

1. Company details

Name of entity:	ReadCloud Limited
ABN:	44 136 815 891
Reporting period:	For the year ended 30 September 2022
Previous period:	For the year ended 30 September 2021

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	15.2 % to	8,549,150
Loss from ordinary activities after tax attributable to the Owners of ReadCloud Limited	down	17.4 % to	(1,644,874)
Loss for the year attributable to the Owners of ReadCloud Limited	down	17.4 % to	(1,644,874)

Dividends

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

Comments

Revenue growth for FY22 was driven by a combination of organic growth in both key operating segments and acquisitive growth associated with the Ripponlea Institute acquisition.

The loss for the Group after providing for income tax amounted to \$1,644,874 (30 September 2021: \$1,989,630). Underlying earnings before interest taxation, depreciation, and amortisation ('Underlying EBITDA') was a loss of \$822,834 (30 September 2021: loss of \$769,010). This is reconciled to the statutory loss as follows:

	Consolidated	
	30 September 2022	30 September 2021
	\$	\$
Reported (statutory) net loss after tax	(1,644,874)	(1,989,630)
Add back: Depreciation and amortisation	1,127,373	987,465
Fair value movement of contingent consideration	(375,000)	-
Share based payment expense	41,235	50,849
Transaction costs incurred on business acquisitions (expensed) and one-off ASX fees	-	144,830
Net interest (revenue) / expense	5,041	16,354
Income tax expense / (benefit)	23,391	21,122
Underlying EBITDA*	<u>(822,834)</u>	<u>(769,010)</u>

FY22 Underlying EBITDA reflects increased Advertising & marketing spend associated with the national marketing launch of the ReadCloud VET Group and investment in additional sales and marketing staff and operational staff in both the VET and full-curriculum segments in anticipation of future growth.

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

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>1.39</u>	<u>2.28</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Annual Report of ReadCloud Limited for the year ended 30 September 2022 is attached.

12. Signed


Signed _____

Cristiano Nicolli
Chairman

Date: 29 November 2022

For personal use only



ReadCloud Limited

ABN 44 136 815 891

2022 Annual Report

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Directors	Mr Cristiano Nicolli (Non-Executive Chairman) Mr Paul Collins (Non-Executive Director) Mr Guy Mendelson (Non-Executive Director) Mr Lars Lindstrom (Managing Director and Chief Executive Officer) Mr Darren Hunter (Executive Director and Chief Information Officer)
Company secretary	Ms Melanie Leydin
Registered office	Level 1, 126 Church Street Brighton VIC 3186 Phone: +61 3 9078 4833
Principal place of business	Level 1, 126 Church Street Brighton VIC 3186 Phone: +61 3 9078 4833
Share register	Boardroom Limited Level 8, 210 George Street Sydney NSW 2000 Phone: 1300 737 760; +61 2 9290 9600
Auditor	PKF Melbourne Audit & Assurance Pty Ltd Level 12, 440 Collins Street Melbourne VIC 3000
Stock exchange listing	ReadCloud Limited shares are listed on the Australian Securities Exchange (ASX code: RCL)
Website	www.readcloud.com
Corporate Governance Statement	Refer to the Company's Corporate Governance statement at: www.readcloud.com/investors#corporate-governance

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'ReadCloud' or the 'Group') consisting of ReadCloud Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 September 2022. As noted in previous Company announcements, ReadCloud has changed its financial year-end from 30 June to 30 September in order to more closely align its financial reporting and business cycles. This financial report is the first full-year report in the new reporting cycle (with comparatives being for the 12 months ended 30 September 2021).

Directors

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

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

Principal activities

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

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

ReadCloud also provides digital Vocational Education and Training ("VET") course materials and services to schools through its subsidiaries Australian Institute of Education and Training Unit Trust ("AIET"), PKY Media Pty Ltd (trading as College of Sound and Music Production) and Ripponlea Institute Pty Ltd, which collectively offer over 60 VET courses and Auspicing services to schools across Australia.

Dividends

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

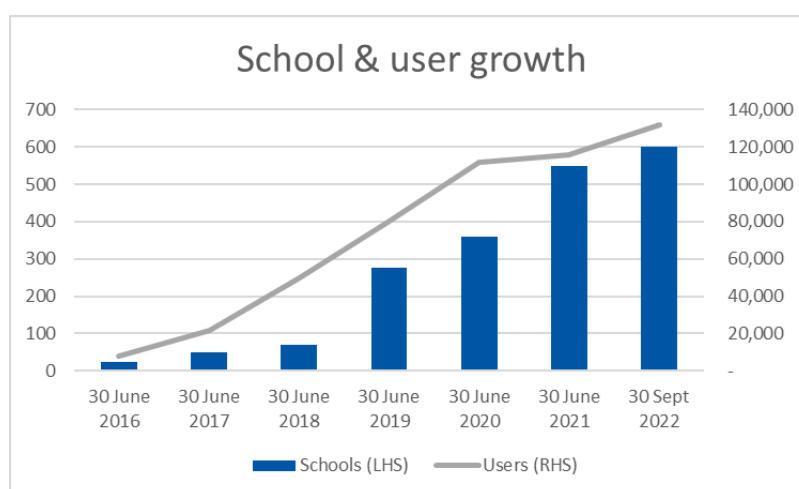
Review of operations

Financial highlights for FY22 include:

- 17.5% increase in consolidated sales and fee revenue to \$8.21 million (FY21: \$6.99 million)
- 17.1% increase in VET segment sales and fee revenue to \$3.83 million (FY21: \$3.27 million)
- 17.8% increase in eBook Solutions segment sales and fee revenue to \$4.38 million (FY21: \$3.72 million)
- 15.2% increase in total consolidated revenue and other income to \$8.55 million (FY21: \$7.42 million)
- Record cash receipts from customers in FY22 of \$7.88 million versus \$7.20 million for FY21
- Cash balance at 30 September 2022 \$2.47 million and no debt

Operational highlights for FY22 include:

- 25% year-on-year increase in Vocational Education and Training in Schools ("VET in schools" or "VET") user numbers to 15,000 users, driven by organic growth, cross-selling, and the acquisition of Ripponlea Institute
- 22.8% year-on-year increase in Direct eBook Solutions ReadCloud platform user numbers to 70,000 users
- Strong retention of existing school customers for the 2022 school year across three sales channels, being VET in schools, Direct eBook Solutions and Reseller eBook Solutions
- Execution of first overseas eBook Solutions deal with leading London-based international online school King's InterHigh
- Completion of Southern Solutions Training Services acquisition post FY22 year-end, opening up a large new growth opportunity
- New school signings for 2023 in both the eBook Solutions and VET segments, combined with a strong sales pipeline and the Southern Solutions Training Services acquisition, gives management confidence strong revenue growth will be achieved in FY23



Vocational Education & Training segment

The VET in schools segment achieved a 25% year-on-year increase in ReadCloud platform users to 15,000 users for FY22 (after excluding 2,000 Ripponlea Institute users in FY21, from which there was no revenue contribution due to the acquisition occurring late in FY21). This increase has been driven by an increase in new school customers for the 2022 school year, organic growth (more existing school customers taking additional VET programs), and the acquisition of Ripponlea Institute.

These strong results support the significant investment made in the VET segment in FY22 to set the path for continued growth, including:

- the standardisation of operational systems of processes across the three Registered Training Organisations ("RTOs") comprising the ReadCloud VET Group (Australian Institute of Education & Training, PKY Media trading as COSAMP, and Ripponlea Institute);
- the hiring of a dedicated ReadCloud VET Group sales team;
- a national marketing launch of the ReadCloud VET Group;
- the development of a new learning management system ("LMS") that was deployed for Australian Institute of Education and Training VET in schools customers at the start of the 2022 school year; and
- the upgrading (in terms of quality and breadth) of a large proportion of the VET course resources used by the three VET in schools businesses.

In the March 2022 quarter, ReadCloud recruited a dedicated sales team with extensive experience in the secondary school sector, with the specific objectives of cross-selling between the three ReadCloud VET Group RTOs and signing up new schools. This team has been instrumental in achieving these objectives and importantly building a strong sales pipeline for 2023.

Led by this team, May 2022 saw the national marketing launch of the ReadCloud VET Group promoting the key message that the three RTOs comprising the ReadCloud VET Group collectively offer the largest scope of VET qualifications of any private provider in the Australian VET in schools market (most schools prefer to deal with fewer providers as it reduces the systems and processes that teachers and students are required to be familiar with). The marketing launch included state-based launch events and presentations at EduTech conferences.

At the start of the 2022 school year, ReadCloud launched a new learning management system ("LMS") for the end-to-end delivery of auspicing services to its VET in schools customers. The front-end of the new system integrates seamlessly with the ReadCloud platform for the digital delivery of VET course materials to students and teachers. The new LMS significantly improves customer experience and reduces ReadCloud's reliance on third-party software for key components of its service delivery. The new LMS was deployed for Australian Institute of Education and Training VET in schools customers for the current school year, with positive feedback received. Further enhancements have been made to the LMS over the course of FY22 in preparation for the migration of COSAMP and Ripponlea Institute customers onto the system for the 2023 school year, which is expected to provide significant benefits and synergies.

The other major project delivered for the 2022 school year has been the upgrading (in terms of quality and breadth) of a large proportion of the VET course resources used by the three VET in schools businesses. The upgraded resources conform with the latest compliance requirements, are better suited to the unique requirements for delivery of Vocational Education and Training in a secondary school (as opposed to tertiary) environment and provide the ReadCloud VET in schools businesses with a strong competitive advantage.

The combination of the focused sales effort, and the investments made, places the VET business in a strong position for continued accelerated growth in coming years.



eBook Solutions segment

ReadCloud achieved a 22.8% increase in Direct eBook Solutions ReadCloud platform user numbers to 70,000 users for the 2022 school year, driven by:

- increased user numbers in existing school customers;
- new school wins; and
- strong customer retention

This combination of achievements helped deliver 20% sales and fee revenue growth from Direct eBook Solutions customer schools for FY22.

ReadCloud's Reseller eBook Solutions partners provided a strong improvement for the 2022 school year with an increase of 10% in sales and fee revenue.

The school and student on-boarding season at the start of the 2022 school year was the most successful on-boarding season in the Company's history (in terms of accuracy and timeliness), with positive feedback received from both eBook Solutions school customers and third-party publishers alike. Continued investment in systems and processes underpinning the ReadCloud platform throughout FY22 will place ReadCloud in an even better position going into the on-boarding season for the 2023 school year.

The other major development for the eBook Solutions segment in FY22 was the execution of ReadCloud's first overseas eBook Solutions deal with leading London-based international online school King's InterHigh for the provision of eBooks to the parents of over 4,000 students. Pursuant to a 4-year Software Licence Agreement (announced to ASX on 11 July 2022), ReadCloud will be the exclusive provider of eBooks to the parents' students aged 7 to 18.

The King's InterHigh eBook store was built and launched in the September 2022 quarter with seamless delivery of multi-publisher content and access to collaborative learning tools via integration with the ReadCloud eReader platform.

To date nearly 1,500 accounts have been created in the King's InterHigh eBook store, with some revenue slippage into the current FY23 financial year occurring as a result of the delayed supply of some publisher eBook content.

Financial Results

ReadCloud recorded an Underlying EBITDA* loss for FY22 of \$822,834 (FY21 Underlying EBITDA loss \$769,010) and a FY22 consolidated statutory loss after tax of \$1.64 million (loss of \$1.99 million in the prior corresponding period). Underlying EBITDA is reconciled to the statutory loss as detailed below. This reconciliation adds back the effect of certain non-operating and non-recurring items which would not ordinarily relate to the Group's underlying performance.

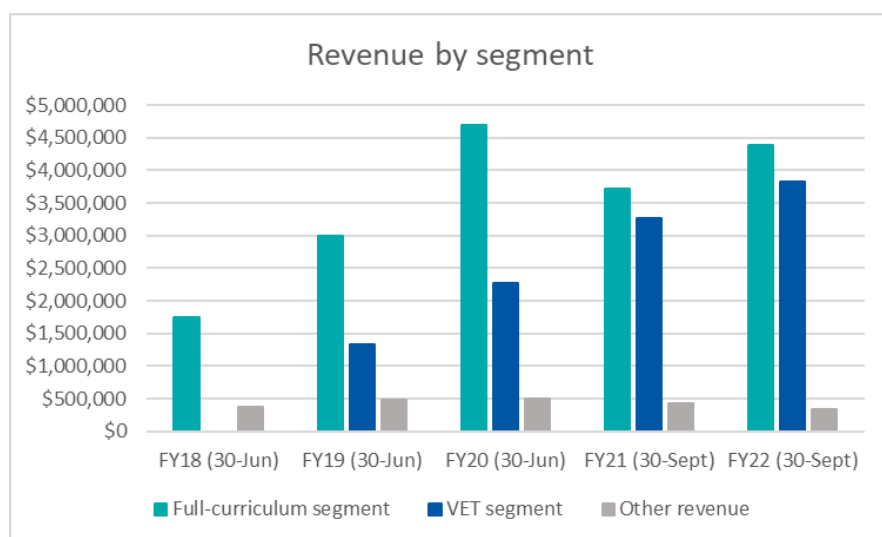
	Consolidated	
	2022	2021
	\$	\$
Sales & fee revenue	8,212,033	6,988,396
Other revenue	337,116	429,677
Total revenue	8,549,150	7,418,073
Less operating expenses:		
Advertising and marketing	(329,265)	(183,618)
Employment expenses	(4,357,211)	(3,789,844)
Legal & compliance	(75,553)	(85,288)
Professional services expenses	(506,431)	(474,920)
Publisher and bookseller fees expense	(3,333,605)	(2,904,162)
Telephone, internet & data hosting	(108,532)	(96,609)
Travel expenses	(140,240)	(96,642)
Other expenses	(519,296)	(554,815)
Less interest revenue	(1,850)	(1,184)
Underlying EBITDA*	(822,834)	(769,010)
Add: Fair value movement of contingent consideration	375,000	-
Less: Depreciation and amortisation	(1,127,373)	(987,465)
Share based payments	(41,235)	(50,849)
Transaction costs incurred on business acquisition (expensed) and one-off ASX fees	-	(144,830)
Net interest (expense) / revenue	(5,041)	(16,354)
Income tax expense / (benefit)	(23,391)	(21,122)
Reported (statutory) net loss after tax	(1,644,874)	(1,989,630)

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

Revenue and gross margins

ReadCloud's FY22 consolidated revenue increased by 15.2% to \$8.55 million (FY21: \$7.42 million) and consolidated sales and fee revenue (total revenue less Other income) increased by 17.5% to \$8.21 million (FY21: \$6.99 million), reflecting:

- 17.8% growth of Sales & fee revenue for the eBook Solutions segment to \$4.38 million (FY21: \$3.72 million);
- 17.1% growth of Sales & fee revenue for the VET segment to \$3.83 million (FY21: \$3.27 million); and
- a decline in Other revenue from \$0.43 million for FY21 to \$0.34 million for FY22, with lower government grant income associated with Covid-relief packages.



Sales & fee revenue growth for the eBook Solutions segment was driven by both new Direct eBook Solutions customer schools signed up for the 2022 school year (\$0.48 million) and increased Reseller channel revenue. Pleasingly, ReadCloud's main Reseller partner achieved 20% year-on-year revenue growth for FY22.

The 17.1% increase in sales & fee revenue for the VET segment reflects a full year's contribution from Ripponlea Institute (acquired on 8 June 2021) and new school wins for the 2022 school year across all three ReadCloud VET Group RTOs. As in prior years, there was some school customer churn in the VET segment resulting from schools losing qualified teachers and insufficient student enrolments to run some VET programs. There was also a small number of school losses associated with a change in the VET in schools delivery model mandated for South Australian government schools.

As at 30 September 2022, ReadCloud had over 600 school and educational institution customers with over 132,000 users on its platform, split by sales channel as follows:

Channel	September 2022	September 2021	% Change
Direct eBook Solutions schools	70,000	57,000	+22.8%
Reseller schools	47,000	45,000	+4.4%
VET-in-Schools	15,000	12,000*	+25.0%
Totals	132,000	114,000	+13.8%

* Excludes 2,000 Ripponlea Institute users from which there was no revenue contribution due the acquisition occurring late in the FY21 financial year

Average sales and fee revenue per user for FY22 was \$62 (FY21: \$61), with the increase driven by growth in VET segment users on which higher revenue per user is generated.

FY22 gross profit for the eBook Solutions segment (sales and fee revenue less publisher and bookseller fees) grew by 8.5% to \$1.23 million (FY21: \$1.13 million). This increase was less than sales and fee revenue growth for the segment as a result of:

- a decline in software licence fees (on which ReadCloud makes a 100% margin) as a proportion of total sales and fee revenue; and
- a slight (less than 0.5%) decline in gross margins on eBook sales as a result of a change in sales mix (ReadCloud makes higher margins on some publishers' products versus others).

Gross profit for the VET segment for FY22 (sales and fee revenue less direct costs mainly comprising publisher fees) increased by 22.5% to \$3.52 million (FY21: \$2.87 million), reflecting increased usage of ReadCloud VET Group-owned course materials for the delivery of VET programs to schools in FY22. The gross profit improvement was a result of the investment made in upgrading a large proportion of the VET course resources used by the three

VET in schools businesses (in terms of quality and breadth) and to reduce reliance on external publishers and provide the ReadCloud VET in schools businesses with a competitive advantage.

Operating expenses

Management has continued to scrutinize and prioritise spending at a rate below revenue growth. Significant expenses included in the statutory net loss after tax for FY22 are discussed below.

Publisher and bookseller expenses

Publisher and bookseller expenses, representing the cost of digital only and print-digital learning resources sold to schools by both business segments, grew by 14.8% to \$3.33 million for FY22 (FY21: \$2.90 million), compared to FY22 consolidated sales and fee revenue growth of 17.5%. Publisher and bookseller expenses as a percentage of consolidated sales and fee revenue decreased in FY22, mainly reflecting increased use of ReadCloud VET Group-owned course materials in conjunction with the delivery of VET courses (although the associated cost saving was partially offset by a slight decline in gross margins on eBook sales for the eBook Solutions segment as a result of a change in sales mix).

Employment expenses

Employment expenses were \$4.36 million for FY22 (FY21: \$3.79 million), with the increase over the prior comparable period attributable to a full year of ownership of the Ripponlea Institute business in FY22 and investment in additional sales and marketing and operational staff in both the VET and full-curriculum segments in anticipation of future growth.

Professional services expenses

FY22 Professional services expenses were \$0.51 million (FY21: \$0.57 million, or \$0.47 million excluding transaction costs associated with the COSAMP and Ripponlea Institute acquisitions), with the main components including:

- audit fees
- staff recruitment fees
- share registry costs
- company secretarial fees
- contract bookkeeping costs
- tax consulting fees
- RTO compliance consulting services; and
- contract trainer costs associated with the delivery of the Certificate IV in Training & Assessment qualification of VET teachers (a key revenue stream for Ripponlea Institute).

Depreciation and amortisation expense

FY22 depreciation and amortisation expense was \$1.13 million (FY21: \$0.99 million), with the increase due to more capitalised software development costs from previous financial years commencing amortisation during FY22 and the depreciation and amortisation of property, plant & equipment and intangible assets acquired in connection with the acquisitions of COSAMP and Ripponlea Institute.

Other expenses

FY22 Other expenses were \$0.52 million (FY21: \$0.55 million), with the main components including payroll tax, software licences, insurance and occupancy expenses.

Fair value movement in contingent consideration

The fair value movement in contingent consideration represents the downward revision of management's expectations for the final deferred consideration payable in respect of the PKY Media and Ripponlea Institute acquisitions, which was contingent on the achievement by the respective businesses of revenue hurdles for the 12 months to 30 June 2022.

Management considers the revisions to the revenue expectations for both acquisitions to be attributable to short-term issues as opposed to an indication of a decline in the long-term value of the businesses. In particular, the build of a new learning management system for the Australian Institute of Education and Training business and the project to upgrade the Group's VET course resources took up significant management time that in turn resulted in the delayed marketing launch of the ReadCloud VET Group. Previous revenue expectations were predicated on

this marketing launch generating significant cross-selling opportunities between the three ReadCloud VET Group RTOs for the 2022 school year. The delayed marketing launch to May 2022 has seen this expectation shifted out to the 2023 school year.

Material business risks

ReadCloud faces specific and general operational risks which may impact the future operating and financial performance of the Group. The following is a summary of the most significant risks that could adversely affect the Group's financial performance and growth potential in future years as identified and assessed by a risk management process carried out by the Audit and Risk Committee and ReadCloud's risk mitigation approaches:

VET Regulatory risk

ReadCloud's RTOs are regulated by the Australian Skills Quality Authority (ASQA) against the framework of the Standards for RTOs 2015. The continuing registration of the RTOs is one of the key material risks for the Company, and therefore remains one of the highest priorities in our risk mitigation strategy.

Our risk mitigation strategies include:

- systems and processes established in accordance with ASQA's self-assurance model to monitor, evaluate and continually improve the training outcomes and performance of the RTOs against the Standards;
- a dedicated Quality and Compliance team that regularly reports to the Board,
- extensive industry engagement and broad-reaching assessment validation schedules seeking feedback from teachers and trainers across Australia; and
- a comprehensive annual review and continuous improvement cycle that keeps each of the RTOs thoroughly prepared for their next ASQA Performance Assessment.

VET reform

For all RTOs, the constantly evolving landscape of the VET sector remains a risk. ReadCloud's RTOs and their relevant stakeholders, such as secondary schools, trainers and administrators, rely on consistency, transparency and up-to-date knowledge of factors impacting the VET sector. Given the delicate balance between State-based education policies and a national vocational training framework, it's imperative that we maintain our understanding of changes in relevant legislation, including VET funding, changes in processes for VET data reporting, a review of the Standards for RTOs and other broader reform issues.

Our risk mitigation strategies in this area include:

- having our key RTO compliance team members attending VET sector conferences and webinars;
- holding subscriptions to VET industry publications;
- scheduling regular meetings with external RTO compliance consultants; and
- holding quarterly meetings of a VET Advisory Panel consisting of VET industry experts.

Cyber security

ReadCloud and its customers are reliant upon the effective performance, reliability, and availability of ReadCloud's technology solutions and the cloud-based environments it uses to provide such software solutions. There is a risk that ReadCloud's technology and software solutions may be adversely affected by disruption, failure, service outages or data corruption that could occur because of computer viruses, "worms", malware, ransomware, internal or external misuse by customers, hacking or cyber-attacks, and other disruptions including natural disasters, power surges or outages, terrorist attacks, or other similar events. There is also a risk that security and technical precaution measures taken by ReadCloud will not be sufficient to prevent unauthorised access to ReadCloud's networks, systems, and databases. Operational or business delays, and damage to reputation, may result from any disruption or failure of ReadCloud's technology and software solutions, which may be caused by events outside the Group's control. This could lead to loss of confidence / reduced attractiveness of ReadCloud by its customers, and the potential termination of customer contracts.

ReadCloud puts a high importance on this risk and proactively manages it through strong IT controls including:

- secure hosting of the ReadCloud platform within a Virtual Private Cloud (VPC) on Amazon Web Services with data replication across multiple physical locations, real time failover and continuous rolling backups;

- adoption of industry best practices for securing our data (including encryption of data at rest);
- strict user access controls; and
- strict adherence to our privacy policies (customers also have the option to obfuscate personally identifiable information such as names of students if they wish).

Revenue growth and profitability

The Company's immediate strategic priorities are improved profitability performance, driving organic growth and generating positive cash flows from its operations (including the operations of the Southern Solutions Training Services business acquired post FY22 year-end). Despite the considerable experience of the Directors and ReadCloud's management team, there is a risk that the Company may not be able to successfully execute proposed business plans and growth strategies.

Our risk mitigation strategies in this area include:

- monthly Board monitoring of sales and financial performance;
- regular Audit & Risk Committee meetings;
- continuous development of technology and software solutions to maintain our competitive advantage; and
- identification of additional market opportunities to leverage our technology and software solutions and grow the business.

Outlook

The launch of the ReadCloud VET Group late in FY22, a dedicated VET sales team, and a new (simpler) renewal process this year has seen a recommitment rate for 2023 across the three VET businesses sitting substantially higher than at this point in prior years. Pleasingly, there has been a marked increase in interest from VET in schools customers wanting to consolidate providers. As at the date of this report, 28% of the individual schools that have committed delivering ReadCloud VET Group programs in 2023 will be using more than one of our RTOs (compared to 21% for FY22).

New school signings for 2023 in both the eBook Solutions and VET segments, combined with a strong sales pipeline, gives management confidence that strong revenue growth will be achieved from the eBook Solutions and VET in schools segments in FY23.

Post FY22 year-end, ReadCloud announced and completed the acquisition of 100% of Southern Solutions Training Services Pty Ltd ("Southern Solutions"), a leading national provider of training for certificates in Early Childhood Education & Care. The acquisition provides a significant growth opportunity for the Company in a market that is adjacent to ReadCloud's core business and in an industry with skills shortages and high national government funding and focus.

Established in 2014, Southern Solutions is a RTO that has developed strong partnerships with industry and earned a reputation as a provider of innovative, quality and service focused training. The integration of the ReadCloud platform into Southern Solutions' training delivery is expected to deliver efficiencies and better scaling opportunities.

In FY22, Southern Solutions generated sales revenue of \$2.0 million and delivered EBIT of \$0.36 million. The acquisition consideration is up to \$3.15 million for 100% of the issued shares in Southern Solutions, with \$1.35 million to be paid up front (\$975,000 cash and \$375,000 in ReadCloud shares at 20 cents) and deferred payments of up to \$1.8 million that are contingent on FY23 and FY24 EBIT performance (to be paid with 75% cash and 25% in ReadCloud shares issued at the higher of 20 cents or the share price at the time the earn-out targets are met). The total acquisition cost represents between 3.6x and 4.5x times FY24 EBIT depending on achievement of performance hurdles.

Integration of the Southern Solutions business into the ReadCloud Group is tracking as expected.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

On 14 October 2022, ReadCloud entered into a Share Purchase Agreement to acquire 100% of the shares in Southern Solutions Training Services Pty Ltd ("Southern Solutions"), a leading national provider of training for certificates in Early Childhood Education & Care. The acquisition provides a significant growth opportunity for the Group in a market that is adjacent to ReadCloud's core business and in an industry with skills shortages and high national government funding and focus.

Established in 2014, Southern Solutions is a Registered Training Organisation (RTO) that has developed strong partnerships with industry and earned a reputation as a provider of innovative, quality and service focused training. The integration of the ReadCloud platform into Southern Solutions' training delivery is expected to deliver efficiencies and better scaling opportunities.

In FY22, Southern Solutions generated sales revenue of \$2.0 million and delivered EBIT of \$0.36 million. The acquisition consideration is up to \$3.15 million for 100% of the issued shares in Southern Solutions, with \$1.35 million up-front consideration (comprising \$975,000 cash and \$375,000 in ReadCloud shares at 20 cents) and deferred payments of up to \$1.8 million that are contingent on FY23 and FY24 EBIT performance (to be paid with 75% cash and 25% in ReadCloud shares issued at the higher of 20 cents or the share price at the time the earn-out targets are met). The total acquisition cost represents between 3.6x and 4.5x times FY24 EBIT depending on achievement of performance hurdles.

The acquisition was completed on 9 November 2022 with the payment of the up-front cash consideration and issue of 1,875,000 ReadCloud shares.

No other matter or circumstance has arisen since 30 September 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

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

Environmental regulation

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

Information on Directors

Name: Cristiano Nicolli
Title: Non-Executive Chairman
Qualifications: Bachelor Management & Business Studies, FAICD
Experience and expertise: Cristiano has an extensive career as an influential leader and highly successful businessman in the technology sector. From 2010 to 2016, Cristiano was the Group Managing Director and CEO of ASX-listed IT services company UXC Limited. During his 13 years with UXC, Cristiano was instrumental in leading the growth of UXC's IT-services business from \$60 million annual revenue to \$750 million (via both organic growth and acquisitions) and employing 3,000 staff. Under Cristiano's leadership, UXC became widely recognised as the largest and one of the most respected ASX-listed IT companies in Australia. Cristiano oversaw the acquisition of UXC by global IT firm CSC in late 2016 for in excess of \$400 million.

Cristiano is currently Non-Executive Chairman of Playside Studios Limited (ASX: PLY), Australia's largest publicly listed video game developer and a Non-Executive Director of ASX/NZX listed Vista Group International Limited (ASX: VGL), a leading provider of software and cloud solutions to the global film industry.

Other current directorships: Playside Studios (ASX: PLY) Non-Executive Chairman since October 2020
 Vista Group International Limited (ASX/NZX: VGL) Non-Executive Director since February 2017

Former directorships (last 3 years): Other Levels Limited (ASX: OLV) Non-Executive Director January 2018 to August 2020
 Empired Limited (ASX: EPD) Non-Executive Director October 2018 to November 2021

Interests in shares: 625,000 fully paid ordinary shares

Name: Paul Collins
Title: Non-Executive Director
Qualifications: BSc Applied Science (Computer Science), GAICD
Experience and expertise: Paul commenced his career with IBM in 1982. After 3 years he started his own consulting business working in a state government agency and large corporations primarily in software development and implementation roles. This included 7 years at IOOF in the Development Manager's role. Over the last 20 years, Paul has been extensively involved in the start-up and subsequent ASX listing of 2 successful FinTech companies. A co-founder of IWL in 1997, Paul was an Executive Director of the company from its inception, through its listing in 1999 before leaving in 2004. Later in 2004, Paul was a co-founder and Executive Director of Managed Accounts Ltd which listed on the ASX in 2014 (ASX:MGP). Paul chaired the Audit and the Risk and Compliance Committees of MGP from 2009 until 2016.

Other current directorships: WRKR Limited (ASX:WRK) Non-Executive Director since October 2018
Former directorships (last 3 years): None

Interests in shares: 1,185,411 fully paid ordinary shares

Name: Guy Mendelson
Title: Non-Executive Director
Qualifications: B. Bus
Experience and expertise: Guy has a strong working knowledge of ReadCloud and its management having been a member of the ReadCloud Advisory Board for three years prior to the Company's IPO in February 2018. Guy's previous Board experience includes being a BPAY Board Director for four years and a Brotherhood of St Laurence Audit and Risk Committee member for 12 years. Guy has extensive strategic and commercial experience at an executive level with 20 years working for ANZ Bank running various businesses. He is currently Managing Director, Business Owners Portfolio within ANZ responsible for the growth and profitability of this business segment.

Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 1,435,318 fully paid ordinary shares

Name: Lars Lindstrom
Title: Managing Director and Chief Executive Officer
Qualifications: Masters in Business Administration & Corporate Law
Experience and expertise: Lars co-founded ReadCloud in 2009 and has extensive tech startup experience. Previously a Partner in LundXY Global Ventures (the first investor in Skype) and the CFO/Co-Founder of Nyhedsavisen which within one year became the most read newspaper in Denmark publishing over 500,000 copies daily. Lars spent his first 10 years working in investment banking/M&A working for Deutsche Bank and Rothschild in Melbourne.

Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 8,664,128 fully paid ordinary shares

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

Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 7,084,880 fully paid ordinary shares

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

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

Company secretary

Ms Melanie Leydin, BBus (Acc. Corp Law) CA FGIA

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

Ms Leydin has over 26 years' experience in the accounting profession and over 16 years as a Company Secretary. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of companies and shareholder relations.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 September 2022, and the number of meetings attended by each Director were:

	Full Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Cristiano Nicolli	12	12	3	3	1	1
Paul Collins	12	12	3	3	3	3
Guy Mendelson	12	12	3	3	3	3
Lars Lindstrom	12	12	-	-	-	-
Darren Hunter	12	12	-	-	2	2

Remuneration report (audited)

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

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all directors. The KMP of the Group during the year ended 30 September 2022 consisted of the following Directors and executives:

- Mr Cristiano Nicolli – Non-Executive Chairman
- Mr Paul Collins - Non-Executive Director
- Mr Guy Mendelson - Non-Executive Director
- Mr Lars Lindstrom - Managing Director and Chief Executive Officer
- Mr Darren Hunter - Executive Director and Chief Information Officer
- Mr Luke Murphy - Chief Financial Officer
- Mr Joshua Fisher - Chief Product Officer

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

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

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

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

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

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

Principles used to determine the nature and amount of remuneration

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

- Remuneration is competitive to allow the Group to attract and retain the best talent
- Drivers and outcomes of remuneration align with shareholder outcomes
- Remuneration outcomes are closely aligned with performance of the Group

- Remuneration structure is simple and transparent

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

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

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

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

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

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

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

Non-executive directors' remuneration

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

Non-executive directors may receive equity-based incentives, such as options and/or performance rights, where it is determined that this is an appropriate means of incentivising those directors by aligning their interests with the interests of shareholders.

Executive remuneration

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

The executive remuneration and reward framework has the following components:

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

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

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

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

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

Group performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the Group, by way of the issue of performance rights and options, details of which are as follows. Each performance right will convert to one fully paid ordinary share in the Company following achievement of the relevant performance condition. Each option will convert into one fully paid ordinary share in the Company following both the achievement of the relevant vesting condition (being continued employment until the relevant vesting date) and payment of the relevant exercise price. Refer to the section "Additional Information" below for details of the earnings and total shareholders return for the period since ASX listing.

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

Details of remuneration

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

	<u>Short-term benefits</u>			<u>Post-employment benefits</u>	<u>Long-term benefits</u>	<u>Share-based payments</u>	
	Cash salary and fees	Annual leave accrued	Non-monetary	Super-annuation	Long service Leave	Equity-settled	Total
30 September 2022	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Cristiano Nicolli	65,069	-	-	6,597	-	-	71,666
Paul Collins	48,802	-	-	4,948	-	-	53,750
Guy Mendelson	58,750	-	-	-	-	-	58,750
<i>Executive Directors:</i>							
Lars Lindstrom	236,096	(4,033)	-	23,904	4,673	-	260,640
Darren Hunter	236,096	(9,259)	-	23,904	4,673	-	255,414
<i>Other Key Management Personnel:</i>							
Luke Murphy	183,196	4,549	-	18,554	4,322	4,254	216,211
Joshua Fisher	181,613	13,686	-	18,387	3,595	1,336	218,617
	<u>1,009,622</u>	<u>4,943</u>	<u>-</u>	<u>96,294</u>	<u>17,263</u>	<u>5,590</u>	<u>1,133,712</u>

	<u>Short-term benefits</u>			<u>Post-employment benefits</u>	<u>Long-term benefits</u>	<u>Share-based payments</u>	<u>Total</u>
	Cash salary and fees \$	Annual leave accrued \$	Non-monetary \$	Super-annuation \$	Long service Leave \$	Equity-settled \$	
30 September 2021							
<i>Non-Executive Directors:</i>							
Cristiano Nicolli	56,254	-	-	5,412	-	-	61,666
Paul Collins	44,474	-	-	4,276	-	-	48,750
Guy Mendelson	50,000	-	-	-	-	-	50,000
<i>Executive Directors:</i>							
Lars Lindstrom	237,173	13,484	-	22,827	4,677	-	278,161
Darren Hunter	237,173	11,674	-	22,827	4,677	-	276,351
<i>Other Key Management Personnel:</i>							
Luke Murphy	167,220	7,061	-	16,113	3,727	18,198	212,319
Joshua Fisher	196,047	(1,334)	-	18,852	3,598	-	217,163
	<u>988,341</u>	<u>30,885</u>	<u>-</u>	<u>90,307</u>	<u>16,679</u>	<u>18,198</u>	<u>1,144,410</u>

The above remuneration represents amounts paid for the 12 months ended 30 September 2021.

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

Name	<u>Fixed remuneration</u>		<u>At risk - STI</u>		<u>At risk - LTI</u>	
	2022	2021	2022	2021	2022	2021
<i>Non-Executive Directors:</i>						
Cristiano Nicolli	100%	100%	-	-	-	-
Paul Collins	100%	100%	-	-	-	-
Guy Mendelson	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Lars Lindstrom	100%	100%	-	-	-	-
Darren Hunter	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Luke Murphy	97%	91%	-	-	3%	9%
Joshua Fisher	99%	100%	-	-	1%	-

Service agreements

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

Name:	Cristiano Nicolli
Title:	Chairman
Term of agreement:	No fixed term.
Details:	Annual fee of \$80,000 including statutory superannuation.
Name:	Paul Collins
Title:	Non-Executive Director
Term of agreement:	No fixed term.
Details:	Annual fee of \$60,000 including statutory superannuation.
Name:	Guy Mendelson
Title:	Non-Executive Director
Term of agreement:	No fixed term.
Details:	Annual fee of \$65,000 including statutory superannuation (including Committee chair fees).
Name:	Lars Lindstrom
Title:	Managing Director and Chief Executive Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving 3 months' notice.
Details:	Base salary of \$260,000 per annum, inclusive of superannuation.
Name:	Darren Hunter
Title:	Executive Director and Chief Information Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving 3 months' notice.
Details:	Base salary of \$260,000 per annum, inclusive of superannuation.
Name:	Luke Murphy
Title:	Chief Financial Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving three months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving two months' notice.
Details:	Base salary of \$221,000 per annum, inclusive of superannuation. The employee has also been issued options by the Company, details of which are disclosed elsewhere in this remuneration report.
Name:	Joshua Fisher
Title:	Chief Product Officer
Term of agreement:	No fixed term. The Company may terminate the agreement by giving nine months' notice and may make payment in lieu of all or part of the notice period. The employee may terminate his employment by giving three months' notice.
Details:	Base salary of \$200,000 per annum, inclusive of superannuation.

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

Share-based compensation

Issue of shares

There were no shares issued to Directors and other KMP as part of compensation during the year ended 30 September 2022.

Options issued during the period

In August 2022 the Company issued 1,100,000 options over ordinary shares in the Company to Luke Murphy that vest subject to continued employment as follows:

- 300,000 options exercisable at \$0.27 per share and expiring on 1 July 2024, vesting on 1 June 2024; and
- 800,000 options exercisable at \$0.29 per share and expiring on 1 July 2025 vesting on 1 June 2025.

In August 2022 the Company issued 300,000 options over ordinary shares in the Company to Joshua Fisher that vest subject to both FY23 financial performance measures linked to the FY23 budget for the eBook Solutions segment and continued employment as follows:

- 150,000 options exercisable at \$0.27 per share and expiring on 1 July 2024, vesting on 1 June 2024 subject to achievement of a FY23 revenue target for the eBook Solutions segment; and
- 150,000 options exercisable at \$0.27 per share and expiring on 1 July 2024, vesting on 1 June 2024 subject to achievement of a FY23 EBIT target for the eBook Solutions segment.

There were no other options over ordinary shares granted to or vested by Directors and other KMP as part of compensation during the year ended 30 September 2022.

Details of options issued as part of compensation during the year ended 30 September 2022 and prior years and held by Directors and other KMP as at the date of this report are as follows:

Class	KMP Holders	Vesting conditions
Options over ordinary shares, exercisable at \$0.27 per share and expiring on 1 July 2024	Luke Murphy – 300,000	Continued employment until 1 June 2024
Options over ordinary shares, exercisable at \$0.29 per share and expiring on 1 July 2025	Luke Murphy – 800,000	Continued employment until 1 June 2025
Options over ordinary shares, exercisable at \$0.27 per share and expiring on 1 July 2024	Joshua Fisher – 300,000	Continued employment until 1 June 2024 and achievement of FY23 financial performance targets for the eBook Solutions segment

Options vested or lapsed during the period

During the year ended 30 September 2022, the following options held by KMP lapsed (no options vested to KMP during the period):

Class	KMP Holder
Options over ordinary shares, exercisable at \$0.41 per share and expiring on 17 July 2022	Luke Murphy – 360,000
Options over ordinary shares, exercisable at \$0.34 per share and expiring on 12 July 2022	Luke Murphy – 150,000
Options over ordinary shares, exercisable at \$0.20 per share and expiring on 7 February 2022	Luke Murphy – 75,000

Performance rights issued during the period

There were no performance rights granted to or held by Directors and other KMP as part of compensation during the year ended 30 September 2022.

Additional information

The earnings of the Group for the last 4 financial periods are summarised below:

	2022 (30 September) \$	2021 (30 September) \$	2021 (30 June) \$	2020 (30 June) \$
Sales revenue	8,212,033	6,988,396	7,172,072	6,956,136
Underlying EBITDA	(822,834)	(769,010)	15,553	(161,141)
Loss after income tax	(1,644,874)	(1,989,630)	(1,151,371)	(981,984)

All amounts are for 12-month periods ended 30 September or 30 June as applicable.

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

	30 September 2022	30 September 2021	30 June 2021	30 June 2020
Share price at financial period end (\$)	0.135	0.24	0.33	0.28

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of period	Additions	Disposals / other	Balance at the end of the period
<i>Ordinary shares</i>				
Cristiano Nicolli	125,000	500,000	-	625,000
Paul Collins	1,185,411	-	-	1,185,411
Guy Mendelson	1,435,318	-	-	1,435,318
Lars Lindstrom	8,534,128	130,000	-	8,664,128
Darren Hunter	7,084,880	-	-	7,084,880
Luke Murphy	75,000	-	-	75,000
Joshua Fisher	5,013,610	-	-	5,013,610
	<u>23,453,347</u>	<u>630,000</u>	<u>-</u>	<u>24,083,347</u>

Option holding

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

	Balance at the start of the period	Received as part of remuneration	Acquired	Exercised	Expired/ forfeited/ other	Balance at the end of the period
<i>Options over ordinary shares</i>						
Cristiano Nicolli	-	-	-	-	-	-
Paul Collins	-	-	-	-	-	-
Darren Hunter	-	-	-	-	-	-
Luke Murphy	585,000	1,100,000	-	-	(585,000)	1,100,000
Joshua Fisher	-	300,000	-	-	-	300,000
	<u>585,000</u>	<u>1,400,000</u>	<u>-</u>	<u>-</u>	<u>(585,000)</u>	<u>1,400,000</u>

	Unvested	Vested and exercisable	Balance at the end of the period
<i>Options over ordinary shares</i>			
Luke Murphy	1,100,000	-	1,100,000
Joshua Fisher	300,000	-	300,000
	<u>1,400,000</u>	<u>-</u>	<u>1,400,000</u>

Loans

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

This concludes the remuneration report, which has been audited.

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
13 July 2020	2 July 2023	\$0.280	100,000
30 March 2021	9 March 2025	\$0.430	300,000
4 August 2022	1 July 2024	\$0.270	2,150,000
4 August 2022	1 July 2025	\$0.290	1,050,000
30 August 2022	1 July 2025	\$0.290	500,000
			<u>4,100,000</u>

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

Shares under performance rights

At the date of this report there are no unissued ordinary shares of the Company under performance rights. No ordinary shares of the Company were issued on the exercise of performance rights during the year ended 30 September 2022 or since this date.

Shares issued on the exercise of options

During the year ended 30 September 2022 no ordinary shares of the Company were issued on the exercise of options.

Indemnity and insurance of officers

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

The Company has paid a premium of \$36,900 in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

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

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

Auditor's independence declaration

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

Auditor

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

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

On behalf of the Directors



Cristiano Nicolli
Chairman

29 November 2022

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

In relation to our audit of the financial report of ReadCloud Limited for the financial year ended 30 September 2022, I declare to the best of my knowledge and belief, there have been:

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



PKF
Melbourne, 29 November 2022



Kaitlynn Brady
Partner

	Note	Consolidated 2022	Consolidated 2021
		\$	\$
Revenue			
Sales revenue	5	8,212,033	6,988,396
Other income	5	<u>337,116</u>	<u>429,677</u>
Total revenue and other income		8,549,150	7,418,073
Expenses			
Advertising and marketing expenses		(329,265)	(183,618)
Depreciation and amortisation expenses	6	(1,127,373)	(987,465)
Employment expenses	6	(4,357,211)	(3,789,844)
Fair value movement of contingent consideration	15	375,000	-
Legal and compliance expenses		(75,553)	(127,818)
Professional services expenses		(506,431)	(577,221)
Publisher and bookseller fees expenses		(3,333,605)	(2,904,162)
Share-based payment expenses	6	(41,235)	(50,849)
Telephone, internet & data hosting expenses		(108,532)	(96,609)
Travel expenses		(140,240)	(96,642)
Other expenses		(519,296)	(554,815)
Finance costs		<u>(6,891)</u>	<u>(17,538)</u>
Loss before income tax expense		(1,621,483)	(1,968,508)
Income tax expense	7	<u>(23,391)</u>	<u>(21,122)</u>
Loss after income tax expense for the year attributable to the Owners of ReadCloud Limited		(1,644,874)	(1,989,630)
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to the Owners of ReadCloud Limited		<u><u>(1,644,874)</u></u>	<u><u>(1,989,630)</u></u>
		Cents	Cents
Basic earnings / (loss) per share	27	(1.37)	(1.72)
Diluted earnings / (loss) per share	27	(1.37)	(1.72)

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

	Note	Consolidated 2022	Consolidated 2021
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,467,408	4,471,183
Trade and other receivables	8	944,749	787,073
Prepayments		105,492	126,091
Total current assets		<u>3,517,649</u>	<u>5,384,347</u>
Non-current assets			
Deposits		36,300	40,563
Property, plant and equipment	9	176,399	239,868
Intangible assets	10	8,015,119	8,108,810
Right-of-use assets	11	332,124	258,019
Total non-current assets		<u>8,559,941</u>	<u>8,647,259</u>
Total assets		<u>12,077,590</u>	<u>14,031,606</u>
Liabilities			
Current liabilities			
Trade and other payables	12	799,470	651,107
Provision for employee entitlements	13	398,697	337,182
Provision for income tax		-	88,797
Contract liabilities	14	290,920	517,054
Contingent consideration	15	74,999	1,000,000
Lease liabilities	11	159,443	173,090
Total current liabilities		<u>1,723,530</u>	<u>2,767,230</u>
Non-current liabilities			
Provision for employee entitlements	13	118,572	85,135
Lease liabilities non-current	11	222,803	112,916
Total non-current liabilities		<u>341,375</u>	<u>198,051</u>
Total liabilities		<u>2,064,905</u>	<u>2,965,281</u>
Net assets		<u>10,012,685</u>	<u>11,066,325</u>
Equity			
Contributed equity	16	17,958,754	17,408,753
Reserves	17	235,019	456,848
Accumulated losses		(8,181,088)	(6,799,276)
Total equity		<u>10,012,685</u>	<u>11,066,325</u>

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

Consolidated	Issued capital \$	Share based payments reserve \$	Retained profits \$	Total equity \$
Balance at 1 October 2020	11,838,008	426,465	(4,830,112)	7,434,441
Loss after income tax expense for the year	-	-	(1,989,630)	(1,989,630)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(1,989,630)	(1,989,630)
<i>Transactions with Owners in their capacity as Owners:</i>				
Contributions of equity (net of transaction costs)	5,570,666	-	-	5,570,666
Share-based payments (note 28)	-	50,849	-	50,849
Lapse of options	-	(20,466)	20,466	-
Balance at 30 September 2021	<u>17,408,754</u>	<u>456,848</u>	<u>(6,799,276)</u>	<u>11,066,325</u>

Consolidated	Issued capital \$	Share based payments reserve \$	Retained profits \$	Total equity \$
Balance at 1 October 2021	17,408,754	456,848	(6,799,276)	11,066,325
Loss after income tax expense for the period	-	-	(1,644,874)	(1,644,874)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(1,644,874)	(1,644,874)
Issue of shares as consideration for acquisitions	550,001			550,001
<i>Transactions with Owners in their capacity as Owners:</i>				
Share-based payments (note 28)	-	41,235	-	41,235
Lapse of options	-	(263,064)	263,064	-
Balance at 30 September 2022	<u>17,958,754</u>	<u>235,019</u>	<u>(8,181,088)</u>	<u>10,012,685</u>

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

	Note	Consolidated 2022 \$	2021 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		7,878,793	7,203,216
Payments to suppliers (inclusive of GST)		(9,166,452)	(8,054,949)
Research and development tax incentive refund		395,728	390,673
Interest income		1,850	1,184
Income tax		(158,725)	(23,391)
Other Government grant income		-	42,500
Net cash used in operating activities	26	(1,048,806)	(440,767)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired		-	(2,044,220)
Payments for property, plant and equipment	9	(40,229)	(41,281)
Payments for software development	10	(536,968)	(623,001)
Purchase of intangible assets	10	(175,336)	(174,265)
Net cash used in investing activities		(752,533)	(2,882,768)
Cash flows from financing activities			
Repayment of lease liabilities		(195,545)	(188,355)
Interest paid on lease liabilities and borrowings		(6,891)	(17,538)
Proceeds from issue of shares	16	-	5,591,858
Share issue transaction costs		-	(21,193)
Repayment of borrowings		-	(483,566)
Net cash from financing activities		(202,436)	4,881,206
Net increase/(decrease) in cash and cash equivalents		(2,003,775)	1,557,672
Cash and cash equivalents at the beginning of the financial period		4,471,182	2,913,510
Cash and cash equivalents at the end of the financial period		2,467,408	4,471,182

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

Note 1. General information

The financial statements cover the consolidated entity (referred to as the "Group"), consisting of ReadCloud Limited (the "Company" or "parent entity") and the entities it controlled at the end of, or during the year ended 30 September 2022. The financial statements are presented in Australian dollars, which is ReadCloud Limited's functional and presentation currency. ReadCloud Limited is a listed public company limited by shares, incorporated and domiciled in Australia.

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

The financial statements were authorised for issue on the date of the Directors' Declaration, in accordance with a resolution of the Directors. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

New or amended Accounting Standards and Interpretations adopted

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 24.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ReadCloud Limited ('Company' or 'parent entity') as at 30 September 2022 and the results of all subsidiaries for the year then ended. ReadCloud Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

Note 2. Significant accounting policies (continued)

Business combinations

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

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

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

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

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

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

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

Current and non-current classification

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

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

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

Note 2. Significant accounting policies (continued)

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

Property, plant and equipment

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

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

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

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

Leases

In accordance with AASB 16 Leases the Group, as lessee, is required to recognise its leases in the statement of financial position. The only exceptions are short-term (less than 12 months) leases and leases of low-value assets. The lease liability is measured as the present value of the unavoidable future lease payments to be made over the lease term (refer Note 11 Leases).

Determination of lease liabilities and right of use assets ("ROUA")

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

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

Fair value measurement

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

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

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including

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

expectations of future events, management believes to be reasonable under the circumstances. Where relevant, current assessment incorporated a consideration of uncertainties associated with COVID-19. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Capitalised software development costs

The Group capitalises software development costs associated with the ReadCloud platform in accordance with the accounting policy described in Note 10. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a key commercial milestone enabling the project to proceed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project and the expected period of benefits.

Share-based payments

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

Estimation of useful lives of assets

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

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

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

Income tax

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

Recovery of deferred tax assets

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

Note 4. Operating segments

Identification of reportable operating segments

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

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

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

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

The information reported to the CODM is on a monthly basis.

Note 4. Operating segments (continued)

Consolidated – 30 September 2022

	eBook solutions	Vocational Education and Training	Unallocated public company costs	Total
	\$	\$	\$	\$
Sales revenue	4,378,643	3,833,391		8,212,033
Other income	337,116	-		337,116
Total revenue	4,715,759	3,833,391		8,549,150
Underlying EBITDA	(651,060)	236,772	(408,546)	(822,834)
Depreciation and amortisation	(861,647)	(265,726)		(1,127,373)
Fair value movement of contingent consideration	375,000	-	-	375,000
Share based payments	(12,623)	(28,612)		(41,235)
Net interest revenue	(5,041)	-		(5,041)
Income tax benefit / (expense)	-	(23,391)		(23,391)
Reported (statutory) net loss after tax	(1,155,371)	(80,958)	(408,546)	(1,644,874)
Total segment assets	4,280,409	7,797,181		12,077,590
Total segment liabilities	(1,647,691)	(417,215)		(2,064,905)

Consolidated – 30 September 2021

	eBook solutions	Vocational Education and Training	Unallocated public company costs	Total
	\$	\$	\$	\$
Sales revenue	3,715,987	3,272,408		6,988,396
Other income	399,677	30,000		429,677
Total revenue	4,115,665	3,302,408		7,418,073
Underlying EBITDA	(613,432)	241,758	(397,336)	(769,010)
Depreciation and amortisation	(745,861)	(241,604)		(987,465)
Share based payments	(32,296)	(18,552)		(50,849)
Transaction costs incurred on business acquisitions (expensed)	(144,830)	-		(144,830)
Net interest revenue / (expense)	(6,135)	(10,218)		(16,354)
Income tax benefit / (expense)	-	(21,122)		(21,122)
Reported (statutory) net loss after tax	(1,542,555)	(49,739)	(397,336)	(1,989,630)
Total segment assets	7,212,788	6,818,818		14,031,606
Total segment liabilities	(2,070,643)	(894,638)		(2,965,281)

Major customers

During the year ended 30 September 2022 approximately 5% of the Group's external revenue was derived from sales to one direct school customer (30 September 2021: 5%).

Note 5. Revenue and other income

	Consolidated	
	2022	2021
	\$	\$
<i>Sales revenue</i>		
eBook Sales	3,978,572	3,315,719
Licence Fee	479,627	498,046
Auspicing fees	3,656,311	3,065,336
Sales & fees - other	97,523	109,294
	<u>8,212,033</u>	<u>6,988,396</u>
<i>Other income</i>		
Government grants - R&D	335,267	385,993
Interest revenue calculated using the effective interest method	1,850	1,184
Other revenue	-	42,500
	<u>337,116</u>	<u>429,677</u>
Revenue and other income	<u>8,549,150</u>	<u>7,418,073</u>

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

	Consolidated	
	2022	2021
	\$	\$
Goods transferred at a point in time	4,076,095	3,425,013
Services transferred over time	<u>4,135,938</u>	<u>3,563,383</u>
Revenue	<u>8,212,033</u>	<u>6,988,396</u>

Accounting policy for revenue recognition

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

Revenue from contracts with customers

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

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

Note 5. Revenue (continued)

Revenue is recognised to depict the transfer of eBooks and licencing services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. All contracts (either written, verbal or implied) are identified, together with the separate performance obligations within the contract and the transaction price is determined. Adjustments are made for the time value of money excluding credit risk and the transaction price is allocated to the separate performance obligations on a basis of relative stand-alone selling price of each distinct service/good. The estimation approach is taken if no distinct observable prices exists, and revenue is recognised when each performance obligation is satisfied.

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

Interest

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

eBook sales revenue

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

Software licence fee revenue

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

Auspicing fees

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

Government grants

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

Other revenue

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

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

Note 5. Revenue (continued)

Revenue stream	Revenue recognition pattern
Software license fees	
Performance obligation 1 - Accessibility and usage of ReadCloud's software	Point in time (upon a customer purchasing software)
Performance obligation 2 - Maintenance/support	Over time, which usually relates to a school year
eBooks sales	Point in time (upon a customer purchasing an eBook)
Auspicing fees	
Performance obligation 1 – the pre-approval of a school to offer a nationally-recognised VET qualification under the auspices of one of the Group's RTO licences and set-up of a school, classes, and students (including provision of all course resources) to enable VET course delivery	Point in time (upon customer entering into a contract)
Performance obligation 2 - ongoing service / maintenance and compliance monitoring	Over time, which usually relates to a school year
Performance obligation 3 – issue of certificates to students	Over time, which usually relates to the school year
Training & student fees	
Performance obligation 1 – provision of access to online course materials	Point in time (upon customer commencing a VET qualification)
Performance obligation 2 – marking of student assessments and issue of certificates / statements of attainment	Over time, which usually relates to a school year
Studio services	
One performance obligation, being the provision of sound recording services	Point in time (upon control over audio files being transferred to the customer)

Note 6. Expenses

	Consolidated	
	2022	2021
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	60,351	63,398
Leasehold improvements	43,347	41,768
Right of use assets	217,681	190,342
	<u>321,379</u>	<u>295,509</u>
<i>Amortisation</i>		
Software development	627,038	583,779
Registered Training Organisation licence	14,863	49,061
Intellectual property in Vocational Education & Training course materials	164,093	59,116
	<u>805,994</u>	<u>691,956</u>
Total depreciation and amortisation	<u>1,127,373</u>	<u>987,464</u>
Employee benefits expense excluding superannuation	3,924,294	3,425,895
Defined contribution superannuation expense	432,918	363,948
Total Employment expenses	<u>4,357,211</u>	<u>3,789,844</u>
Share-based payments expense	<u>41,235</u>	<u>50,849</u>

Note 7. Income tax expense

	Consolidated	
	2022	2021
	\$	\$
Income tax expense	23,391	21,122
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax expense	(1,621,483)	(1,968,508)
Tax at the statutory tax rate of 25.00% (25.00% at 30 September 2021)	(405,371)	(492,127)
Share based payments	10,309	12,712
Non-deductible expenses – entertainment	2,487	2,170
Non-assessable R&D tax incentive	(83,817)	(96,498)
Non-deductible R&D expenditure subject to incentive	72,207	51,943
Fair value movement in contingent consideration (non-assessable)	(93,750)	-
Deferred tax asset not brought to account	320,208	313,863
Impact of change in tax rate	-	7,395
Prior period adjustments	22,695	-
Other balances and permanent differences	178,423	221,654
Income tax expense	<u>23,391</u>	<u>21,122</u>

	Consolidated	
	2022	2021
	\$	\$
Deferred tax liability comprises temporary differences attributable to:		
Provisions, accruals and other amounts not yet deductible	(280,835)	(334,302)
Capitalised software costs deducted	635,809	655,516
Unused income tax losses	(354,974)	(321,214)
Total deferred tax liability	-	-
Deferred tax assets not recognised	<u>899,741</u>	<u>579,533</u>

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

Accounting policy for income tax

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

Note 7. Income tax expense (continued)

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

Note 8. Current assets - trade and other receivables

	Consolidated	
	2022	2021
	\$	\$
Trade receivables	427,636	320,531
Less provision for doubtful debts	-	(17,970)
	<u>427,636</u>	<u>302,561</u>
R&D tax incentive receivable	424,051	484,512
Deposits-current	46,525	-
Income tax refund due	46,537	-
	<u>944,749</u>	<u>787,073</u>

Refer to note 19 for further information on financial instruments.

Allowance for expected credit losses

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

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

	Consolidated	
	2022	2021
	\$	\$
0 to 3 months	390,171	141,530
3 to 6 months	27,132	118,471
Greater than 6 months	10,333	60,530
	<u>427,636</u>	<u>320,531</u>

Accounting policy for trade and other receivables

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

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

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

Accounting policy for goods and services tax

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

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

Note 9. Non-current assets – Property, plant & equipment

	Consolidated	
	2022	2021
	\$	\$
Computer & office equipment - at cost	289,736	249,507
Less: Accumulated depreciation	(190,107)	(129,756)
	<u>99,629</u>	<u>119,751</u>
Leasehold improvements - at cost	168,730	178,541
Less: Accumulated depreciation	(91,960)	(58,424)
	<u>76,769</u>	<u>120,117</u>
	<u><u>176,399</u></u>	<u><u>239,868</u></u>

Reconciliations

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

Consolidated	Computer & office equipment \$	Leasehold improvements \$	Total \$
Balance at 1 October 2020	72,814	29,786	102,600
Additions	31,183	10,098	41,281
Additions through business combinations	79,153	122,000	201,153
Depreciation expense	(63,398)	(41,768)	(105,166)
Balance at 30 September 2021	119,751	120,117	239,868
Additions	40,229	-	40,229
Depreciation expense	(60,351)	(43,347)	(103,698)
Balance at 30 September 2022	<u><u>99,629</u></u>	<u><u>76,769</u></u>	<u><u>176,399</u></u>

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

Note 10. Non-current assets - intangibles

	Consolidated	
	2022	2021
	\$	\$
Goodwill	5,400,553	5,400,553
Software	4,888,359	4,351,392
Less: Accumulated amortisation	(2,713,808)	(2,086,771)
	2,174,551	2,264,621
Registered Training Organisation Licences	150,000	150,000
Less: Accumulated amortisation	(78,669)	(63,806)
	71,331	86,194
Intellectual property in Vocational Education & Training course materials	644,601	469,265
Less: Accumulated amortisation	(275,917)	(111,824)
	368,684	357,441
	<u>8,015,119</u>	<u>8,108,810</u>

Reconciliations

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

	Software at cost \$	Goodwill \$	Registered Training Organisation licence \$	Intellectual property in course materials \$	Total \$
Consolidated					
Balance at 1 October 2020	2,225,399	2,213,929	35,256	2,292	4,476,876
Additions	623,001	-	-	174,265	797,266
Additions through business combinations	-	3,186,624	100,000	240,000	3,526,624
Amortisation expense	(583,779)	-	(49,061)	(59,116)	(691,956)
Balance at 30 September 2021	2,264,621	5,400,553	86,195	357,441	8,108,810
Additions	536,968	-	-	175,336	712,304
Amortisation expense	(627,038)	-	(14,863)	(164,093)	(805,994)
Balance at 30 September 2022	<u>2,174,551</u>	<u>5,400,553</u>	<u>71,331</u>	<u>368,684</u>	<u>8,015,119</u>

Accounting policy for Goodwill

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

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

Note 10. Non-current assets – intangibles (continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition.

Accounting policy for internally developed software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years. Internally generated intangibles, excluding internally developed software, are not capitalised and the related expenditure is reflected in the statement of profit or loss in the period in which the expenditure is incurred.

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

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

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

Impairment of non-financial assets

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

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

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

Goodwill has been allocated to the Vocational Education and Training segment cash-generating unit (CGU). The recoverable amount of the CGU is determined based on a value-in-use model. The model uses a post-tax discount rate of 14.1% (30 September 2021: 12.0%), based on the weighted average cost of capital adjusted to reflect an estimate of specific risks assumed in the cash flow projections. Those projections are based on the financial budget for the 12 months immediately following the reporting date, cash flows beyond 12 months extrapolated through a 4-year outlook utilising annual growth rates based on current and forecast trading conditions and the growth objectives of business plans, and a terminal value growth rate of 2.0% (30 September 2021: 2.0%).

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

Note 10. Non-current assets – intangibles (continued)

Sensitivity analysis on the key assumptions employed in the value-in-use calculations has been performed by Management. The sensitivities applied were decreasing projected school sign-ups by 10% throughout the model period (whilst holding operating costs stable), increasing the weighted average cost of capital by 6 percentage points (to 20%) and reducing the terminal value growth to nil. This has concluded that any reasonable possible change in valuation parameters would not cause the carrying amount of the CGU to exceed its recoverable amount.

Note 11. Leases

A. Expenses

Expenses from transactions not recognised as leases:

	Consolidated 2022 \$	2021 \$
Rental expense relating to leases of low-value assets	5,877	5,959

B. Cash flows

	Consolidated 2022 \$	2021 \$
Total cash outflow for leases:		
Office leases	201,491	179,135
Photocopying equipment	-	20,984
	<u>201,491</u>	<u>200,119</u>

C. Right-of-use assets

	Consolidated 2022 \$	2021 \$
Right-of-use assets – Office leases	788,283	495,739
Less: Accumulated depreciation	<u>(456,158)</u>	<u>(237,720)</u>
	332,124	258,019
Right-of-use assets – Photocopying equipment	-	
Less: Accumulated depreciation	<u>-</u>	<u>-</u>
	-	-
Balance at end of financial period	<u>332,124</u>	<u>258,019</u>

Note 11. Leases (continued)

Reconciliations

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

	Office leases	Photocopying Equipment	Total
	\$	\$	\$
Opening balance at 1 October 2020	227,593	20,484	247,877
Additions (new leases)	64,002	-	64,002
Additions through business combinations	136,482	-	136,482
Depreciation charge	(170,058)	(20,284)	(190,342)
Disposals	(60,151)	(70,993)	(131,144)
Write-back of accumulated depreciation on disposals	60,151	70,993	131,144
Balance at 30 September 2021	258,019	-	258,019
Additions	357,179	-	357,179
Depreciation charge	(217,681)	-	(217,681)
Write-down of Right-of-Use asset due to change in lease term	(65,393)	-	(65,393)
Balance at 30 September 2022	332,124	-	332,124

D. Lease liabilities

	Consolidated	
	2022	2021
	\$	\$
Current	159,443	173,090
Non-current	222,803	112,916
Balance at end of financial period	382,246	286,006

Refer to note 19 for further information on financial instruments.

Additional information

Accounting policies relative to leases

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Note 11. Leases (continued)

Lease liabilities

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

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

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

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

Weighted average lease term

The average unavoidable office lease term, weighted by the outstanding lease liability as at 30 September 2022, is 2.46 years (30 September 2021: 2.02 years).

Note 12. Current liabilities - trade and other payables

	Consolidated	
	2022	2021
	\$	\$
Trade payables	482,291	290,811
Accrued expenses	56,250	53,500
GST receivable	(27,296)	(42,808)
Other payables	288,225	349,604
	<u>799,470</u>	<u>651,107</u>

Refer to note 19 for further information on financial instruments.

Accounting policy for trade and other payables

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

Note 13. Employee entitlements

	Consolidated	
	2022	2021
	\$	\$
Annual leave (current)	378,229	337,182
Long service leave (current)	20,468	-
	<u>398,697</u>	<u>337,182</u>
Long service leave (non-current)	<u>118,572</u>	<u>85,135</u>

Accounting policy for employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Defined contribution superannuation expense

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

Note 14. Current liabilities – Contract liabilities

	Consolidated	
	2022	2021
	\$	\$
Unearned revenue - software	24,382	27,405
Unearned revenue - distribution agreement	100,000	100,000
Unearned revenue – auspicing fees	166,538	389,649
	<u>290,920</u>	<u>517,054</u>

Unearned revenue - distribution agreement

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

Unearned revenue – Software licence fees and Auspicing fees

Refer to note 5 for further information on the timing of revenue recognition in relation to these revenue streams. The reduction in Unearned revenue – auspicing fees reflects the early invoicing (in late FY21) of auspicing fees for the 2022 school year. The performance obligations in respect of this revenue hadn't been satisfied as at 30 September 2021 and as such 100% of this revenue was recognised as unearned. No invoicing of auspicing fees in respect of the 2023 school year had occurred prior to 30 September 2022.

Note 15. Contingent consideration

	Consolidated	
	2022	2021
	\$	\$
Current	74,999	1,000,000
Non-current	-	-
	<u>74,999</u>	<u>1,000,000</u>

There were no acquisitions made during the year ended 30 September 2022. During the previous year ended 30 September 2021, the Company made the following acquisitions:

- i. The Company acquired PKY Media Pty Ltd (trading as College of Sound and Music Production, "COSAMP") with effect from 28 October 2020 for cash consideration of \$1.45 million (paid on completion) and contingent consideration comprising up to \$400,000 of ReadCloud shares, which was contingent on PKY Media achieving defined revenue targets for the 12-month periods ending 30 June 2021 and 30 June 2022.

As at 30 September 2021 a contingent consideration liability in respect of the PKY Media acquisition of \$400,000 was measured based on the expectations of PKY Media achieving the maximum revenue performance hurdles for both earn-out periods.

The revenue target for the period ended 30 June 2021 was achieved in full, resulting in the issue of \$250,000 of ReadCloud shares (657,896 shares at a notional issue price of \$0.38 per share) to the vendors of PKY Media on 1 October 2021. In respect of the period ended 30 June 2022 PKY Media did not achieve the maximum revenue performance hurdle and a contingent consideration liability in respect of the PKY Media acquisition of \$75,000 has been remeasured as at 30 September 2022 based on actual revenue achieved. This has resulted in a \$75,000 reduction in the contingent consideration payable.

- ii. The Company acquired Ripponlea Institute Pty Ltd ("Ripponlea Institute") with effect from 8 June 2021 for cash consideration of \$1.7 million (paid on completion) and contingent consideration comprising up to \$600,000 of ReadCloud shares, which was contingent on Ripponlea Institute achieving defined revenue targets for the 12-month period ending 30 June 2021 and 30 June 2022.

As at 30 September 2021 a contingent consideration liability in respect of the Ripponlea Institute acquisition of \$600,000 was remeasured based on the expectations of Ripponlea Institute achieving the maximum revenue performance hurdles for both earn-out periods.

The revenue target for the period ended 30 June 2021 was achieved in full, resulting in the issue of \$300,000 of ReadCloud shares (789,474 shares at a notional issue price of \$0.38 per share) to the vendor of Ripponlea Institute on 1 October 2021. In respect of the period ended 30 June 2022 Ripponlea Institute didn't meet the revenue performance hurdle. Accordingly, no contingent consideration liability has been measured in respect of this acquisition as at 30 September 2022. This has resulted in a \$300,000 reduction in the contingent consideration payable.

Note 16. Equity - contributed equity

	2022 Shares	2021 Shares	Consolidated 2022 \$	2021 \$
Ordinary shares - fully paid	<u>119,764,921</u>	<u>118,317,551</u>	<u>17,958,754</u>	<u>17,408,753</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 September 2020	99,563,023		11,838,088
Shares issued pursuant to exercise of options	Oct-Dec 2020	18,319,528	\$0.30	5,495,858
Shares issued pursuant to exercise of options	17 December 2020	60,000	\$0.35	21,000
Shares issued pursuant to exercise of options	Jan-Feb 2021	375,000	\$0.20	75,000
Share issue transaction costs				(21,193)
Balance	30 September 2021	118,317,551		17,408,754
Shares issued as consideration for acquisition of PKY Media Pty Ltd	1 Oct 2022	657,896	0.38	250,000
Shares issued as consideration for acquisition of Ripponlea Institute Pty Ltd	1 Oct 2022	<u>789,474</u>	0.38	<u>300,000</u>
Balance	30 September 2022	<u>119,764,921</u>		<u>17,958,754</u>

Share buy-back

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

Capital risk management

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

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

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 17. Equity – reserves

	Consolidated	
	2022	2021
	\$	\$
Share-based payments reserve	235,019	456,848

Share-based payments reserve

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

Movements in reserves

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

	Consolidated	
	Share based payments reserve	Total
	\$	\$
Balance at 1 October 2020	426,465	426,465
Share based payment expense	50,849	50,849
Lapse of options	(20,466)	(20,466)
Balance at 30 September 2021	456,848	456,848
Share based payment expense	41,235	41,235
Share based payment expense	(263,064)	(263,064)
Balance at 30 September 2022	235,019	235,019

Note 18. Equity - dividends

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

Note 19. Financial instruments

Financial risk management objectives

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

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

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

Note 19. Financial instruments (continued)

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

	Consolidated	
	2022	2021
	\$	\$
Financial assets		
Cash and cash equivalents	2,467,408	4,471,183
Trade and other receivables	898,224	787,073
	<u>3,365,632</u>	<u>5,258,256</u>
Financial liabilities		
Trade and other payables	799,470	651,107
Lease Liabilities	362,247	276,006
	<u>1,161,717</u>	<u>927,113</u>

Accounting policy for financial instruments

Cash and cash equivalents

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

Trade and other receivables

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

Trade and other payables

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

Market risk

Foreign currency risk

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

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

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

Credit risk

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

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

Note 19. Financial instruments (continued)

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

Liquidity risk

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

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

Remaining contractual maturities

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

Consolidated – 2022	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	799,470	-	-	-	799,470
<i>Interest bearing</i>						
Lease liabilities	7.15%	166,433	139,568	83,283	-	389,284
Total non-derivatives		965,903	139,568	83,283	-	1,188,754

Consolidated – 2021	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	651,107	-	-	-	651,107
<i>Interest bearing</i>						
Lease liabilities	3.74%	180,405	46,842	51,700	-	278,947
Borrowings			-	-	-	
Total non-derivatives		831,512	46,842	51,700	-	930,053

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

Fair value of financial instruments

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

Note 20. Key management personnel disclosures

Compensation

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

	Consolidated	
	2022	2021
	\$	\$
Short-term employee benefits	1,014,565	1,019,226
Post-employment benefits	96,294	90,307
Long-term benefits	17,263	16,679
Share-based payments	5,590	18,198
	<u>1,133,712</u>	<u>1,144,410</u>

Note 21. Remuneration of auditors

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

	Consolidated	
	2022	2021
	\$	\$
<i>Audit services - PKF Melbourne Audit & Assurance Pty Ltd</i>		
Audit or review of the financial statements	<u>78,966</u>	<u>102,877</u>
<i>Non-audit services - PKF Melbourne Pty Ltd</i>		
GST advice	<u>-</u>	<u>3,900</u>
	<u>78,966</u>	<u>106,777</u>

Note 22. Contingent liabilities

The Group has no contingent liabilities as at 30 September 2022 (30 September 2021: \$Nil).

Note 23. Related party transactions

Parent entity

ReadCloud Limited is the parent entity.

Key management personnel

Disclosures relating to key management personnel are set out in note 20 and in the remuneration, report included in the Directors' report.

Transactions with related parties

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

Receivable from and payable to related parties

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

Loans to / from related parties

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

Note 24. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2022 \$	2021 \$
Loss after income tax	(1,563,917)	(1,939,891)
Total comprehensive income	(1,563,917)	(1,939,891)

Statement of financial position

	Parent	
	2022 \$	2021 \$
Total current assets	1,743,867	4,741,684
Total assets	10,715,409	13,647,788
Total current liabilities	(1,304,917)	(1,982,667)
Total liabilities	(1,702,985)	(3,232,468)
Net assets	9,012,425	10,415,320

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

With the exception of guarantees in respect of PKY Media Pty Ltd and Ripponlea Institute Pty Ltd (up to a maximum of \$0.5 million each), the parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 September 2022 (30 September 2021: no guarantees in relation to the debts of subsidiaries other than in respect of PKY Media Pty Ltd and Ripponlea Institute Pty Ltd up to a maximum of \$0.5 million each).

Contingent liabilities

The parent entity had no contingent liabilities as at 30 September 2022 (30 September 2021: none).

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 September 2022 (30 September 2021: none).

Significant accounting policies

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

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

Note 24. Parent entity information (continued)

Interests in subsidiaries

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

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

Note 25. Events after the reporting period

On 14 October 2022, ReadCloud entered into a Share Purchase Agreement to acquire 100% of the shares in Southern Solutions Training Services Pty Ltd ("Southern Solutions"), a leading national provider of training for certificates in Early Childhood Education & Care. The acquisition provides a significant growth opportunity for the Group in a market that is adjacent to ReadCloud's core business and in an industry with skills shortages and high national government funding and focus.

Established in 2014, Southern Solutions is a Registered Training Organisation (RTO) that has developed strong partnerships with industry and earned a reputation as a provider of innovative, quality and service focused training. The integration of the ReadCloud platform into Southern Solutions' training delivery is expected to deliver efficiencies and better scaling opportunities.

In FY22, Southern Solutions generated sales revenue of \$2.0 million and delivered EBIT of \$0.36 million. The acquisition consideration is up to \$3.15 million for 100% of the issued shares in Southern Solutions, with \$1.35 million to be paid up front (\$975,000 cash and \$375,000 in ReadCloud shares at 20 cents) and deferred payments of up to \$1.8 million that are contingent on FY23 and FY24 EBIT performance (to be paid with 75% cash and 25% in ReadCloud shares issued at the higher of 20 cents or the share price at the time the earn-out targets are met). The total acquisition cost represents between 3.6x and 4.5x times FY24 EBIT depending on achievement of performance hurdles.

The acquisition was completed on 9 November 2022 with the payment of the up-front cash consideration and issue of 1,875,000 ReadCloud shares.

No other matter or circumstance has arisen since 30 September 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 26. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2022	2021
	\$	\$
Loss after income tax expense/(benefit) for the period	(1,644,874)	(1,989,630)
Adjustments for:		
Depreciation and amortisation	1,127,373	987,465
Share-based payments	41,235	50,849
Finance costs	6,891	17,538
Fair value movement of contingent considerate	(375,000)	
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(153,413)	258,210
Decrease/(Increase) in prepayments	20,599	(52,416)
Increase/(decrease) in trade and other payables	148,364	144,041
Increase/(decrease) in income tax payable	(88,797)	(2,269)
Increase in employee benefits	94,952	176,497
Increase in unearned revenue	(226,135)	(31,052)
Net cash used in operating activities	<u>(1,048,806)</u>	<u>(440,767)</u>

Note 27. Earnings per share

	Consolidated	
	2022	2021
	\$	\$
Loss after income tax attributable to the Owners of ReadCloud Limited	<u>(1,644,874)</u>	<u>(1,989,630)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>119,764,921</u>	<u>115,623,193</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>119,764,921</u>	<u>115,623,193</u>
	Cents	Cents
Basic earnings / (loss) per share	(1.37)	(1.72)
Diluted earnings / (loss) per share	(1.37)	(1.72)

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

Description	Number on issue
Options issued under the Group's employee share plan (refer Note 29)	4,100,000

Note 28. Share-based payments

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

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

30 September 2022

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ Other	Balance at the end of the period
13/03/2018	7/02/2022	\$0.20	75,000	-	-	(75,000)	-
28/05/2018	7/05/2022	\$0.33	300,000	-	-	(300,000)	-
21/09/2018	17/07/2022	\$0.41	360,000	-	-	(360,000)	-
9/01/2019	14/12/2021	\$0.35	180,000	-	-	(180,000)	-
12/07/2019	12/07/2022	\$0.34	250,000	-	-	(250,000)	-
13/07/2020	2/07/2023	\$0.28	100,000	-	-	-	100,000
30/03/2021	9/03/2025	\$0.43	300,000	-	-	-	300,000
4/08/2022	1/07/2024	\$0.27	-	2,150,000	-	-	2,150,000
4/08/2022	1/07/2025	\$0.29	-	1,050,000	-	-	1,050,000
30/08/2022	1/07/2025	\$0.29	-	500,000	-	-	500,000
			1,565,000	3,700,000	-	(1,165,000)	4,100,000
Weighted average exercise price			\$0.36	\$0.28	-	(\$0.35)	\$0.29

30 September 2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ Other	Balance at the end of the year
13/03/2018	7/02/2022	\$0.20	75,000	-	-	-	75,000
28/05/2018	7/05/2022	\$0.33	300,000	-	-	-	300,000
21/09/2018	17/07/2022	\$0.41	360,000	-	-	-	360,000
9/01/2019	14/12/2021	\$0.35	180,000	-	-	-	180,000
12/07/2019	12/07/2022	\$0.34	250,000	-	-	-	250,000
13/07/2020	2/07/2023	\$0.28	100,000	-	-	-	100,000
30/03/2021	9/03/2025	\$0.43	300,000	-	-	-	300,000
			1,565,000	-	-	-	1,565,000
Weighted average exercise price			\$0.32	-	-	-	\$0.36

The weighted average remaining contractual life of options outstanding as at 30 September 2022 was 2.16 years (30 September 2021: 1.24 years).

There were no performance rights granted under the plan as part of compensation during the year ended 30 September 2022. At both the commencement and the end of the financial year there were no unissued ordinary shares of the Company under performance rights.

Note 28. Share-based payments (continued)

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
04/08/2022	01/07/2024	\$0.185	\$0.270	69.08%	-	2.71%	\$0.155
04/08/2022	01/07/2025	\$0.185	\$0.290	69.08%	-	2.82%	\$0.063
30/03/2021	01/07/2025	\$0.180	\$0.290	69.12%	-	3.24%	\$0.059

Accounting policy for share-based payments

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

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

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

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

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

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

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

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

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 September 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors



Cristiano Nicolli
Chairman

29 November 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF READCLOUD LIMITED

Report on the Financial Report

Auditor's Opinion

We have audited the accompanying financial report of ReadCloud Limited (the Company) and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 30 September 2022, and the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial period.

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

- giving a true and fair view of the Group's financial position as at 30 September 2022 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

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

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

Key Audit Matters

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

Key audit matter – Capitalisation of software development costs as intangible assets	How our audit addressed this matter
As disclosed in note 10 of the financial report, the carrying amount of the Group's internally developed software is \$2,174,551 (2021: \$2,264,621). The accounting policy in respect of this asset is also outlined in Note 10. Judgement is required in determining development expenditures that should be capitalised. Such judgements include consideration of matters such as generation of future economic benefits and distinction between development of new software and maintenance or upgrade of existing software. Capitalised development costs are then amortised over the estimated useful life of the asset, presently judged to be five years. Capitalised software is considered a Key Audit Matter due to the judgements applied in the amount of expenditure capitalised and the specific criteria that have to be met for capitalisation, in accordance with AASB 138 <i>Intangible Assets</i>.	Our procedures included, but were not limited to, the following: - testing, on a sample basis, of development expenditure incurred during the period for compliance with AASB 138 and the Group's accounting policy; - assessing evidence of Management's conclusion of the economic feasibility of the products relying on the application of the software, including board approved budgets, historical sales levels and marketing and business development plans; - assessing the reasonableness of estimated useful life of five years and the calculation of amortisation; - assessing whether any indicators exist of impairment, such as evidence of adverse market or internal conditions, and product or revenue underperformance; - assessing and challenging, with reference to Management's recoverability analysis, that the recoverable amount of the asset from its continuing use supports its carrying amount; and - assessing the appropriateness of related disclosures in Note 10.

Key audit matter – Impairment of VET CGU goodwill and intangibles

How our audit addressed this matter

As disclosed in Note 10 of the financial report, the carrying amount of goodwill and acquired intangibles allocated to the VET CGU is \$5,840,567 (2021: \$5,844,188). Relevant accounting policies are also disclosed in Note 10.

The carrying amount of goodwill and acquired intangible assets is considered with reference to the Group's analysis of future cash flows using a value-in-use (VIU) model, applied to the VET CGU.

The Group's early stage of maturity anticipates the continuing investment of cash resources to enable cash positive operating activities. Net operating cash outflows during the period are an indicator of impairment of internally developed software, causing the Group to extend its VIU model to consider this asset, which is utilised Group-wide.

The Group's VIU models are internally developed, using a range of internal and external data, and forward-looking assumptions and judgements that may not materialise as expected.

The key assumptions in the VIU model include:

- preparation of forecast cash flows, incorporating forecast growth rates during the forecast period;
- determination of a terminal growth factor; and
- determination of a discount rate.

Our assessment of Management's evaluation of the recoverable amount of intangibles in accordance with the requirements of AASB 136 *Impairment of Assets* is a Key Audit Matter.

Our procedures included, but were not limited to, assessing and challenging:

- the reasonableness of the budget for the financial year ending 30 September 2023 as approved by the Directors, comparing to current actual results, and considering strategies and outlooks;
- Management's judgements supporting the Group's forecasted performance for the financial year ending 30 September 2023;
- the testing of inputs used in the VIU model, including the approved budget;
- the determination of the discount rate applied in the VIU model, comparing to available industry data;
- the short to medium term growth rates applied in the forecast cash flow, considering historical results including the growth achieved from services to new client schools and their student population, and available industry data;
- the arithmetic accuracy of the VIU model;
- the appropriateness of CGU determination;
- Management's sensitivity analysis around the key drivers of the cash flow projections, to consider the likelihood of such movements occurring, sufficient to give rise to impairment; and
- the appropriateness of the disclosures including those relating to sensitivities in assumptions used in note 10.

Other Information

The Directors are responsible for the Other Information. Other Information comprises the information included in the Group's financial report for the year ended 30 September 2022 but does not include the financial report and our auditor's report thereon.

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

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

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

Directors' Responsibilities for the Financial Report

The Directors of the Company are responsible for 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 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and 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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Auditor's Opinion

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 September 2022.

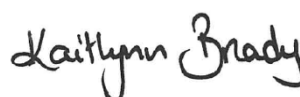
In our opinion, the Remuneration Report of the Company for the year ended 30 September 2022 complies with Section 300A of the *Corporations Act 2001*.

Responsibilities

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



PKF
Melbourne, 29 November 2022



Kaitlynn Brady
Partner

The shareholder information set out below was applicable as at 13 November 2022.

Distribution of equity securities

	Number of holders of ordinary shares	Number of holders of voluntarily escrowed shares	Number of holders of unquoted employee options
1 to 1,000	112	-	-
1,001 to 5,000	740	-	-
5,001 to 10,000	300	-	-
10,001 to 100,000	461	-	8
100,001 and over	86	4	7
	<u>1,699</u>	<u>4</u>	<u>15</u>
Holding less than a marketable parcel	703	-	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares Number held	% of total quoted shares issued
UBS Nominees Pty Ltd	11,695,118	9.61%
Citicorp Nominees Pty Ltd	10,911,190	8.97%
JP Morgan Nominees Australia Pty Limited	10,887,175	8.95%
Mr Lars Peder Lindstrom	8,454,128	6.95%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5,760,000	4.74%
HSBC Custody Nominees (Australia) Limited	4,864,878	4.00%
Hunmar Holdings Pty Ltd	3,817,786	3.14%
Sprint Capital Partners Pty Ltd	3,304,100	2.72%
Sandhurst Trustees Ltd <Cyan C3G Fund A/C>	3,194,444	2.63%
Mr Darren Hunter	2,750,000	2.26%
Ms Kimberley Juanita Therese Marshall	2,510,920	2.06%
Whymoul Pty Ltd	2,460,000	2.02%
Ms Natanya Pesha Fisher	2,026,955	1.67%
Dr Scott Maurice Donnellan	2,000,000	1.64%
Australasian Learning Academy Pty Ltd	1,875,000	1.54%
Mr Nicholas Mardling	1,800,000	1.48%
Mr Joshua Fisher	1,500,000	1.23%
Mrs Natanya Pesha Fisher & Mr Joshua Luke Fisher <Fisher Super>	1,486,655	1.22%
Mr Guy Samuel Mendelson	1,435,318	1.18%
Mr Alistair David Strong	1,100,000	0.90%
	<u>83,833,667</u>	<u>68.92%</u>

Unquoted equity securities

	Number on issue	Number of holders
Employee options with various exercise prices and expiry dates	4,100,000	15

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

Name	Class	Number held
Mr Luke Murphy	Unquoted options	1,100,000

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Thorney Technologies Ltd*	12,409,007	10.20%
TIGA Trading Pty Ltd*	12,409,007	10.20%
MicroEquities Asset Management Pty Ltd	9,334,426	7.67%
Lars Lindstrom	8,664,128	7.12%
Darren Hunter	7,084,880	5.82%
West Elk Partners LP	6,834,545	5.62%

* Represents the relevant interests of these shareholders in the shares of the Company

Voting rights

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

Ordinary shares

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

There are no other classes of equity securities.

Annual General Meeting

ReadCloud Limited advises that its Annual General Meeting will be held on or around 13 February 2023. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon dispatch. The Closing date for receipt of nomination for the position of Director is 22 December 2022. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on 22 December 2022 at the Company's Registered Office. The Company notes that the deadline for nominations for the position of Director is separate to voting on Director elections. Details of the Directors to be elected will be provided in the Company's Notice of Annual General Meeting in due course.