



READCLOUD LIMITED

ABN 44 136 815 891

**APPENDIX 4D HALF YEAR REPORT
FOR SIX MONTHS ENDED 31 DECEMBER 2020**

PROVIDED TO THE ASX UNDER LISTING RULE 4.2A.3

1. Company details

Name of entity:	ReadCloud Limited
ABN:	44 136 815 891
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	10.7 % to	3,490,808
Loss from ordinary activities after tax attributable to the Owners of ReadCloud Limited	down	4.2% to	(1,055,232)
Loss for the half-year attributable to the Owners of ReadCloud Limited	down	4.2% to	(1,055,232)

Dividends

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

Comments

The loss for the Group after providing for income tax amounted to \$1,055,232 (31 December 2019: \$1,101,644). Underlying earnings before interest taxation, depreciation and amortisation ('Underlying EBITDA') was a loss of \$474,462 (31 December 2019: loss of \$694,314). This is reconciled to the statutory loss as follows:

	Consolidated	
	31 December 2020	31 December 2019
	\$	\$
Reported (statutory) net loss after tax	(1,055,232)	(1,101,644)
Add back: Depreciation and amortisation	414,103	305,834
Share based payments	34,026	93,852
Transaction costs incurred on business acquisition (expensed)	127,132	7,085
Net interest revenue	<u>5,509</u>	<u>559</u>
Underlying EBITDA*	<u>(474,462)</u>	<u>(694,314)</u>

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

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	5.62	2.91

4. Control gained over entities

Refer to note 11 to the financial statements for details of entities over which control has been gained during the financial period.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Half Year Report of ReadCloud Limited for the half-year ended 31 December 2020 is attached.

12. Signed



Signed _____

Date: 26 February 2021

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ReadCloud Limited

ABN 44 136 815 891

Half Year Report - 31 December 2020

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

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The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'ReadCloud' or the 'Group') consisting of ReadCloud Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

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

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

Mr Lars Lindstrom (Chief Executive Officer)

Mr Darren Hunter (Executive Director and Chief Information Officer)

Mr Paul Collins (Non-Executive Director)

Mr Guy Mendelson (Non-Executive Director)

Principal activities

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

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

ReadCloud also provides digital Vocational Education and Training ("VET") course materials and services to schools through its subsidiaries Australian Institute of Education and Training Unit Trust ("AIET") and PKY Media Pty Ltd (trading as College of Sound and Music Production), which offer over 40 VET courses and Auspicing services to schools across Australia.

Review of operations

Highlights for FY21 year to date include:

- 11% increase in consolidated revenue for H1 FY21 to \$3.49 million compared to H1 FY20 (\$3.15 million) with FY21 full-year revenue expected to be skewed to the second half as in prior years
- Completion of the acquisition and integration of College of Sound and Music Production
- Strong number of new school customer wins (over 50 new school customers) across both the School Curriculum and Vocational Education and Training ("VET") segments
- As at the end of February 2021 ReadCloud is in over 530 school customers (up 51% from January 2020) and has over 117,000 users on its platform (up 14% from January 2020), with user numbers set to increase in the coming weeks with finalisation of on-boarding for full-curriculum schools and student enrolments in VET courses
- The Group is well capitalised, raising \$5.96 million (net of transaction costs) pursuant to exercise of options during the half-year, with \$7.04 million cash and zero debt as at 31 December 2020

Full-curriculum segment (eBook solutions)

ReadCloud delivered a 6% increase in revenue to \$3.06 million in the full-curriculum segment (direct and Reseller full-curriculum schools) for 1H FY21 over 1H FY20 (prior comparable period). The result in part reflects the complex impacts of COVID-19 on the sector and the underperformance of one of ReadCloud's Reseller partners.

ReadCloud has signed up 22 new school customers for digital delivery of the full curriculum in 2021 across Queensland, Victoria, Tasmania (a growing market for ReadCloud's direct full-curriculum business) and Western Australia. Included in the 22 new school customers is one school with over 2,000 users and another six schools with over 1,000 users.

Four existing full-curriculum school customers have not renewed for 2021 having moved to a single publisher model for their eBook requirements. While these schools contributed 1H FY20 eBook sales revenue of \$0.45 million (1H FY21 \$0), the margin impact is not material, reflecting the fact they almost exclusively purchased heavily discounted bundled publisher products.

Direct sales were impacted by COVID-19 through the challenging priorities faced by schools and the difficulty in marketing and presenting ReadCloud solutions to schools. This is expected to improve as COVID-19 restrictions are lifted and schools become more focused on the future of digital learning as COVID-19 issues become less of a burden.

In late June 2020 ReadCloud signed up two new Reseller partners, West Australian based Ziggies Educational Supplies and Victorian-based Lilydale Books. Both Resellers have been successful in signing up new school customers for delivery of the full curriculum in 2021, with notable wins including two prestigious private schools in Perth and a leading independent school in Melbourne.

The on-boarding process for both direct and Reseller customer schools for the 2021 school year commenced in December 2020 and has continued in the current quarter. The on-boarding process has been more efficient than in prior years as a result of new streamlined processes that ReadCloud has built into its platform back-end.

Other factors that have affected 1H FY21 revenue for the full-curriculum segment have included:

- a number of schools (in particular the new school customers for 2021 that were signed up late in 2020) were still finalising their timetables and eBook orders in late December, with orders not placed until January 2021. In addition, schools have delayed learning resource purchasing decisions until the commencement of Term 1 in order to assess the potential impacts of COVID-19 and whether to go down a blended print-digital resource model or a pure digital only option;
- publishers sympathetic to the impact of COVID-19 on schools in 2020 have offered schools the ability to reactivate eBooks for the 2021 school year at a significant discount to the price of new digital resources; and
- due to one of ReadCloud's larger Reseller partners adopting a new internal ordering and provisioning system, a significant proportion of Reseller school eBook orders (particularly from some larger schools) were unable to be processed until January and February 2021. This Reseller partner has suffered significant school customer losses due to servicing issues.

Vocational Education & Training segment

As ReadCloud increases its strategic focus on the VET-in-schools segment, the business has been bolstered by both new school customer wins and the acquisition of PKY Media Pty Ltd, trading as College of Sound and Music Production ("COSAMP"), during the period.

ReadCloud completed the acquisition of COSAMP on 28 October 2020. COSAMP is the market leading Registered Training Organisation ("RTO") in VET courses for the music industry. The acquisition has expanded ReadCloud's product offering and market presence in the VET-in-Schools sector, with music industry VET qualifications being a top-10 vertical in the VET-in-schools market.

Headquartered in Melbourne, COSAMP provides nationally accredited VET programs for the music industry to over 180 secondary schools throughout Australia, including Certificate II and Certificate III in Music Industry and Diploma of Music Industry qualifications. Integration into the ReadCloud Group has gone well and the digitisation of COSAMP's course resources to enable digital delivery via the ReadCloud platform is well underway.

More importantly, the acquisition has provided a significant cross-selling opportunity both to deliver proprietary VET music industry courses to ReadCloud's existing school customers and to deliver ReadCloud's pre-acquisition offering of 43 VET courses and ReadCloud's full digital education platform to COSAMP's school customers. This opportunity is already being capitalised on, with three existing ReadCloud VET school customers contracted to date to deliver COSAMP VET courses in 2021 as a direct result of cross-selling initiatives.

COSAMP contributed revenue of \$0.04 million for H1 FY21, mainly from sales of course resources to schools. As at 31 December 2020 COSAMP had invoiced a large number of schools for auspicing fees relating to the 2021 school year. In accordance with the Group's revenue recognition policies, \$0.44 million of this revenue has been deferred to H2 FY21 when performance obligations in respect of this revenue have been met (with this amount forming part of the balance of contract liabilities on the 31 December 2020 balance sheet).

As of the date of this report ReadCloud's existing VET business Australian Institute of Education and Training ("AIET") has 30 new school customers for the 2021 school year across Victoria, Queensland, South Australia and Western Australia. As in prior years, there has been some customer churn in the AIET VET business mainly as a result of the Group's strict approach to compliance. A number of schools to which auspicings services were delivered in FY20 have not been offered services for the 2021 school year due to the schools' trainers not having an adequate level of qualifications for the courses offered.

Included in the 30 new school customers for 2021 are two existing ReadCloud direct full-curriculum school customers that are RTO's in their own right. Pursuant to arrangements with these schools AIET will deliver AIET's proprietary course materials to students and teachers via the ReadCloud platform and access to AIET's compliance systems, with the schools ultimately responsible for their compliance obligations pursuant to their own RTO licenses. The provision of course materials and compliance services to schools that are RTO's in their own right generates a new revenue stream for AIET with no compliance obligations in respect of AIET's RTO licence and opens up a new segment of the VET-in-schools market.

AIET contributed revenue of \$0.39 million for H1 FY21 (H1 FY20: \$0.27 million), mainly relating to student fees for AIET VET courses completed in the 2020 school year (including revenue that was deferred at 30 June 2020 pursuant to the Group's revenue recognition policy). As with COSAMP and in accordance with the Group's revenue recognition policies, \$0.35 million of school auspicings fees invoiced prior to 31 December 2020 and relating to the 2021 school year has been deferred to H2 FY21 when performance obligations in respect of this revenue have been met.

The months of February and March each year represent the peak enrolment period for VET-in-school students. As at the date of this report, the enrolment process for VET school customers and students is well underway, with final school and user numbers for this segment to be ascertained following completion of student enrolments and VET subject choices in March. As in prior periods, student auspicings fees for AIET VET courses being delivered in 2021, comprising the majority of AIET's auspicings fee revenue, will be invoiced to schools in late March / early April 2021.

Reported result

The Group has recorded a 1H FY21 consolidated Underlying EBITDA* loss of \$0.47 million (loss of \$0.69 million in H1 FY20) and a 1H FY21 consolidated statutory loss of \$1.06 million (loss of \$1.10 million in H1 FY20). Underlying EBITDA* is reconciled to the statutory loss as detailed below. This reconciliation adds back the effect of certain non-operating and non-recurring items which would not ordinarily relate to the Group's underlying performance.

	Consolidated	
	31 December 2020 \$	31 December 2019 \$
Sales & fee revenue	3,179,785	2,964,130
Other income	311,022	188,668
Total revenue	3,490,808	3,152,798
Less operating expenses:		
Advertising & marketing	(23,070)	(76,124)
Employment expenses	(1,471,981)	(1,254,050)
Legal & compliance	(58,149)	(64,613)
Professional services expenses	(187,138)	(140,808)
Publisher & bookseller fees	(1,928,312)	(1,979,631)
Telephone, internet & data hosting	(42,315)	(40,928)
Travel expenses	(28,031)	(96,193)
Other expenses	(225,367)	(192,485)
Finance costs	(6,416)	(2,839)
Add net interest expense / (revenue)	5,509	559
Underlying EBITDA*	(474,462)	(694,314)
Less:		
Depreciation and amortisation	(414,103)	(305,834)
Share based payments	(34,026)	(93,852)
Transaction costs incurred on business acquisition (expensed)	(127,132)	(7,085)
Net interest revenue	(5,509)	(559)
Reported (statutory) net loss after tax	(1,055,232)	(1,101,644)

* 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.

Due to the cyclical nature of ReadCloud's business, with revenue (particularly for the VET segment) skewed to the second half of the financial year, the H1 FY21 result is not indicative of the likely FY21 full-year result.

ReadCloud's consolidated revenue for H1 FY21 is up 11% to \$3.49 million compared to H1 FY20 (\$3.15 million). As discussed above, revenue growth from new school customer wins across both the full-curriculum and VET segments has been countered by revenue deferral to the second half of the financial year, the loss of four direct full-curriculum school customers moving to a single direct publisher learning resource model and the significant under-performance of an existing Reseller partner.

Material expenses included in the underlying EBITDA loss for 1H FY21 are discussed below.

Advertising and marketing expenses

1H FY21 Advertising and marketing expenses were \$0.02 million (H1 FY20: \$0.08 million), with the decline explained by the COVID-19 pandemic, which resulted in the cancellation of a number of annual education technology conferences that ReadCloud has sponsored and exhibited at in the past. The pandemic also explains the decline in travel expenditure in 1H FY21 versus 1H FY20.

Depreciation and amortisation expense

Depreciation and amortisation expense for 1H FY21 was \$0.41 million (1H FY20: \$0.30 million), with the increase due to more capitalised development costs from previous financial years commencing amortisation during 1H21 and the addition of identifiable intangible assets following the acquisition of COSAMP.

Employment expenses

Employment expenses were \$1.47 million for 1H FY21 (1H FY20: \$1.25 million), with the increase over the prior comparable period attributable to both the COSAMP acquisition (\$0.09 million employment costs for two months to 31 December) and additional operational staff in both the VET and full-curriculum segments.

Professional services expenses

1H FY21 Professional services expenses were \$0.19 million (1H FY20: \$0.14 million), with the main components including audit fees, share registry costs, company secretarial fees, contract bookkeeping costs, tax consulting fees and RTO compliance consulting services (with additional investment in RTO compliance monitoring and systems via the use of external consultants explaining the increase in 1H FY21).

Publisher and bookseller expenses

Publisher and bookseller expenses, representing the cost of digital only and print-digital learning resources sold to schools, were \$1.93 million for 1H FY21 (1H FY20: \$1.98 million). Publisher and bookseller expenses as a percentage of eBook sales have decreased in 1H FY21, reflecting an increase in gross margins on eBook sales (mainly to full-curriculum schools) as a result of both a change in the product sales mix for 1H FY21 (towards higher margin products) and a new digital distribution agreement with one of the major textbook publishers.

Share-based payments

1H FY21 share based payments expense was of \$0.03 million (1H FY20: \$0.09 million), with the decline in 1H21 attributable to the vesting and lapse of options during the period.

Platform update

The focus of software development in the December 2020 half-year has included the roll-out of a new eBook quoting and ordering system. The new system has successfully streamlined the sales quoting and eBook provisioning processes.

During the half-year the ReadCloud Immersive Reader was deployed to the production environment. This new platform feature has been extremely well received by schools and its usage is steadily growing. The ability to have text in an eBook translated into any language and read aloud is receiving very positive feedback.

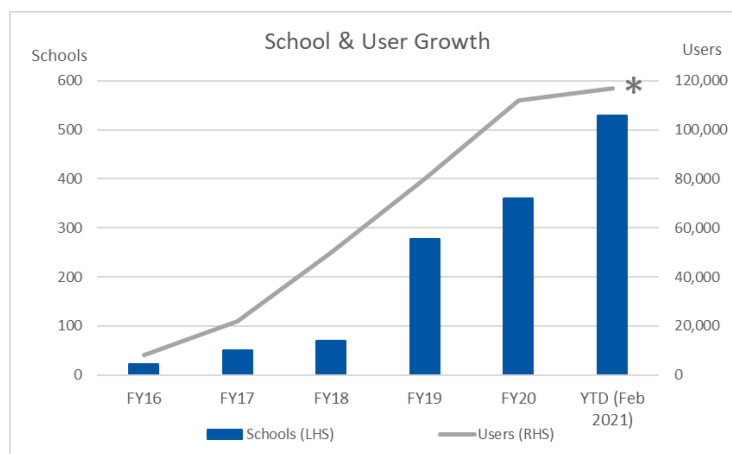
To explore this feature, see more here: <https://www.youtube.com/watch?v=squdsz007Y8>

Funding

During 1H FY21 ReadCloud received \$5.96 million (net of transaction costs) from the exercise of ASX-listed and unlisted options. As at 31 December 2020 the Group had \$7.04 million in cash and zero debt. The December quarter is typically the low point in the Group's cash cycle. As at 31 December 2020 the Group had trade and other receivables owing to it of \$3.23 million (compared to \$0.60 million at 30 June 2020), reflecting the extended payment terms given to full-curriculum school customers that place eBook orders prior to 31 December each year in order to match the schools' funding cycles.

Outlook

ReadCloud platform users increased to 117,000 as at the end of January 2021 (up 14% from the same time in 2020), with user numbers set to increase in 2H FY21 as enrolments in VET courses are completed in the coming weeks.



* Lower rate of user growth reflective of the loss of Reseller school users, which are being replaced by higher margin direct full curriculum and VET-in-school users

The Company is pleased with the growth achieved to date as well as its strategic positioning in the VET segment, especially considering the impacts of COVID-19 on schools and the challenges faced in direct marketing and through Resellers.

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

- a strong balance sheet, with \$7.04 million cash and zero debt as at 31 December 2020, provides the ability to continue expansion through targeted acquisitions and increased business development activities;
- strong momentum in new school acquisitions in both the direct full-curriculum and VET-in-school segments, especially as COVID-19 impacts reduce pressure on schools;
- favourable recommendations in the Productivity Commission's recent report on the VET sector (released in January 2021), which included a focus on improved career pathways encouraging more secondary students in Years 9 to 12 to undertake VET-in-schools programs;
- organic growth within existing school customers, driven by expanded usage of the ReadCloud platform and VET auspicing services across additional courses and year levels within existing school customers;
- continuing success in cross-selling between ReadCloud's VET business and ReadCloud full-curriculum schools;
- continued investment in the VET-in-schools segment to grow revenue and leverage the infrastructure, compliance processes and systems that have been put in place; and
- accelerating digital adoption within both the full-curriculum and VET in school sectors driven by student preference for digital delivery and increasing willingness of teachers and school administrations to adopt digital, especially after experiencing COVID-19 impacts.

Significant changes in the state of affairs

During the financial half-year the Company completed the acquisition of PKY Media Pty Ltd (trading as College of Sound and Music Production). There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's independence declaration

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

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

On behalf of the Directors



Cristiano Nicolli
Chairman

26 February 2021

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Auditor's Independence Declaration to the Directors of ReadCloud Limited

In relation to our review of the financial report of ReadCloud Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

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

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



PKF

Melbourne, 26 February 2021



Steven Bradby
Partner

Consolidated			
	Note	31 December 2020 \$	31 December 2019 \$
Revenue			
Sales & fee revenue	4	3,179,785	2,964,130
Other income	4	311,023	188,668
Total revenue		3,490,808	3,152,798
Expenses			
Advertising & marketing		(23,070)	(76,124)
Depreciation and amortisation		(414,103)	(305,834)
Employment expenses		(1,471,981)	(1,254,050)
Legal & compliance		(82,981)	(64,613)
Professional services expenses		(289,438)	(140,808)
Publisher and bookseller fees expense		(1,928,312)	(1,979,631)
Share based payments		(34,026)	(93,852)
Telephone, internet & data hosting		(42,315)	(40,928)
Travel expenses		(28,031)	(96,193)
Other expenses		(225,367)	(199,570)
Finance costs		(6,416)	(2,839)
Loss before income tax expense/(benefit)		(1,055,232)	(1,101,644)
Income tax expense/(benefit)		-	-
Loss after income tax expense/(benefit) for the half-year attributable to the Owners of ReadCloud Limited		(1,055,232)	(1,101,644)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to the Owners of ReadCloud Limited		(1,055,232)	(1,101,644)
		Cents	Cents
Basic earnings / (loss) per share	10	(1.02)	(1.16)
Diluted earnings / (loss) per share	10	(1.02)	(1.16)

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

		Consolidated	
	Note	31 December 2020	30 June 2020 \$
Assets			
Current assets			
Cash and cash equivalents		7,040,591	3,387,609
Trade and other receivables	5	3,231,137	597,366
Prepayments		95,193	55,946
Total current assets		<u>10,366,921</u>	<u>4,040,921</u>
Non-current assets			
Property, plant & equipment		244,700	111,385
Right-of-use assets	6	336,844	290,143
Intangibles	7	5,769,030	4,450,488
Total non-current assets		<u>6,350,574</u>	<u>4,852,016</u>
Total assets		<u>16,717,495</u>	<u>8,892,937</u>
Liabilities			
Current liabilities			
Trade and other payables	8	2,219,941	389,416
Lease liabilities	6	157,610	164,064
Provision for employee entitlements		156,643	149,263
Contract liabilities		809,589	207,308
Contingent consideration	11	250,000	-
Total current liabilities		<u>3,593,783</u>	<u>910,051</u>
Non-current liabilities			
Lease liabilities	6	204,657	152,823
Provision for employee entitlements		61,335	30,731
Contingent consideration	11	124,000	-
Total non-current liabilities		<u>389,992</u>	<u>183,554</u>
Total liabilities		<u>3,983,775</u>	<u>1,093,605</u>
Net assets		<u>12,733,720</u>	<u>7,799,332</u>
Equity			
Contributed equity	9	17,341,442	11,385,848
Reserves		421,073	407,513
Accumulated losses		<u>(5,028,795)</u>	<u>(3,994,029)</u>
Total equity		<u>12,733,720</u>	<u>7,799,332</u>

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

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

Consolidated	Issued capital \$	Share-based payment reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2020	11,385,848	407,513	(3,994,029)	7,799,332
Loss after income tax expense/(benefit) for the half-year	-	-	(1,055,232)	(1,055,232)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(1,055,232)	(1,055,232)
<i>Transactions with Owners in their capacity as Owners:</i>				
Contributions of equity, net of transaction costs (note 9)	5,955,594	-	-	5,955,594
Share-based payments	-	34,026	-	34,026
Lapse of employee options	-	(20,466)	20,466	-
Balance at 31 December 2020	<u>17,341,442</u>	<u>421,073</u>	<u>(5,028,795)</u>	<u>12,733,720</u>

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

Consolidated		
Note	31 December 2020 \$	31 December 2019 \$
Cash flows from operating activities		
Receipts from customers	1,081,439	673,118
Payments to suppliers and employees	(2,293,685)	(2,342,819)
Research and development tax incentive refund	390,614	393,123
Interest income	907	2,280
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>(820,725)</u>	<u>(1,274,298)</u>
Cash flows from investing activities		
Payments for purchase of business, net of cash acquired	11 (1,033,155)	(360,000)
Payments for property, plant and equipment	(9,701)	(66,137)
Payments for software development	7 <u>(319,074)</u>	<u>(331,700)</u>
	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(1,361,930)</u>	<u>(757,837)</u>
Cash flows from financing activities		
Proceeds from issue of shares	9 5,969,098	2,000,000
Share issue transaction costs	(13,504)	(149,504)
Repayment of lease liabilities	(91,102)	(42,931)
Repayment of borrowings	(23,246)	-
Interest paid on lease liabilities	<u>(5,609)</u>	<u>(2,839)</u>
	<u> </u>	<u> </u>
Net cash from financing activities	<u>5,835,637</u>	<u>1,804,726</u>
	<u> </u>	<u> </u>
Net increase/(decrease) in cash and cash equivalents	3,652,982	(227,409)
Cash and cash equivalents at the beginning of the financial half-year	3,387,609	3,067,599
	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial half-year	<u>7,040,591</u>	<u>2,840,190</u>

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

Note 1. Basis of preparation and significant accounting policies

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 February 2021.

These general-purpose financial statements for the half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Critical accounting judgements, estimates and assumptions

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

Capitalised software development costs

The Group capitalises software development costs associated with the ReadCloud platform, based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project and the expected period of benefits.

Impairment of non-financial assets

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

Income tax

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

Note 2. Critical accounting judgements, estimates and assumptions (continued)

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 recognized 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.

Note 3. Operating segments

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. Operating segments represent the information reported to the chief operating decision makers (CODM), being the executive management team, for the purposes of resource allocation and assessment of segment performance. The Group's reportable segments under AASB 8 are as follows:

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

Cyclical nature of the Group's business

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

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

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

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

Note 3. Operating segments (continued)

Consolidated – 31 December 2020

	eBook solutions	Vocational Education and Training	Total
	\$	\$	\$
Sales & fee revenue	2,821,305	358,480	3,179,785
Other income	239,984	71,039	311,023
Total revenue	3,061,288	429,519	3,490,808
Underlying EBITDA	28,604	(503,067)	(474,463)
Depreciation and amortisation	(336,693)	(77,410)	(414,103)
Share based payments	(28,986)	(5,040)	(34,026)
Transaction costs incurred on business acquisition (expensed)	(127,132)	-	(127,132)
Net interest revenue / (expense)	(3,338)	(2,170)	(5,508)
Income tax benefit / (expense)	-	-	-
Reported (statutory) net loss after tax	(467,545)	(587,687)	(1,055,232)
Total segment assets	11,981,633	4,735,863	16,717,496
Total segment liabilities	(2,856,580)	(1,127,195)	(3,983,775)

Consolidated – 31 December 2019

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

Note 4. Revenue

	Consolidated	
	31 December 2020	31 December 2019
	\$	\$
<i>Sales & fee revenue</i>		
eBook sales	2,388,530	2,323,892
Licence fees	441,882	362,098
Auspicing fees	313,972	237,386
Sales & fees - other	35,401	40,754
	<u>3,179,785</u>	<u>2,964,130</u>
<i>Other income</i>		
Government grants – R&D tax incentive	188,871	181,909
Interest	907	2,280
Other revenue	121,245	4,479
	<u>311,023</u>	<u>188,668</u>
Revenue	<u>3,490,808</u>	<u>3,152,798</u>

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

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Goods transferred at a point in time	2,423,931	2,364,646
Services transferred over time	755,854	599,484
	<u>3,179,785</u>	<u>2,964,130</u>

Note 5. Current assets - trade and other receivables

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Trade receivables	<u>3,012,611</u>	<u>177,097</u>
Deposits	30,250	30,250
R&D tax incentive receivable	188,276	390,019
	<u>218,526</u>	<u>420,269</u>
	<u>3,231,137</u>	<u>597,366</u>

Note 6. Leases

A. Expenses

Expenses from transactions not recognised as leases:

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Rental expense relating to leases of low-value assets	2,814	21,932

B. Cash flows

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Total cash outflow for leases	96,711	119,073

C. Right-of-use assets

	Property \$	Photocopying Equipment \$	Total \$
Right-of-use assets	491,888	70,993	562,881
Less: Accumulated depreciation	(165,184)	(60,853)	(226,037)
Net book amount at 31 December 2020	<u>326,704</u>	<u>10,140</u>	<u>336,844</u>

Reconciliation

Opening balance at 1 July 2020	355,405	70,993	426,398
Additions (new leases)	136,483	-	136,483
Opening accumulated depreciation	(95,688)	(40,567)	(136,255)
Depreciation charge	(69,496)	(20,286)	(89,782)
Balance at 31 December 2020	<u>326,704</u>	<u>10,140</u>	<u>336,844</u>

D. Lease liabilities

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Current	157,610	164,064
Non-current	204,657	152,823
	<u>362,267</u>	<u>316,887</u>

Additional information

For the purpose of calculating unavoidable future lease payments, with the exception of the PKY Media office premises (in relation to which a 3 year renewal option has been taken into account) 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.

Note 6. Leases (continued)

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

Weighted average lease term

The average unavoidable property lease term, weighted by the outstanding lease liability as 31 December 2020, is 2.7 years (30 June 2020: 2.23 years).

The Group (via the acquisition of Australian Institute of Education and Training) has leased equipment with 0.22 years remaining on the lease term as at 31 December 2020 (30 June 2020: 0.72 years). There is no residual payment at the end of the lease term.

Note 7. Non-current assets - intangibles

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Goodwill - at cost	3,361,333	2,213,929
Software - at cost	3,878,855	3,559,782
Less: Accumulated amortisation	(1,636,414)	(1,369,569)
	<u>2,242,441</u>	<u>2,190,213</u>
Registered Training Organisation Licence	100,000	50,000
Less: Accumulated amortisation	(19,744)	(12,821)
	<u>80,256</u>	<u>37,179</u>
Intellectual property in Vocational Education & Training course materials	145,000	55,000
Less: Accumulated amortisation	(60,000)	(45,833)
	<u>85,000</u>	<u>9,167</u>
	<u>5,769,030</u>	<u>4,450,488</u>

Reconciliation

Consolidated	Software at cost \$	Goodwill \$	Registered Training Organisation licence \$	Intellectual property in course materials \$	Total \$
Balance at 1 July 2020	3,559,781	2,213,929	50,000	55,000	5,878,710
Additions	319,074	-	-	-	319,074
Additions through business combinations	-	1,147,404	50,000	90,000	1,287,404
Opening accumulated amortisation	(1,369,569)	-	(12,821)	(45,833)	(1,428,222)
Amortisation expense	(266,846)	-	(6,923)	(14,167)	(287,935)
Balance at 31 December 2020	<u>2,242,441</u>	<u>3,361,333</u>	<u>80,256</u>	<u>85,000</u>	<u>5,769,030</u>

Note 8. Current liabilities - trade and other payables

	Consolidated	
	31 December 2020 \$	30 June 2020 \$
Trade payables	1,934,574	240,847
Accrued expenses	35,499	37,777
Other payables	249,868	110,792
	<u>2,219,941</u>	<u>389,416</u>

Note 9. Equity - contributed equity

	Consolidated			
	31 December 2020 Shares	30 June 2020 Shares	31 December 2020 \$	30 June 2020 \$
Ordinary shares - fully paid	<u>117,942,551</u>	<u>98,055,556</u>	<u>17,341,442</u>	<u>11,385,848</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2020	98,055,556		11,385,848
Shares issued pursuant to exercise of options	July- Dec 2020	19,826,995	\$0.30	5,948,098
Shares issued pursuant to exercise of options	17 December 2020	60,000	\$0.35	21,000
Share issue transaction costs				<u>(13,504)</u>
Balance	31 December 2020	<u>117,942,551</u>		<u>17,341,442</u>

Share buy-back

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



Note 10. Earnings per share

	Consolidated	
	31 December	31 December
	2020	2019
	\$	\$
Loss after income tax attributable to the Owners of ReadCloud Limited	<u>(1,055,232)</u>	<u>(1,101,644)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>103,190,334</u>	<u>95,160,201</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>103,190,334</u>	<u>95,160,201</u>
	Cents	Cents
Basic earnings / (loss) per share	(1.02)	(1.16)
Diluted earnings / (loss) per share	(1.02)	(1.16)

Note 11. Business combinations

The Company acquired PKY Media (trading as College of Sound and Music Production) with effect from 28 October 2020 for a total consideration of \$1,424,000. The revenue from the acquisition amounted to \$37,449 and the contribution to the group loss is a loss before tax of \$90,721 for the two-month period ended 31 December 2020.

The provisional fair values of the identifiable net assets acquired are detailed below:

	Fair value \$
Cash and cash equivalents	16,845
Trade receivables	168,811
Property, plant & equipment	160,000
Right-of-use assets (property lease)	136,483
Acquired intangible assets	140,000
Trade & other payables	(16,439)
Hire purchase liabilities	(22,438)
Lease liability	(136,483)
Contract liabilities	(155,170)
Provision for employee entitlements	(15,013)
Net assets acquired	<u>276,596</u>
Goodwill	1,147,404
Acquisition-date fair value of the total consideration transferred	<u>1,424,000</u>
Representing:	
Cash paid to the vendors	1,050,000
Contingent consideration*	<u>374,000</u>
	<u>1,424,000</u>
Acquisition costs expensed to profit or loss	<u>127,132</u>
Cash used during the financial year to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	1,424,000
Less: Cash and cash equivalents acquired	(16,845)
Less: contingent consideration due within one year	(250,000)
Less: contingent consideration due in greater than one year	<u>(124,000)</u>
Net cash used during the year	<u>1,033,155</u>

* Contingent consideration comprises up to \$400,000 of ReadCloud shares (discounted back to a present value of \$374,000), which is contingent on PKY Media achieving defined revenue targets for FY21 and FY22.

Note 12. Events after the reporting period

No matter or circumstance has arisen since 31 December 2020 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.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Cristiano Nicolli
Chairman

26 February 2021

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of ReadCloud Limited (the Company) and its subsidiaries (collectively, the Group) which comprises the consolidated statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PKF
Melbourne, 26 February 2021

Steven Bradby
Partner