marketing capabilities, with increased emphasis on channels to market and enterprise sales; whilst maintaining a dedicated Government team.
- Expand the AUCloud offering in Cyber Security through building, partnering or buying capability, leveraging the success of the Security Operations Centre to move deeper into the cyber security ecosystem.
- Partner in the Multi-Cloud and Public Cloud markets to leverage the capital invested in the existing four Sovereign Cloud platforms.
- Targeted focus on industry specific solutions through the addition of complimentary products & services to the existing product suite.
- Align cost base to the changed focus of the business and current activities.

The Company's future prospects rely on successful execution of the strategy changes, however the Company is confident that the fundamentals are in place, and the demand for Cyber Security and Cloud Solutions continues to build, enabling growth via the broadening of solutions on offer.

The Company completed a 1 for 1 non-renounceable rights issue at an offer price of 5 cents to raise approximately \$8.2M net of transaction costs in June 2023.

Platforms

With the completion of the sovereignty zones in Brisbane and Melbourne capital expenditure is expected to reduce in FY24, with the focus now on generating revenues from the capacity created by the previously deployed capital.

Product

The company continued to expand its offerings in cybersecurity services through the development of new solutions and moving deeper into the cybersecurity ecosystem.

People

During FY23, AUCloud employee costs increased in the first half of the year, followed by reductions in the second half of the year post the incoming CEO's strategic review. AUCloud will continue to align the cost base to the strategic direction.

Industry Overview

High profile cyber attacks on Optus, Medibank, Latitude and others ensured that demand for cybersecurity services remains strong. AUCloud's Security Operations Centre (SOC) enables continuous network monitoring for cyber threats and attacks for high profile Government Agencies such as AEC, this positions AUCloud to continue to build on revenue derived from cyber security activities.

On behalf of the Board, we would like to acknowledge our highly skilled workforce and the service they have provided to our customers during FY23, and to thank our shareholders for their ongoing support. We remain of the opinion that the continued investment and focus made by the Company in the platform, product and people over the past few years will allow our new CEO and his leadership team to deliver on the findings of the strategic review and create value for the business and its shareholders in FY24 and beyond.

A handwritten signature in dark ink, appearing to read 'Cathie Reid', written in a cursive style.

Cathie Reid
Chair

A handwritten signature in dark ink, appearing to read 'Peter Maloney', written in a cursive style.

Peter Maloney
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 entities (together the "Group"), for the year ended 30 June 2023 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)
- Peter Maloney (Managing Director) appointed 30 January 2023
- Phil Dawson (Executive Director)
- Ross Walker (Non-executive Director)
- Allan Brackin (Non-executive Director) resigned 19 October 2022
- Craig Scroggie (Non-executive Director)

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 provision of cloud services and cyber security solutions, specialising in supporting critical national industry businesses and Governments with sovereign cloud infrastructure, backup and cyber security threat defence and response services.

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

3. Review of Operations

Group Financial Results

The Group recorded a net loss for the year of \$21.3 million (FY22: loss of \$15.5 million).

Revenue

Revenue in FY23 was \$6.8 million compared to \$4.7 million over the previous corresponding year.

Expenses

Total expenses in FY23 were \$28.1 million compared to \$20.2 million in FY22 (an increase of \$7.9 million). The increase in expenses was primarily due to the development of new sovereign cloud solutions in Melbourne & Brisbane. New data centre licences, software licencing and maintenance agreements, power and internet costs along with additional employee headcount all contributed to the increase in expenses. The company has completed building sovereign cloud solutions and has a total head count of full-time equivalent employees of 64 as at 30 June 2023 (68 as at 30 June 2022).

Financial Position

The Group's net asset position decreased in FY23 by \$13 million to \$24.9 million at 30 June 2023, primarily as a result of working capital deployed in the operations and to build new cloud services in Brisbane and Melbourne. In June 2023 the Company completed a 1-for-1 non-renounceable rights issue at an offer price of 5 cents to raise approximately \$8.2 million net of transaction costs.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

4. Strategy and future prospects

In February 2023 the Company appointed a new Chief Executive Officer (CEO), Peter Maloney. The Group's vision to become the leading sovereign cloud provider in Australia remains unchanged, the strategy to expand geographically by building new cloud platforms has now been completed. The new CEO conducted a strategic review of the business which was communicated in the Investor Presentation that accompanied the Entitlement Offer in June 2023 indicating that the fundamentals of the Company are in place, and the demand for Cyber Security and Cloud Solutions continues to build; enabling broadening of solutions. The presentation highlighted the following areas of focus:

- Strengthen sales and marketing capabilities, with increased emphasis on channels to market and enterprise sales; whilst maintaining a dedicated Government team.
- Expand the AUCloud offering in Cyber Security through building, partnering or buying capability, leveraging the success of the Security Operations Centre to move deeper into the cyber security ecosystem.
- Partner in the Multi-Cloud and Public Cloud markets to leverage the capital invested in the existing four Sovereign Cloud platforms.
- Targeted focus on industry specific solutions through the addition of complimentary products & services to the existing product suite.
- Align cost base to the changed focus of the business and current activities.

The Company's future prospects rely on successful execution of the strategy changes, and the Company is confident that the Strategy will lead to growth.

5. Key risks and risk management

The company has a detailed risk management framework, that assesses the key financial and non-financial risks that have the potential, should they occur, to materially impact the Group and its ability to achieve its strategic objectives and long-term performance. The framework is integrated into the daily management of the business to ensure the oversight and management of business risks. Further details of the risk management framework and processes are detailed in AUCloud's Corporate Governance Statement.

Listed below are relevant key risks for the business identified in the risk management framework:

Financial Performance

The group requires sufficient cash to guarantee the continuation of its strategic initiatives. The Group may encounter challenges in realising its strategy along with potential difficulties such as severe liquidity or solvency issues, financial deficits, or financial turmoil, stemming from any shortcomings in the planning of implementation of its capital management. Adequate financial resources are essential for the group to continue to invest in its products in the coming years.

Key contracts, competition, and customer retention

There exists a potential for non-renewal, renewal under less advantageous conditions, or termination of significant contracts. The prevailing market within which the group conducts its operations is characterised by intense competition. Increased competition can have implications for the group's capacity to either renew existing contracts or secure new ones.

Economic risk, including level of government spending

The group is vulnerable to significant shifts in economic circumstances brought about by abrupt or extended economic downturns, which could have repercussions on the sectors the group relies upon. The group's customer base includes prominent entities such as public authorities and government departments in Australia. Alterations in the allocation of government funds or limitations on their spending capacity have the potential to influence the group's earnings.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

Cyber security and reliance on information technology

The group is impacted or suffers loss from its inability to conduct its business operations or other business activities as normally planned or budgeted, as a result of failure of one or more of the components of its IT systems, processes and infrastructure.

Ability to source new talent and retain existing talent

Attracting and retaining talent underpins the groups successful delivery of strategic objectives. A shortage in labour, inability to attract qualified personnel or an increase in remuneration costs could be detrimental to the group's growth and profitability.

Product development

Failure to respond to market developments could lead to a fall in demand for the products that the group develops. This in turn could cause revenues and margins to suffer, and customer churn.

6. After balance date events

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 a successful healthcare entrepreneur who co-founded Icon Group, a provider of integrated cancer care services with operations across the APAC region in Australia, Australia's Epic Pharmacy Group and the Epic Good Foundation. Cathie is also a Director of the Brisbane Lions Australian Rules Football Club. Cathie previously served as Deputy Chair of the Federal Government's Cybersecurity Industry Advisory Committee. 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.

Peter Maloney

Master of Business Administration

Managing Director

Peter is an experienced CEO having led several Australian technology companies over the past 20 years. Most recently, he was Managing Director of Dye & Durham Australia, a subsidiary of Canadian listed, Dye & Durham Ltd (TSX:DND), having been elevated to this position following DND's acquisition of GlobalX in July 2021. As CEO, Mr Maloney led GlobalX through the transition from being a founder led start-up to a more mature organisation generating annual revenues of approximately A\$90 million.

Prior to GlobalX Peter was Chief Operating Officer at iCare Solutions, and Director, Credit & Information Services at illion (previously Dun & Bradstreet).

Phil Dawson

MBA & Bachelor of Science (Hons) in Chemistry

Executive Director

Phil was the Founder of AUCloud and previously a Co-Founder of a number of technology and mobile start-ups, including two of the UK's 100 fastest growing technology companies between 2012-2015.

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 Partner 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).

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

Craig Scroggie

Master of Business Administration

Non-Executive Director

Craig has more than 25 years' experience in the ICT industry, having held senior positions with Symantec, Veritas Software, Computer Associates, EMC Corporation and Fujitsu. Craig is the current Chief Executive Officer and Managing Director of NEXTDC, Australia's leading Data-Centre-as-a-Service provider. Prior to joining NEXTDC, Craig was Symantec's Vice President & Managing Director for the Pacific Region.

Craig serves as a member on the University of Southern Queensland Business School Advisory Board and the La Trobe University Business School Advisory Board (Chair) and holds the position of Adjunct Professor.

Michelle Crouch

Bachelor of Business, Chartered Accountant

Company Secretary

Michelle Crouch is employed by Pitcher Partners as a Director, who performs company secretarial duties for Sovereign Cloud Holdings Ltd.

10. Meetings of directors

Directors	Directors' meetings		Audit committee meetings		Remuneration committee meetings	
	Held	Attended	Held	Attended	Held	Attended
Cathie Reid AM	11	11	2	2	1	1
Peter Maloney (appointed 30 January 2023)	5	5	1	1	1	1
Phil Dawson	11	11	-	-	-	-
Ross Walker	11	11	2	2	1	1
Craig Scroggie	11	9	-	-	-	-
Allan Brackin (resigned 19 October 2022)	4	3	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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

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	65,374,526	-
R Walker	4,527,506	-
C Scroggie**	-	-
A Brackin	1,100,001	-
P Dawson*	6,934,000	1,350,340
P Maloney ***	10,000,000	1,500,000

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

** Craig Scroggie is the managing director of NEXTDC which owns 114,084,469, of the company's issued capital.

*** Peter Maloney participated in the June 2023 Entitlement Offer as a Priority Underwriter. Peerless Investments Pty Ltd, an entity associated with Peter Maloney, acquired 10,000,000 shares in the Entitlement Offer.

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	Expiry date
	Issued	Vested		
30/09/2020	818,300	818,300	\$0.60	30/06/2024
30/09/2022	602,727	-	\$0.00	30/06/2027
19/10/2022	1,000,000	-	\$0.00	01/07/2027
30/01/2023	1,500,000	-	\$0.00	31/12/2027

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.

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

DIRECTORS' REPORT

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 were no amounts paid or payable to the company's auditor and related practices of the auditor for non-audit services during the 2023 Financial Year.

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: 23 August 2023

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT

The Directors of 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 2023.

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. 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 ENTITIES

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 Key Management Personnel. 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 up to 50% of the individual's base salary. 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, at varying percentages of their base salary such that they all have the same performance hurdles, which are based on the Company's financial performance.

In FY23 the Group did not achieve the financial performance milestones, thereby not satisfying the 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 each financial year 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.

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 Chair 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 ENTITIES

REMUNERATION REPORT

Executive Directors

The Company has entered into an employment contract with Peter Maloney (CEO and Managing Director) on 30 January 2023. Peter Maloney's employment contract includes a base salary of \$400,000 (including superannuation) and a Short-Term Incentive ("STI") of up to 50% of his base salary, subject to achieving financial performance targets. Peter was issued 1,500,000 nil exercise options, subject to certain performance conditions, during the 2023 financial year.

On the appointment of Peter Maloney, Phil Dawson, transitioned to the role of Executive Director, focused on product development and government relations. Phil Dawson, is now the Head of Government Relations and leads all major Government Tenders and strategic pursuits.

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 2022 and 30 June 2023 are set out below.

	Year	Short-term			Post -	Long-term	Security-based Payments	Total	Performance Related
		Salary and fees	Non-monetary benefits	STI Cash bonus	Employment			\$	%
		\$	\$	\$	\$	\$	\$		
Directors									
C Reid	2023	90,000	-	-	-	-	-	90,000	-
	2022	90,000	-	-	-	-	-	90,000	-
R Walker	2023	80,000	-	-	-	-	-	80,000	-
	2022	80,000	-	-	-	-	-	80,000	-
A Brackin***	2023	20,000	-	-	-	-	-	20,000	-
	2022	80,000	-	-	-	-	-	80,000	-
C Scroggie	2023	80,000	-	-	-	-	-	80,000	-
	2022	41,720	-	-	-	-	-	41,720	-
P Dawson	2023	372,500	-	-	27,500	4,451	69,804	474,256	15%
	2022	312,492	-	-	26,375	16,093	82,562	437,522	17%
P Maloney**	2023	169,744	-	-	-	128	9,515	179,387	5%
	2022	-	-	-	-	-	-	-	-
Other Key Management Personnel									
M Crouch *	2023	290,000	-	-	-	-	-	290,000	-
M Crouch *	2022	180,000	-	-	-	-	-	180,000	-
TOTAL	2023	1,102,244	-	-	27,500	4,579	79,320	1,213,642	7%
TOTAL	2022	784,212	-	-	26,375	16,093	82,562	909,242	9%

* M Crouch ended her secondment from Pitcher Partners effective 30 June 2023. T Tragoudistakis was appointed on 12 June 2023 as Finance Director. M Crouch remains as Company Secretary. The payments to M Crouch are made to Pitcher Partners, which M Crouch is an employee.

** P Maloney was appointed as CEO and Managing Director on 30 January 2023.

*** A Brackin resigned as a non-executive director on 19 October 2022.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT

4. Share Based Compensation Benefits

Phil Dawson (Founder and Executive Director) and Peter Maloney (Managing Director and CEO) have received Options during the period under the LTI. Details of the performance options issued to these KMP and vested during the financial year, are set out below.

Grant Date	Vesting Date	Tranche	Balance 01/07/2022	No of Options		Balance 30/06/2023	Fair Value Per Option \$
				Issued	Expired		
30/09/2020	1/07/2021	#1	116,780	-	-	116,780	\$0.18
30/09/2020	1/07/2022	#1	116,780	-	-	116,780	\$0.18
30/09/2020	1/07/2023	#1	116,780	-	-	116,780	\$0.18
19/10/2022	1/07/2027	#3	-	1,000,000	-	1,000,000	\$0.06
30/01/2023	31/12/2027	#4	-	1,500,000	-	1,500,000	\$0.05
			350,340	2,500,000	-	2,850,340	

Options issued during the 2023 financial year are zero exercise price instruments which vest based on certain conditions, as set out below:

- **Tranche 1:** The exercise price is \$3 per option, however, the exercise price reduces to \$0.60 unless the participant (Phil Dawson) ceases to be employed for any reason before the vesting date.
- **Tranche 1A:** Phil Dawson is entitled to a Long Term Incentive ("LTI") of up to 50% of his based salary, subject to achieving financial performance targets (referred to as Tranche 1A). 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 financial milestones, to be achieved over the 2022, 2023 & 2024 financial years otherwise the options lapse. Each option will have an exercise price of \$0.20 and expire on the earlier of 30 September 2025 or the date Phil Dawson ceases to be employed or engaged with the Group. The options vest 12 months after the performance target was achieved. The performance hurdles in respect of the 2022 & 2023 financial years have not been met and, as such, these options have lapsed. No options under this arrangement have been issued to date.
- **Tranche 3:** These options were issues to Phil Dawson and approved at the 2022 annual general meeting. The options can only be exercised if the 15-trading day volume weighted average market price of AUCloud shares is equal to or greater than \$1.00 per AUCloud share (Target Share Price) as of close of trading on ASX on the date that is fifteen trading days after the date of release on ASX by AUCloud of its Appendix 4E for the financial year ended 30 June 2025 (FY2025 results).
- **Tranche 4:** These options were issued to Peter Maloney on his appointment as CEO. The options can only be exercised if the 15-trading day volume weighted average market price of AUCloud share is equal to or greater than \$1.00 per AUCloud share (Target Share Price) as at close of trading on ASX on the date that is fifteen trading days after the date of release on ASX by AUCloud of its Appendix 4D for the half year ended 31 December 2025 (HY2026 Results).

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT

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 of the Group are set out below. When exercisable, each option is convertible into one ordinary share in the Company.

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

Inputs into Pricing Model	Tranche 1 September 2020 Issue	Tranche 1A September 2020 Issue	Tranche 3 October 2022 Issue	Tranche 4 January 2023 Issue
Grant Date	30-Sep-20	30-Sep-20	19-Oct-22	30-Jan-23
Exercise Price	\$0.60	\$0.20	\$0.00	\$0.00
Vesting Conditions	Employment	Refer above	Refer above	Refer above
Option price at grant date	\$0.60	\$0.60	\$0.18	\$0.15
Expiry Date	30-Jun-24	30-Jun-25	1-Jul-27	31-Dec-27
Life of the instruments	4 years	5 years	5 years	5 years
Underlying option price volatility	50%	N/A	85%	85%
Expected dividends	-	N/A	-	-
Risk free interest rate	0.17%	N/A	3.50%	3.18%
Pricing model	Black Scholes	**	Monte Carlo	Monte Carlo
Fair value per instrument	Refer above	**	0.060	0.046

* The Tranche 1A (September 2020) options refer to the LTI component of Phil Dawson's remuneration as outlined above.

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT

5. Equity Instruments Held by Key Management Personnel

Ordinary Shares

Ordinary Shares	Balance at 30 June 2022	Balance at resignation	Entitlement Offer June 2023	Entitlement offer underwriting	Sold During the Year	Balance at 30 June 2023
C Reid	19,448,794	-	19,448,794	26,476,938	-	65,374,526
R Walker	2,263,753	-	2,263,753	-	-	4,527,506
A Brackin	1,100,001	(1,100,001)	-	-	-	-
C Scroggie**	-	-	-	-	-	-
P Dawson *	6,934,000	-	-	-	-	6,934,000
P Maloney***	-	-	-	10,000,000	-	10,000,000

* 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.

** Mr C Scroggie is the Managing Director of NEXTDC Limited which was issued 33,939,907 shares as part of the Entitlement offer in June 2023 and 46,204,655 shares as part of the underwriting agreement in respect of the entitlement offer.

*** Peter Maloney participated in the June 2023 Entitlement Offer as a Priority Underwriter. Peerless Investments Pty Ltd, an entity associated with Peter Maloney, acquired 10,000,000 shares in the Entitlement Offer. Payment was received by the Company on 1 July 2023.

Options

	Balance at 1-Jul-22	Granted as Compensation	Forfeited, Exercised and expired	Balance at 30-Jun-23	Vested and Exercisable 30-Jun-23
P Dawson	350,340	1,000,000	-	1,350,340	350,340
P Maloney	-	1,500,000	-	1,500,000	-

Other Transactions with Key Management Personnel

There were no other transactions with KMP during the 2023 Financial Year.

Signed on behalf of the board of directors.



Cathie Reid

Chair

Dated: 23 August 2023

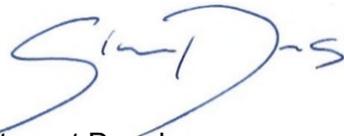
AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF SOVEREIGN CLOUD HOLDINGS LIMITED
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2023 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
23 August 2023

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 \$	2022 \$
Revenue and other income			
Revenue from contracts with customers	2	6,477,558	4,242,276
Interest income	3	107,489	62,493
Other income	3	210,249	376,038
		<u>6,795,296</u>	<u>4,680,807</u>
Expenses			
Employee benefits expense		(13,294,565)	(9,533,549)
Depreciation and amortisation	4	(5,386,280)	(4,222,906)
Licensing fees		(6,147,987)	(2,835,314)
Professional fees		(627,026)	(265,017)
Travel and conferences		(261,565)	(326,358)
Finance costs	4	(231,539)	(281,233)
Other expenses		(2,129,750)	(2,738,079)
		<u>(28,078,712)</u>	<u>(20,202,456)</u>
Loss before income tax expense		(21,283,416)	(15,521,649)
Income tax expense	5	-	-
Loss for the year		<u>(21,283,416)</u>	<u>(15,521,649)</u>
Other comprehensive income for the year		-	-
Total comprehensive loss		<u>(21,283,416)</u>	<u>(15,521,649)</u>
Earnings per share			
		Cents	Cents
Basic earnings per share	21	(13)	(11)
Diluted earnings per share	21	(13)	(11)

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Note	2023 \$	2022 \$
Current assets			
Cash and cash equivalents	6	11,639,865	28,713,662
Receivables	7	1,065,249	550,131
Other assets	8	4,535,637	1,664,136
Total current assets		<u>17,240,751</u>	<u>30,927,929</u>
Non-current assets			
Property, plant and equipment	9	9,917,111	8,577,126
Intangible assets	10	357,697	333,298
Right of use lease assets	11	5,899,808	4,833,225
Other assets	8	527,235	1,316,785
Total non-current assets		<u>16,701,851</u>	<u>15,060,434</u>
Total assets		<u>33,942,602</u>	<u>45,988,363</u>
Current liabilities			
Payables	12	3,133,417	2,974,603
Lease liabilities	13	1,601,237	2,187,995
Provisions	14	528,166	553,891
Total current liabilities		<u>5,262,820</u>	<u>5,716,489</u>
Non-current liabilities			
Lease liabilities	13	3,648,611	2,303,666
Provisions	14	127,323	98,144
Total non-current liabilities		<u>3,775,934</u>	<u>2,401,810</u>
Total liabilities		<u>9,038,754</u>	<u>8,118,299</u>
Net assets		<u>24,903,848</u>	<u>37,870,064</u>
Equity			
Share capital	15	95,822,032	87,611,747
Reserves	16	787,665	680,749
Accumulated losses	17	(71,705,848)	(50,422,431)
Total equity		<u>24,903,848</u>	<u>37,870,064</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

	Contributed equity \$	Reserves \$	Accumulated losses \$	Total Equity \$
Consolidated				
Balance as at 1 July 2021	53,527,207	562,354	(34,900,783)	19,188,778
Loss for the year	-	-	(15,521,649)	(15,521,649)
Transactions with owners in their capacity as owners:				
Contributions, net of transaction costs	34,084,540	-	-	34,084,540
Share based payments expensed	-	118,395	-	118,395
Balance as at 30 June 2022	<u>87,611,747</u>	<u>680,749</u>	<u>(50,422,432)</u>	<u>37,870,064</u>
Loss for the year	-	-	(21,283,416)	(21,283,416)
Transactions with owners in their capacity as owners:				
Contributions, net of transaction costs	8,210,285	-	-	8,210,285
Share based payments expensed	-	106,916	-	106,916
Total transactions with owners in their capacity as owners	<u>8,210,285</u>	<u>106,916</u>	<u>-</u>	<u>8,317,201</u>
Balance as at 30 June 2023	<u><u>95,822,032</u></u>	<u><u>787,665</u></u>	<u><u>(71,705,848)</u></u>	<u><u>24,903,848</u></u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 \$	2022 \$
Cash flow from operating activities			
Receipts from customers		5,993,624	4,571,895
Operating grant receipts		163,249	376,038
Payments to suppliers and employees		(23,816,909)	(15,874,838)
Interest received		106,226	41,979
Right of use lease interest		(208,428)	(272,186)
Net cash provided by / (used in) operating activities	19	(17,762,239)	(11,157,113)
Cash flow from investing activities			
Payments for property, plant and equipment		(4,679,723)	(4,436,468)
Payments for intangible assets		(68,426)	-
Net cash provided by / (used in) investing activities		(4,748,149)	(4,436,468)
Cash flow from financing activities			
Proceeds from share issue		7,985,017	35,072,000
Principal portion of lease payments		(2,470,477)	(3,282,116)
Payment of share issue costs		(77,949)	(987,460)
Net cash provided by financing activities		5,436,590	30,802,424
Reconciliation of cash			
Cash at beginning of the financial year		28,713,662	13,504,819
Net increase / (decrease) in cash held		(17,073,797)	15,208,843
Cash at end of financial year	6	11,639,865	28,713,662

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

(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 9 and 1(l)); and
- the incremental borrowing rate and estimated exercise of option terms in relation to the calculations of right-of-use assets (Note 11) and lease liabilities (Note 13).
- 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 20).

(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 normal course of business.

The group incurred a loss from ordinary activities of \$21.3 million during the year ended 30 June 2023 (2022: a loss of \$15.5 million) and had cash on hand at 30 June 2023 of \$11.6 million.

The Group's working capital requirements have to date been primarily funded through various equity capital raisings over the past four years. In June 2023 the company completed a \$8.5 million Entitlement Offer to strengthen the Group's balance sheet with additional working capital as it executes on its strategic initiatives.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

The Board is conscious that the Group's current cash reserves will prove to be inadequate given the cash burn rates that are expected to prevail in the short term. These conditions give rise to material uncertainty which may cause significant doubt over the Group's ability to continue as a going concern. The ability of the group to continue as a going concern is principally dependent upon the ability of the Company to raise additional funding in the future. Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern. The Group's working capital requirements have to date been primarily funded through various equity capital raisings. The Directors will continue to monitor the Group's liquidity and funding requirements, and if necessary, seek further capital through similar means.

The incoming CEO, Peter Maloney conducted a review of the Group's business, and adjusted the strategic direction of the Group addressing the market opportunities, operational cost base and funding requirements for the next 24 months. The Group expects future growth to come through heightened sales and marketing capabilities, extending deeper into the cyber security eco-system through building, partnering or acquiring capabilities, partnering in the multi-cloud and public cloud markets to leverage capital invested in sovereign cloud platforms and targeting industry specific solutions.

(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, 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.

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 from the provision of Cloud Services and Cyber Security Solutions. AUCloud provides 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. Revenue is recognised over time as the customer utilises the infrastructure, based on an agreed rate.

The Group provides end users with Cyber Security Solutions, including operating a Security Operations Centre (SOCaaS). Other Cyber Security revenue is typically billed on a per hour or day rate, or fixed price agreement.

AUCloud have undertaken technical services with customers to support their corporate and platform requirements. These services are charged for as specific performance obligations in the contracts are fulfilled.

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

(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.

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 one segment as being the cloud and cyber security sector in Australia. 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.

(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

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

(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.

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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.

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

(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 ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
2: REVENUE FROM CONTRACTS WITH CUSTOMERS		
Provision of cloud & cyber security services	4,423,729	3,968,155
Technical project services	2,053,829	274,122
	<u>6,477,558</u>	<u>4,242,276</u>
3: OTHER REVENUE AND OTHER INCOME		
Interest income	107,489	62,493
R & D Refundable tax offset	210,249	376,038
	<u>317,738</u>	<u>438,531</u>
4: OPERATING PROFIT		
Profit / (losses) before income tax has been determined after:		
Finance costs		
- Lease liabilities - finance charges - data centres	170,425	151,857
- Lease liabilities - finance charges - software & computer equipment	61,114	129,377
	<u>231,539</u>	<u>281,233</u>
Depreciation:		
- right of use - data centres	1,555,334	1,185,780
- office furniture and equipment	43,242	30,476
- computer equipment	2,342,332	1,381,124
- leased assets	1,071,421	1,345,358
- leasehold improvements	269,767	6,989
	<u>5,282,097</u>	<u>3,949,728</u>
Amortisation:		
- software and other intangibles	5,400	37,698
- right of use - software	98,783	235,480
	<u>104,183</u>	<u>273,178</u>
Total depreciation and amortisation	<u>5,386,280</u>	<u>4,222,906</u>

5: 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 25.0% (2022: 25.0%)	(5,320,854)	(3,880,412)
Tax effect of:		
Non-assessable income	(52,562)	(94,010)
Non-deductible expenses	38,483	152,040
Prior year under over	(19,028)	
Tax losses and deferred tax not recognised	5,353,961	3,822,382
Income tax expense attributable to loss	<u>-</u>	<u>-</u>
Deferred tax assets not brought to account		
Temporary differences	-	375,148
Tax losses	16,028,134	10,947,360

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
6: CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	11,639,865	28,713,662
	11,639,865	28,713,662
7: RECEIVABLES		
CURRENT		
Receivables from contracts with customers	557,651	532,479
Priority underwriting receivable	500,000	-
Other receivables	7,598	17,651
	1,065,249	550,131
<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 monthly. Outstanding invoices are due for payment within 30 days of the invoice date.		
At 30 June 2023 and 2022 there were no receivables past due nor impaired.		
<i>Priority underwriting receivable</i>		
Peter Maloney participated in the June 2023 entitlement offer as a priority underwriter. Payment was received by the company on 1 July 2023.		
8: OTHER ASSETS		
CURRENT		
Prepayments	3,578,724	1,664,136
Other assets	956,913	-
	4,535,637	1,664,136
NON CURRENT		
Prepayments	527,235	1,263,281
Other assets	-	53,504
	527,235	1,316,785
9: PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements		
Improvements under lease	279,572	279,572
Accumulated depreciation	(279,572)	(9,804)
	0	269,768
Office equipment at cost	216,643	186,832
Accumulated depreciation	(99,096)	(55,854)
	117,547	130,978
Computer equipment at cost	16,063,722	13,632,560
Accumulated depreciation	(6,264,157)	(5,456,180)
	9,799,564	8,176,380
Total property, plant and equipment	9,917,111	8,577,126

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year:

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
<i>Leasehold Improvements</i>		
Opening carrying amount	269,768	276,757
Additions	-	-
Depreciation expense	(269,768)	(6,989)
Closing carrying amount	<u>-</u>	<u>269,768</u>
<i>Office equipment</i>		
Opening carrying amount	130,978	71,759
Additions	29,811	89,695
Depreciation expense	(43,242)	(30,476)
Closing carrying amount	<u>117,547</u>	<u>130,978</u>
<i>Computer equipment</i>		
Opening carrying amount	8,176,380	3,023,777
Additions	4,679,723	4,075,024
Transfers	(713,032)	2,458,703
Depreciation expense	(2,343,507)	(1,381,124)
Closing carrying amount	<u>9,799,564</u>	<u>8,176,380</u>
10: INTANGIBLE ASSETS		
Patents, trademarks and licences at cost	9,449	9,449
Software intangibles at cost	485,226	880,274
Accumulated amortisation and impairment	(136,978)	(556,425)
	<u>348,248</u>	<u>323,849</u>
Total intangible assets	<u>357,697</u>	<u>333,298</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	9,449	9,449
Additions	-	-
Closing balance	<u>9,449</u>	<u>9,449</u>
<i>Software and other intangibles at cost</i>		
Opening balance	323,849	63,619
Additions	68,426	271,751
Transfers	-	26,177
Depreciation and amortisation	(44,027)	(37,698)
Closing balance	<u>348,248</u>	<u>323,849</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
11: RIGHT OF USE LEASE ASSETS		
Data centres under lease	8,712,688	5,630,339
Accumulated depreciation	(4,222,185)	(2,813,168)
	<u>4,490,503</u>	<u>2,817,171</u>
Software and other intangibles under lease	-	404,781
Accumulated depreciation and amortisation	-	(161,912)
	<u>-</u>	<u>242,868</u>
Computer equipment under lease	3,033,735	2,628,954
Accumulated depreciation	(1,624,428)	(855,769)
	<u>1,409,307</u>	<u>1,773,185</u>
Total carrying amount of lease assets	<u>5,899,808</u>	<u>4,833,225</u>
<u>Reconciliation of Leased Assets</u>		
Reconciliation of the carry amount of lease assets at the beginning and end of the financial year:		
<i>Data centres</i>		
Opening carrying amount	2,817,175	3,265,148
Additions	3,228,664	737,807
Depreciation	(1,555,335)	(1,185,780)
Closing carrying amount	<u>4,490,503</u>	<u>2,817,175</u>
<i>Software and other intangibles</i>		
Opening carrying amount	242,869	504,526
Additions	-	-
Transfers	(144,086)	(26,177)
Depreciation and amortisation	(98,783)	(235,480)
Closing carrying amount	<u>(0)</u>	<u>242,869</u>
<i>Computer equipment</i>		
Opening carrying amount	1,773,184	5,577,246
Additions	-	-
Transfers	707,543	(2,458,703)
Depreciation	(1,071,421)	(1,345,358)
Closing carrying amount	<u>1,409,307</u>	<u>1,773,184</u>
12: PAYABLES		
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	2,697,965	2,015,623
Sundry creditors and accruals	435,452	958,980
	<u>3,133,417</u>	<u>2,974,603</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
13: LEASE LIABILITIES		
CURRENT		
Lease liability - Data Centres	1,248,639	1,103,749
Lease liability - Computer equipment & software	352,598	1,084,246
	<u>1,601,237</u>	<u>2,187,995</u>
NON CURRENT		
Lease liability - Data Centres	3,648,611	1,951,069
Lease liability - Computer equipment & software	-	352,597
	<u>3,648,611</u>	<u>2,303,666</u>
Total carrying amount of lease liabilities	<u>5,249,849</u>	<u>4,491,661</u>

14: PROVISIONS

CURRENT

Employee benefits

528,166

553,891

NON CURRENT

Employee benefits

127,323

98,144

Total employee benefits liability

655,489

652,035

15: SHARE CAPITAL

Issued and paid-up capital

Ordinary shares - (2023: 339,400,672) (2022: 169,700,336)

95,822,032

87,611,747

95,822,032

87,611,747

	2023		2022	
	Number	\$	Number	\$
Ordinary shares				
Opening balance	169,700,336	87,611,747	99,557,063	53,527,207
Shares issued:				
November 2021 Share Placement	-	-	24,889,265	12,444,633
December 2021 Non-Renounceable Rights Issue	-	-	45,254,008	22,627,004
Transaction costs relating to shares issued - 2021	-	-	-	(987,097)
June 2023 - Entitlement Offer	169,700,336	8,485,017	-	-
Transaction costs relating to shares issued - 2023	-	(274,732)	-	-
Closing balance	<u>339,400,672</u>	<u>95,822,032</u>	<u>169,700,336</u>	<u>87,611,747</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.

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
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. To maintain or adjust the capital structure, the group may seek to issue new shares.		
16: RESERVES		
Share based payments reserve	787,665	680,749
	<u>787,665</u>	<u>680,749</u>
The share based payments reserve is used to record the fair value of shares or options issued to employees.		
<i>Movements in reserve</i>		
Opening balance	680,749	562,354
Share based payments expensed	106,916	118,395
Closing balance	<u>787,665</u>	<u>680,749</u>
17: ACCUMULATED LOSSES		
Accumulated losses at beginning of year	(50,422,431)	(34,900,782)
Net profit / (loss)	(21,283,416)	(15,521,649)
Accumulated losses at end of year	<u>(71,705,847)</u>	<u>(50,422,431)</u>

18: 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	
		2023	2022
		%	%
Sovereign Cloud Australia Pty Ltd	Australia	100	100
AUCYBER PTY LTD	Australia	100	-

AUCYBER PTY LTD was incorporated on the 29 June 2023.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
19: CASH FLOW INFORMATION		
Reconciliation of cash flow from operations with profit after income tax		
Profit / (loss) from ordinary activities after income tax	(21,283,416)	(15,521,648)
<i>Adjustments and non-cash items</i>		
Amortisation	104,183	273,178
Depreciation	5,282,098	3,949,728
Share based payment expense	106,916	118,395
Unrealised FX Gains & Losses	(37,215)	-
<i>Changes in operating assets and liabilities</i>		
(Increase) / decrease in receivables	(15,118)	(85,422)
(Increase) / decrease in other assets	(2,081,951)	(2,255,446)
Increase / (decrease) in payables	(241,728)	2,084,157
Increase / (decrease) in provisions	403,995	279,947
Cash flows from operating activities	(17,762,239)	(11,157,112)
Reconciliation of liabilities arising from financing activities		
Lease liability opening balance	4,491,662	7,035,971
Lease liability additions against ROU assets	3,228,664	737,807
Financing activities cashflows	(2,470,477)	(3,282,116)
	5,249,848	4,491,662

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

20: 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.

Details of the options granted are provided below:

2023								
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
13/08/2019	30/06/2023	\$ 0.60*	265,187	-	-	(265,187)	-	-
30/09/2020	30/06/2024	\$ 0.60*	1,006,207	-	-	(129,739)	876,468	876,468
9/09/2022	1/07/2027	\$ -	-	2,284,202	-	(1,003,407)	1,280,795	-
19/10/2022	1/07/2027	\$ -	-	1,000,000	-	-	1,000,000	-
30/01/2023	31/12/2027	\$ -	-	1,500,000	-	-	1,500,000	-
			1,271,394	4,784,202	-	(1,398,333)	4,657,263	876,468
Weighted average exercise price:			\$0.60	\$0.00		\$0.17	\$0.11	\$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.

2022								
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
1/07/2018	30/06/2022	\$ 0.60	1,927,242	-	-	(1,927,242)	-	-
13/08/2019	30/06/2023	\$ 0.60	268,937	-	-	(3,750)	265,187	265,187
30/09/2020	30/06/2024	\$ 0.60	1,056,407	-	-	(50,200)	1,006,207	670,806
			3,252,586	-	-	(1,981,192)	1,271,394	935,993
Weighted average exercise price*:			\$0.60	\$0.60		\$0.00	\$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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Long Term Incentive Plan

As part of the Long-Term Incentive Plan for Company Executives, the Company granted the following Employee Options under the Company's Employee Share Option Plan.

Number of Options	Tranche 1: 2,284,202 (Grant Date 9/09/2022) Tranche 2: 1,000,000 (Grant Date 19/10/2022)	Tranche 3: 1,500,000 (Grant Date 30/01/2023)
Exercise Price	\$nil	\$nil
Expiry Date	1-Jul-27	31-Dec-27
Vesting Dates	Commences from the time of satisfaction of Condition 1 of the Vesting Conditions	Commences from the time of satisfaction of Condition 1 of the Vesting Conditions
Vesting Conditions	<p>Condition 1: the 15-trading day volume weighted average market price of AUCloud shares is equal to or greater than \$1.00 per AUCloud share (Target Share Price) as of close of trading on ASX on the date that is fifteen trading days after the date of release on ASX by AUCloud of its Appendix 4E for the financial year ended 30 June 2025 (FY2025 results)</p> <p>Condition 2: At the time of satisfaction of Condition 1, the Eligible Employee has remained employed or engaged by the Company.</p> <p>Subject to the terms of the Company's Employee Share Option Plan</p>	<p>Condition 1: the 15-trading day volume weighted average market price of AUCloud share is equal to or greater than \$1.00 per AUCloud share (Target Share Price) as at close of trading on ASX on the date that is fifteen trading days after the date of release on ASX by AUCloud of its Appendix 4D for the half year ended 31 December 2025 (HY2026 Results)</p> <p>Condition 2: At the time of satisfaction of Condition 1, the Eligible Employee has remained employed or engaged by the Company.</p> <p>Subject to the terms of the Company's Employee Share Option Plan</p>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Fair Value of LTI Options

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 as detailed below.

	Tranche 1	Tranche 1A	Tranche 2	Tranche 3	Tranche 4
Grant date	30-Sep-20	30-Sep-20	9-Sep-22	19-Oct-22	30-Jan-23
Exercise Price (\$/share)	\$0.60	\$0.20	\$nil	\$nil	\$nil
Expiry Date	30-Jun-24	30-Jun-25	1-Jul-27	1-Jul-27	31-Dec-27
Expected price volatility of the group's shares	50%	N/A	85%	85%	85%
Spot price (\$/share)	N/A	N/A	0.210	0.175	0.046
Risk free rate	0.17%	N/A	3.16%	3.50%	3.18%
Pricing model	Black Scholes	**	Monte Carlo	Monte Carlo	Monte Carlo
Vesting conditions (\$ target price)	N/A	N/A	1.00	1.00	1.00
Fair Value (\$/right)	0.17	**	0.084	0.060	0.046

21: EARNINGS PER SHARE

	2023	2022
	Cents	Cents
Basic earnings per share	(13)	(11)
Diluted earnings per share	(13)	(11)

Earnings used in Calculating Earnings Per Share

	2023	2022
	\$	\$
Loss attributable to the ordinary equity holders used in calculating earnings per share	(21,283,416)	(15,521,649)

	2023	2022
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	170,137,871	136,454,322

Dilutive options

Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	170,137,871	136,454,322
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Options are anti-dilutive when converted to ordinary shares as they reduce loss per share.

22: PARENT ENTITY DETAILS

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

(a) Summarised statement of financial position

	2023	2022
	\$	\$
Assets		
Current assets	87,368,106	80,081,430
Non-current assets	5,324,156	5,324,156
Total assets	<u>92,692,262</u>	<u>85,405,586</u>
Liabilities		
Current liabilities	324,426	109,445
Non-current liabilities	-	-
Total liabilities	<u>(324,426)</u>	<u>(109,445)</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Net assets	92,367,836	85,296,142
Equity		
Share capital	95,322,032	87,611,747
Retained earnings	(3,741,861)	(2,996,354)
Share based payments reserve	787,665	680,749
Total equity	92,367,836	85,296,142
(b) Summarised statement of comprehensive income		
Loss for the year	(745,506)	(819,282)
Other comprehensive income for the year	-	-
Total comprehensive income for the year	(745,506)	(819,282)

Contingent liabilities

As at 30 June 2023, Sovereign Cloud Holdings Limited is not aware of contingent liabilities.

Contractual commitments

As at 30 June 2023 contractual commitments entered into by Sovereign Cloud Holdings Limited is \$Nil (2022: \$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.

23: 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:

	2023	2022
	\$	\$
Financial assets		
<i>Amortised cost</i>		
- Cash and cash equivalents	11,639,865	28,713,662
- Receivables	565,249	550,131
	12,205,114	29,263,792
Financial liabilities		
<i>Amortised cost</i>		
- Payables	2,732,875	2,974,603
- Lease liabilities	5,249,849	4,491,661
	7,982,724	7,466,264

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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:

Sensitivity

If interest rates were to increase/decrease by 50 basis points (2021: 50 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:

Financial instruments	2023		2022	
	Interest bearing	Weighted average effective interest rate	Interest bearing	Weighted average effective interest rate
	\$		\$	
<i>Financial assets</i>				
Cash	11,639,865	0.50%	28,713,662	0.50%

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

(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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

(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 2023	< 6 months	6-12 months	1-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Payables	3,133,417	-	-	3,133,417	3,133,417
Lease liabilities	993,649	607,588	3,648,611	5,249,848	5,249,848
Net maturities	4,127,066	607,588	3,648,611	8,383,265	8,383,265
Year ended 30 June 2022					
Payables	2,974,603	-	-	2,974,603	2,974,603
Lease liabilities	997,685	1,190,309	2,303,457	4,491,451	4,491,451
Net maturities	3,972,288	1,190,309	2,303,457	7,466,054	7,466,054

(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.

24: COMMITMENTS

Leases

Operating lease expenditure contracted for at the end of the reporting period but not recognised as liabilities have been entered into:

	Within 1 year	1-3 years	3-5 years	More than 5 years	Total
Lease Obligations	47,929	-	-	-	47,929

The committed operating expenditure relates to a new Melbourne office lease.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

25: 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.

	2023	2022
	\$	\$
Auditors of the Group - Bentleys		
Audit and review of the financial statements	71,650	68,649
Non-audit services		
Accounting assistance	-	-

26: EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material matters or circumstances which have arisen between 30 June 2023 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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

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 16 to 42, 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 2023 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 2023.

Signed in accordance with a resolution of the Directors.



Cathie Reid

Chair

Dated: 23 August 2023

**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 2023 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 2023 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.

Emphasis of Matter relating to Material Uncertainty of Going Concern

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates the cash reserves at 30 June 2023 may be insufficient to meet the forecast cash needs in the next 12 months and the company will be required to raise additional funds. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

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.

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

Key Audit Matter	How our audit addressed the key audit matter
<p>Revenue Recognition</p> <p>As disclosed in Note 2 the group recorded \$6,477,558 of revenue from contracts with customers. The Group applies AASB 15 Revenue from Contracts to account for the services it provides. This was a key audit matter due to:</p> <ul style="list-style-type: none"> • The significance of revenue to the statement of financial performance; and • Judgments required by AASB 15 including identifying the performance obligations and allocating the transaction price. 	<p>Our procedures amongst others included:</p> <ul style="list-style-type: none"> • Reviewing the Groups policy to ensure in accordance with AASB 15; • Selecting a sample of contracts and assessed the identification of performance obligations and the allocation of the transaction price; • Recalculating the amount of revenue, the Group has recognised; • Testing the cut-off of revenue; and • Assessing the adequacy of the disclosures included in the financial report.
<p>Leases</p> <p>As disclosed in Note 13 the Group has lease liabilities of \$5,249,849. This was a key audit matter due to:</p> <ul style="list-style-type: none"> • The importance of the leases to the Group; • The significance of leases to the statement of financial position; and • The level of judgment required in determining the assumptions adopted (effective term of lease and the determination of discount rates) 	<p>Our procedures amongst others included:</p> <ul style="list-style-type: none"> • Reviewing the Groups policy to ensure in accordance with AASB 16; • Reviewing the procedures for identifying and accounting for leases; • Assessing the relevance of the methods used to determine the main assumptions; • Selecting a sample of leases and recalculating the liability and right-of-use asset balances; • Comparing the discount rates used with market data; and • Assessing the adequacy of the disclosures included in the financial report.
<p>Capital Raising</p> <p>As disclosed in Note 15 the Group has raised capital of \$8,485,017 by issuing 169,700,336 shares. This was a key audit matter due to:</p> <ul style="list-style-type: none"> • The importance of the capital raising to the Group; and • The significance of the capital raise to the statement of financial performance; 	<p>Our procedures amongst others included:</p> <ul style="list-style-type: none"> • Vouching the announcement of securities to ensure the number of shares and consideration received are accurately reflected; • Reviewing the direct costs of the capital raise to ensure they align with the definition in paragraph 37 of AASB 132; • Assessing the adequacy of the disclosures included in the financial report.

**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 2023 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 14 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Sovereign Cloud Holdings Limited, for the year ended 30 June 2023, 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
23 August 2023

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

SHAREHOLDER INFORMATION

The shareholder information set out below as applicable as at 14 August 2023.

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	171	318,842,205	93.94%
1,001 – 5,000	477	17,524,212	5.16%
5,001 – 10,000	242	1,768,027	0.52%
10,001 – 100,000	440	1,176,969	0.35%
100,001 – and over	140	89,259	0.03%
	1,470	339,400,672	100%

B. Equity Security Holders

The names of the twenty largest holders of quoted equity securities (as at 14 August 2023) are listed below:

Rank	Name	Number Held	%
1	Nextdc Ventures Holdings No. 1 Pty Ltd	114,084,469	33.61%
2	Badger 31 Pty Ltd	63,923,946	18.83%
3	Citicorp Nominees Pty Limited	14,894,977	4.39%
4	Petromac Holding Pty Ltd	12,361,751	3.64%
5	Edwards Bay Capital Pty Ltd	9,361,751	2.76%
6	Peerless Investments Pty Ltd	8,000,000	2.36%
7	Assured Digital Group Limited	6,934,000	2.04%
8	Berne No 132 Nominees Pty Ltd	6,590,910	1.94%
9	Valkent Pty Ltd	4,527,506	1.33%
10	Chembank Pty Limited	3,200,000	0.94%
11	Jam Group Pty Ltd	2,765,214	0.81%
12	Hsbc Custody Nominees (Australia) Limited	2,531,653	0.75%
13	Wte Investments Pty Ltd	2,500,006	0.74%
14	Ms Paula Grimes & Mr David Grimes	2,331,976	0.69%
15	Jomalco Pty Ltd	2,100,000	0.62%
16	Mr Richard Light	2,034,822	0.60%
17	Peerless Investments Pty Ltd	2,000,000	0.59%
18	Mfm Australia Pty Limited	2,000,000	0.59%
19	Bushfly Air Charter Pty Ltd	1,916,494	0.56%
20	Bond Street Custodians Limited	1,788,232	0.53%
Total: Top 20 holders		265,847,707	78.33%
Total: Remaining balance		73,552,965	21.67%
		339,400,672	100.00%

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

SHAREHOLDER INFORMATION

C. The names of the substantial shareholders listed in the holding register as at 14 August 2023 are:

Name	Number Held	%
Nextdc Ventures Holdings No. 1 Pty Ltd	114,084,469	33.61%
Badger 31 Pty Ltd	63,923,946	18.83%
Citicorp Nominees Pty Limited	14,894,977	4.39%
Petromac Holding Pty Ltd	12,361,751	3.64%
Edwards Bay Capital Pty Ltd	9,361,751	2.76%

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.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITIES

CORPORATE DIRECTORY

Directors

Mrs Cathie Reid
Non-executive Chair

Mr Pete Maloney
Managing Director

Mr Phil Dawson
Director

Mr Ross Walker
Non-executive Director

Mr Craig Scroggie
Non-executive Director

Finance Director

Mr Theo Tragoudistakis

Company Secretary

Mrs Michelle Crouch

Head Office

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

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

ABN: 80 622 728 189



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