

Sovereign Cloud Holdings Limited

ABN: 80 622 728 189

Consolidated Financial Report

For the year ended 30 June 2020

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

ABN: 80 622 728 189

DIRECTORS' REPORT

The directors present their report together with the financial report of Sovereign Cloud Holdings Limited (the "Company") and its controlled entity (together the "Group"), for the year ended 30 June 2020 and auditor's report thereon.

Directors names

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

Cathie Reid AM (Chair)

Phil Dawson (Managing Director)

Ross Walker (Non-Executive Director)

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

Results

The loss of the group for the year after providing for income tax amounted to \$8,224,556 (2019: \$7,350,315).

Review of operations

The Company was incorporated on 8 November 2017 and in December 2017 acquired all the issued capital of Sovereign Cloud Australia Pty Ltd ("SCA"). At the time SCA had been investigating the market opportunity to deliver cloud based services to Australian Governments and Critical National Industries. The Company was established to provide initial equity funding to build a cloud based platform in Canberra.

During calendar 2018, the group built the initial technology platform at Canberra Data Centres and gained independent IRAP accreditation to support Unclassified and Protected data.

By the end of 2018, the Company undertook a further capital raising to fund the build of a second technology platform and working capital. In FY20 the group completed its second platform (Sovereignty Zone 2) at Eastern Creek in Sydney and engaged with a number of key channel partners and direct customers for beta testing.

The group has continued to develop a significant customer pipeline and has been awarded a number of initial contracts either directly with government departments or through major channel partners.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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DIRECTORS' REPORT

Significant changes in state of affairs

Significant changes in the state of affairs of the group during the financial year, were as follows:

- On 31 January 2020 the Company issued an Information Memorandum and notice to shareholders for a capital raising of up to \$5.7 million in new equity. The raising was undertaken as an entitlement offer at a ratio of 1 new share for every 6 shares held, at 60 cents each. The Entitlement Offer was underwritten up to \$2.5 million Cathie Reid/Stuart Giles (husband and wife) and the McBeath Family through their associated entities. The Company initially received approximately \$4.1 million under the Entitlement Offer; and
- Since 30 June 2020 the Company sought additional funding from a targeted list of potential cornerstone investors which resulted in the placement of 4.167 million shares at 60 cents (\$2.5 million) each to WAM Microcap Limited ("WAM"). In addition, the Company received a further \$2.9 million from existing shareholders after notifying shareholders of the WAM placement and allowing shareholders to subscribe for further shares under the FY20 Entitlement Offer (over-subscriptions were received by agreement with those shareholders).

Principal activities

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

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

After balance date events

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

Likely developments

The likely developments in the operations of the group and the expected results of those operations in subsequent financial years are as follows:

- The Company expects the operations to move from platform development and testing by qualified channel partners to onboarding contracted customers to build the revenue base.
- Like most early stage technology businesses, the Company is dependent on the ability to continue to fund working capital as it grows its revenue base. The directors are confident that future funding will be available through the continued support of its major shareholders and its ability to raise capital.

Environmental regulation

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

Dividends paid, recommended and declared

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

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY**ABN: 80 622 728 189****DIRECTORS' REPORT****Information on directors and company secretary****Cathie Reid AM**

Chair

Qualifications

Cathie is the Co-Founder of Icon Group, a provider of integrated cancer care services with operations in Australia, Singapore, New Zealand and China. She is also the Managing Partner of Australia's Epic Pharmacy Group.

Cathie was the 2015 inductee for the Australian Business Women's Hall of Fame, named in the Top 100 Women of Influence by the AFR in 2013, won the National Telstra Business Women's Award in 2011 and recognised by Monash University with a Distinguished Alumni Award for Professional Achievement in 2012.

Phil Dawson

Managing Director

Qualifications

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

Phil is a Board member of the ACT/Federal Council of the AIIA and has participated in both the ACSC Industry Forum on Cloud Security Guidance as well as the Federal Government's Digital Task Force. He was a Board member of TechUK, and a member of the UK's Information Economy Council and co-author with Professor Nigel Shadbolt, of the UK's Data Capability Strategy.

Phil has an MBA from London Business School and a Chemistry degree from the University of Sussex.

Ross Walker

Non-Executive Director

Qualifications

Ross is a Chartered Accountant who worked with Arthur Anderson from 1978 to 1985 (including 3 years in the USA) before joining Pitcher Partners Brisbane (formerly Johnston Rorke).

Ross was Managing Partners at Pitcher Partners for 20 years until his retirement from equity in 2017. He was involved in corporate finance, valuations, audit, capital raisings, and mergers and acquisitions.

Ross is also a Non-Executive Director of:

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

Meetings of directors

Directors	Directors' meetings	
	Number eligible to attend	Number attended
Cathie Reid AM	7	7
Phil Dawson	7	7
Ross Walker	7	7

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

ABN: 80 622 728 189

DIRECTORS' REPORT**Options held by Directors & Officers**

The number of options over shares in the Company held during the financial year by each Directors, is set out below:

Name	Balance at the start of the year	Granted as compensation	Foreited, exercised and expired	Balance at the end of the year	Vested and exercisable
Cathie Reid	-	-	-	-	-
Phil Dawson	705,621	-	-	705,621	314,355
Ross Walker	-	-	-	-	-

The number of options granted to the directors and officers since the end of the financial year up to the date of this report were as follows:

Phil Dawson	350,340
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Shares under option

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

Date granted	Number of unissued ordinary shares under option	Exercise price	Expiry date
01/07/2018	1,927,243	\$3.00	30/06/2022
13/08/2019	281,743	\$3.00	30/06/2023
30/09/2020	1,102,707	\$3.00	30/06/2024

At the date of this report 1,418,317 of the above options have vested. The exercise price of the remaining unvested options reduce to \$0.60 per option if the option holder remains an employee of the Company in accordance with certain vesting dates as follows:

# Options	Vesting Date
1,064,324	1 July 2021
461,487	1 July 2022
367,570	1 July 2023

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

Shares issued on exercise of options

125,000 shares were issued during the year on exercise of options.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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DIRECTORS' REPORT

Indemnification of officers

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

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

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the board of directors.

Director: _____



Ross Walker

Dated this

16th day of October 2020

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020 there have been:

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



Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants



Stewart Douglas
Director
Brisbane
16 October 2020

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020	2019
		\$	\$
Revenue and other income			
Revenue from contracts with customers	3	1,311,487	66,364
Other revenue	4	27,679	55,427
Other income	4	<u>50,000</u>	<u>-</u>
		<u>1,389,166</u>	<u>121,791</u>
Less: expenses			
Employee benefits expense		(4,939,768)	(3,953,615)
Depreciation and amortisation expense	5	(1,735,340)	(477,964)
Data centre costs		(159,595)	(82,004)
Date centre rent		-	(475,374)
Contractor costs		(184,578)	(612,903)
Travel and conferences		(254,941)	(478,931)
IT costs and licence fees		(888,788)	(418,791)
Lease expense		(115,096)	(190,592)
Finance costs	5	(329,035)	(68,875)
Advertising expense		(35,269)	(17,854)
Other expenses		<u>(971,312)</u>	<u>(695,203)</u>
		<u>(9,613,722)</u>	<u>(7,472,106)</u>
Profit / (loss) before income tax expense		(8,224,556)	(7,350,315)
Income tax expense	6	<u>-</u>	<u>-</u>
Profit / (loss) for the year		<u>(8,224,556)</u>	<u>(7,350,315)</u>
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income/(loss)		<u>(8,224,556)</u>	<u>(7,350,315)</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020	2019
		\$	\$
Current assets			
Cash and cash equivalents	7	1,129,906	5,211,242
Receivables	8	351,955	983,140
Other assets	9	<u>354,134</u>	<u>317,430</u>
Total current assets		<u>1,835,995</u>	<u>6,511,812</u>
Non-current assets			
Receivables	8	104,449	259,997
Property, plant and equipment	10	3,922,573	8,536,231
Intangible assets	11	101,318	535,584
Right of use lease assets	12	8,573,360	-
Other assets	9	<u>122,265</u>	<u>404,179</u>
Total non-current assets		<u>12,823,965</u>	<u>9,735,991</u>
Total assets		<u>14,659,960</u>	<u>16,247,803</u>
Current liabilities			
Payables	13	540,285	570,608
Lease liabilities	12	3,008,663	-
Borrowings	14	-	1,997,807
Provisions	15	<u>228,414</u>	<u>159,238</u>
Total current liabilities		<u>3,777,362</u>	<u>2,727,653</u>
Non-current liabilities			
Lease liabilities	12	4,661,200	-
Borrowings	14	<u>-</u>	<u>3,302,147</u>
Total non-current liabilities		<u>4,661,200</u>	<u>3,302,147</u>
Total liabilities		<u>8,438,562</u>	<u>6,029,800</u>
Net assets		<u>6,221,398</u>	<u>10,218,003</u>
Equity			
Share capital	16	29,214,908	25,064,137
Reserves	17	320,293	243,113
Accumulated losses	18	<u>(23,313,803)</u>	<u>(15,089,247)</u>
Total equity		<u>6,221,398</u>	<u>10,218,003</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Contributed equity \$	Reserves \$	Accumulated losses \$	Total equity \$
Consolidated				
Balance as at 1 July 2018	14,932,039	-	(7,738,932)	7,193,107
Profit/(loss) for the year	-	-	(7,350,315)	(7,350,315)
Transactions with owners in their capacity as owners:				
Contributions	<u>10,132,098</u>	<u>-</u>	<u>-</u>	<u>10,132,098</u>
Share based payments expensed	<u>-</u>	<u>243,113</u>	<u>-</u>	<u>243,113</u>
Balance as at 1 July 2019	25,064,137	243,113	(15,089,247)	10,218,003
Profit/(loss) for the year	<u>-</u>	<u>-</u>	<u>(8,224,556)</u>	<u>(8,224,556)</u>
Transactions with owners in their capacity as owners:				
Contributions	4,150,771	-	-	4,150,771
Share based payments expensed	<u>-</u>	<u>77,180</u>	<u>-</u>	<u>77,180</u>
Total transactions with owners in their capacity as owners	<u>4,150,771</u>	<u>77,180</u>	<u>-</u>	<u>4,227,951</u>
Balance as at 30 June 2020	<u>29,214,908</u>	<u>320,293</u>	<u>(23,313,803)</u>	<u>6,221,398</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020	2019
		\$	\$
Cash flow from operating activities			
Receipts from customers		1,264,407	56,579
Operating grant receipts		50,000	-
Payments to suppliers and employees		(7,309,056)	(7,053,360)
Interest received		27,679	55,427
Finance costs		-	(68,875)
Right of use lease interest		<u>(329,035)</u>	<u>-</u>
Net cash provided by / (used in) operating activities	20(b)	<u>(6,296,005)</u>	<u>(7,010,229)</u>
Cash flow from investing activities			
Payments for intangible assets		(65,050)	(417,474)
Payments for property, plant and equipment		<u>(406,087)</u>	<u>(4,719,991)</u>
Net cash provided by / (used in) investing activities		<u>(471,137)</u>	<u>(5,137,465)</u>
Cash flow from financing activities			
Proceeds from share issue		4,900,771	11,989,168
Proceeds from borrowings		40,481	4,558,100
Repayment of borrowings		-	(660,714)
Principal portion of lease payments		(2,460,211)	-
Payment of share issue costs		-	(107,075)
Receipt of recoverable GST		<u>204,765</u>	<u>141,281</u>
Net cash provided by financing activities		<u>2,685,806</u>	<u>15,920,760</u>
Reconciliation of cash			
Cash at beginning of the financial year		5,211,242	1,438,176
Net increase / (decrease) in cash held		<u>(4,081,336)</u>	<u>3,773,066</u>
Cash at end of financial year	20(a)	<u>1,129,906</u>	<u>5,211,242</u>

The accompanying notes form part of these financial statements.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Sovereign Cloud Holdings Limited and its consolidated entity. Sovereign Cloud Holdings Limited is a Company limited by shares, incorporated and domiciled in Australia. Sovereign Cloud Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was approved by the directors as at the date of the directors' report.

The following are the significant accounting policies adopted by the group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Compliance with IFRS

The financial report also complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Significant accounting estimates and judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the group's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2 to the financial statements.

(b) New and revised accounting standards effective at 30 June 2020

The group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019, including AASB 16 *Leases* (AASB 16).

AASB 16: Leases

AASB 16 replaces AASB 117 *Leases* and introduces a single lessee accounting model that requires a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- (a) right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for on a cost basis unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
 - i. investment property, the lessee applies the fair value model in AASB 140 *Investment Property* to the right-of-use asset; or
 - ii. property, plant or equipment, the applies the revaluation model in AASB 116 *Property, Plant and Equipment* to all of the right-of-use assets that relate to that class of property, plant and equipment; and

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) New and revised accounting standards effective at 30 June 2020 (Continued)

- (b) lease liabilities are accounted for on a similar basis to other financial liabilities, whereby interest expense is recognised in respect of the lease liability and the carrying amount of the lease liability is reduced to reflect the principal portion of lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements of the predecessor standard, AASB 117. Accordingly, under AASB 16 a lessor continues to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and accounts for each type of lease in a manner consistent with the current approach under AASB 117.

In accordance with the transition requirements of AASB 16, the group has elected to apply AASB 16 retrospectively to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect, if any, of initially applying the new standard recognised as an adjustment to opening retained earnings at the date of initial application (i.e., at 1 July 2019). Accordingly, comparative information has not been restated.

The group has also elected to apply the following practical expedients to the measurement of right-of-use assets and lease liabilities in relation to those leases previously classified as operating leases under the predecessor standard:

- to recognise each right-of-use asset at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application;
- to not recognise a right-of-use asset and a lease liability for leases for which the underlying asset is of low value;
- to not recognise a right-of-use asset and a lease liability for leases for which the lease term ends within 12 months of the date of initial application;
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- to adjust each right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application;
- to exclude initial direct costs from the measurement of each right-of-use asset at the date of initial application; and
- to use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of \$2,884,352 (referred to in these financial statements as “lease assets - data centres”) and corresponding lease liabilities with an aggregate carrying amount of \$2,884,352. The weighted average incremental borrowing rate applied in the calculation of the initial carrying amount of lease liabilities was 4.00%.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) New and revised accounting standards effective at 30 June 2020 (Continued)

The following is a reconciliation of non-cancellable operating lease commitments disclosed at the end of the prior reporting period (i.e., at 30 June 2019) to the aggregate carrying amount of lease liabilities recognised at the date of the initial application (i.e., at 1 July 2019):

	\$
Aggregate non-cancellable operating lease commitments at 30 June 2019	1,014,115
Plus: lease payments included in the measurement of lease liabilities and not included in non-cancellable operating lease commitments	2,182,984
Less: impact of discounting lease payments to their present value at 1 July 2019	(312,747)
Plus: financial lease liabilities recognised at 30 June 2019	<u>5,299,954</u>
Carrying amount of lease liabilities recognised at 1 July 2019	<u>8,184,306</u>

Further details of the group's accounting policy in relation to accounting for leases under AASB 16 are contained in Note 1(m) .

(c) Going concern

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

The group incurred a loss from ordinary activities of \$8,224,556 during the year ended 30 June 2020.

The ability of the Group to continue as a going concern is principally dependent upon the ability of the Company to raise additional funding in the future. Since balance date the Company has received further funding in total of \$5,425,900 through a placement of shares to WAM Microcap Limited (\$2.5 million) and from existing shareholders under the extended Entitlement Offer. The Company will continue to seek additional funding as and when required.

These conditions give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Based on preliminary discussions with the Company's major shareholders and previous successful capital raisings, the Directors have prepared the financial statements on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

The Directors are confident of securing funds as and when necessary to meet the Group's obligations as and when they fall due.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Business combinations

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

The consideration transferred is the sum of the acquisition date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is measured at its acquisition date fair value.

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

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

Acquisition related costs are expensed as incurred.

(e) Principles of consolidation

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Revenue from contracts with customers

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

Receivables from contracts with customers

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

(g) Income tax

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

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

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

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

(h) Cash and cash equivalents

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

(i) Financial instruments

Initial recognition and measurement

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (Continued)

Classification of financial assets

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

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

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

Classification of financial liabilities

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

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

Trade and other receivables

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

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

Impairment of financial assets

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (Continued)

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of non-financial assets

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

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

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

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

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

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

(k) Property, plant and equipment

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

Plant and equipment

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

Depreciation

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

Class of fixed asset	Depreciation rates	Depreciation basis
Office equipment at cost	20%	Straight line
Computer equipment at cost	20%	Straight line

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Intangible assets

Goodwill

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

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

Separately acquired intangible assets

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

Intangible assets acquired in a business combination

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Leases

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

Lease assets

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

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

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

Lease liabilities

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

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

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

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

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

(n) Employee benefits

(i) Short-term employee benefit obligations

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (Continued)

(ii) Long-term employee benefit obligations

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

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

(iii) Retirement benefit obligations

Defined contribution superannuation plan

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

(iv) Share-based payments

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

(o) Goods and services tax (GST)

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

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

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Impairment of non-financial assets other than goodwill

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment and future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined.

The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a minimum period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

(b) Income tax

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(c) Lease term of contracts with renewable options

The group determines the lease term to be the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised. In assessing the likelihood of a lease option being exercised, the group considers the costs of termination, the extent of any leasehold improvements, the strategic importance of the lease location and the current market rent for the site.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

	2020	2019
	\$	\$
NOTE 3: REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from contracts with customers		
Provision of IaaS	<u>1,311,487</u>	<u>66,364</u>
NOTE 4: OTHER REVENUE AND OTHER INCOME		
Other revenue		
Interest income	<u>27,679</u>	<u>55,427</u>
Other income		
Government stimulus subsidy	<u>50,000</u>	<u>-</u>
NOTE 5: OPERATING PROFIT		
Profit / (losses) before income tax has been determined after:		
Finance costs		
- Lease liabilities - finance charges - data centres	109,659	-
- Lease liabilities - finance charges - software & computer equipment	219,376	-
- Other	<u>-</u>	<u>68,875</u>
	329,035	68,875
Depreciation		
- Right of use - data centres	649,341	-
- office furniture and equipment	1,412	16,131
- computer equipment	920,496	453,943
- Right of use - software	<u>128,249</u>	<u>-</u>
	1,699,498	470,074
Amortisation of non-current assets		
- software intangibles	35,842	7,890
Superannuation guarantee contributions	387,556	296,261

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
NOTE 6: INCOME TAX		
Income tax reconciliation		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax payable on profit before income tax at 27.5% (2019: 27.5%)	(2,261,753)	(2,021,337)
Tax effect of:		
Non-assessable income	(13,750)	-
Non-deductible expenses	24,315	68,918
Tax losses and deferred tax not recognised	<u>2,251,188</u>	<u>1,952,419</u>
Income tax expense attributable to profit	<u>-</u>	<u>-</u>
(a) Deferred tax assets not brought to account		
Temporary differences	136,248	111,326
Operating tax losses	4,520,272	2,297,646
NOTE 7: CASH AND CASH EQUIVALENTS		
Cash at bank	1,129,906	2,211,242
Cash on deposit	<u>-</u>	<u>3,000,000</u>
	<u>1,129,906</u>	<u>5,211,242</u>

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
NOTE 8: RECEIVABLES		
CURRENT		
Receivables from contracts with customers	194,650	16,421
Other receivables - recoverable GST	155,547	155,547
Other receivables	1,758	61,172
Amounts receivable from:		
- individual shareholders (see note 23)	<u>-</u>	<u>750,000</u>
	<u>351,955</u>	<u>983,140</u>
NON CURRENT		
Other receivables - recoverable GST	<u>104,449</u>	<u>259,997</u>

Receivables from contracts with customers

A receivable from a contract with a customer represents the group's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Invoicing of customers generally occurs on a monthly basis. Outstanding invoices are due for payment within 30 days of the invoice date.

Impairment of receivables from contracts with customers and other receivables

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

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

At 30 June 2020 and 2019 there were no receivables past due nor impaired.

NOTE 9: OTHER ASSETS

CURRENT		
Prepayments	<u>354,134</u>	<u>317,430</u>
NON CURRENT		
Prepayments	<u>122,265</u>	<u>404,179</u>

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

	2020	2019
	\$	\$
NOTE 10: PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
Office equipment at cost	17,543	16,131
Accumulated depreciation	<u>(17,543)</u>	<u>(16,131)</u>
	-	-
Computer equipment at cost	5,297,012	8,990,174
Accumulated depreciation	<u>(1,374,439)</u>	<u>(453,943)</u>
	<u>3,922,573</u>	<u>8,536,231</u>
Total property, plant and equipment	<u><u>3,922,573</u></u>	<u><u>8,536,231</u></u>
(a) Reconciliations		
Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year		
Opening carrying amount	-	13,748
Additions	1,412	2,383
Depreciation expense	<u>(1,412)</u>	<u>(16,131)</u>
Closing carrying amount	<u><u>-</u></u>	<u><u>-</u></u>
<i>Computer equipment</i>		
Opening carrying amount	8,536,231	4,272,566
Additions	404,675	4,717,608
Depreciation expense	(920,496)	(453,943)
Reclassified on implementation of AASB 16	<u>(4,097,837)</u>	<u>-</u>
Closing carrying amount	<u><u>3,922,573</u></u>	<u><u>8,536,231</u></u>

(b) Application of AASB 16: Leases

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

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
NOTE 11: INTANGIBLE ASSETS		
Software intangibles at cost	145,050	543,474
Accumulated amortisation and impairment	<u>(43,732)</u>	<u>(7,890)</u>
	<u>101,318</u>	<u>535,584</u>

(a) Reconciliations

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

<i>Software intangibles at cost</i>		
Opening balance	535,584	126,000
Additions	65,050	417,474
Amortisation	(35,842)	(7,890)
Reclassified on implementation of AASB 16	<u>(463,474)</u>	<u>-</u>
Closing balance	<u>101,318</u>	<u>535,584</u>

NOTE 12: RIGHT OF USE LEASE ASSETS AND LEASE LIABILITIES

Lease arrangements (30 June 2020)

The following information relates to the current reporting period only, and is presented in accordance with AASB 16 *Leases* (which was applied by the group for the first time in the current reporting period).

	2020
	\$
(a) Lease assets	
Data centres	
Under lease	4,384,858
Accumulated depreciation	<u>(649,341)</u>
	3,735,517
Software	
Software under lease	868,255
Accumulated depreciation	<u>(128,249)</u>
	740,006
Computer equipment	
Computer equipment under lease	<u>4,097,837</u>
Total carrying amount of lease assets	<u>8,573,360</u>

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

	2020	2019
	\$	\$
NOTE 12: RIGHT OF USE LEASE ASSETS AND LEASE LIABILITIES (CONTINUED)		
Reconciliations		
Reconciliation of the carry amount of lease assets at the beginning and end of the financial year:		
<i>Data centres</i>		
Opening carrying amount	-	
Additions	1,500,506	
Depreciation	(649,341)	
Recognised on implementation of AASB 16	<u>2,884,352</u>	
Closing carrying amount	<u><u>3,735,517</u></u>	
<i>Software</i>		
Opening carrying amount	-	
Additions	404,781	
Depreciation	(128,249)	
Reclassified on implementation of AASB 16	<u>463,474</u>	
Closing carrying amount	<u><u>740,006</u></u>	
<i>Computer equipment</i>		
Opening carrying amount	-	
Reclassified on implementation of AASB 16	<u>4,097,837</u>	
Closing carrying amount	<u><u>4,097,837</u></u>	
(b) Lease liabilities		
CURRENT		
Lease liability - Data Centres	869,783	
Lease liability - Computer equipment & software	<u>2,138,880</u>	
	<u><u>3,008,663</u></u>	
NON CURRENT		
Lease liability - Data Centres	2,979,325	
Lease liability - Computer equipment & software	<u>1,681,875</u>	
	<u><u>4,661,200</u></u>	
Total carrying amount of lease liabilities	<u><u>7,669,863</u></u>	
(c) Lease expenses and cashflows		
Interest expense on lease liabilities	329,035	
Depreciation expense on lease assets	777,590	
Cash outflow in relation to leases	-	

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 12: RIGHT OF USE LEASE ASSETS AND LEASE LIABILITIES (CONTINUED)

(d) Finance lease arrangements (30 June 2019)

The following information relates to finance lease arrangements of the prior reporting period only, and is presented in accordance with the predecessor accounting standard AASB 117 Leases.

	2019
	\$
- Not later than 1 year	2,130,786
- Later than 1 year and not later than 5 years	<u>3,529,008</u>
Total undiscounted future lease payments to be made	5,659,794
Less: future finance charges	<u>359,840</u>
Carrying amount of finance lease liabilities	<u><u>5,299,954</u></u>

Finance lease liabilities are included in the carrying amount of borrowings in the statement of financial position. Refer to Note 14 for further information about the group's borrowings.

The carrying amount of equipment under finance lease arrangements is included in the carrying amount of property, plant and equipment in the statement of financial position. Refer to Note 10 for further information about the group's property, plant and equipment.

(e) Non-cancellable operating lease arrangements (30 June 2019)

The following information relates to non-cancellable operating lease arrangements of the prior reporting period only, and is presented in accordance with the predecessor accounting standard AASB 117 Leases.

	2019
	\$
- Not later than 1 year	579,942
- Later than 1 year and not later than 5 years	<u>434,173</u>
Aggregate lease payments contracted for at reporting date	<u><u>1,014,115</u></u>

(f) Leased assets pledged as security

Computer equipment & software intangible assets at a cost of \$4,966,092 (2019: \$4,561,311) have been acquired under hire purchase contracts and are pledged as security for the related lease liabilities.

	2020	2019
	\$	\$
NOTE 13: PAYABLES		
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	272,521	385,985
Sundry creditors and accruals	<u>267,764</u>	<u>184,623</u>
	<u><u>540,285</u></u>	<u><u>570,608</u></u>

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
ABN: 80 622 728 189

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$	2019 \$
NOTE 14: BORROWINGS		
CURRENT		
<i>Secured liabilities</i>		
Hire purchase liability	<u>-</u>	<u>1,997,807</u>
NON CURRENT		
<i>Secured liabilities</i>		
Hire purchase liability	<u>-</u>	<u>3,302,147</u>

(a) Terms and conditions

Interest rates applicable on hire purchase liabilities range from 4.6% to 7.6% per annum. All loans are to be repaid on a monthly basis over 3 years.

NOTE 15: PROVISIONS

CURRENT		
Employee benefits	<u>228,414</u>	<u>159,238</u>

NOTE 16: SHARE CAPITAL

Issued and paid-up capital			
63,847,231 (2019: 46,929,280) ordinary shares	(a)	29,214,882	25,064,098
20,000,000 (2019: 30,000,000) performance shares	(b)	<u>26</u>	<u>39</u>
		<u>29,214,908</u>	<u>25,064,137</u>

		2020		2019	
		Number	\$	Number	\$
(a) Ordinary shares					
Opening balance		46,929,280	25,064,098	29,864,000	14,932,000
Shares issued:					
24 January 2020	Conversion of Class B performance shares	10,000,000	13	-	-
27 March 2020	Entitlement offer	6,792,951	4,075,771	-	-
25 June 2020	Exercise of employee options	125,000	75,000	-	-
1 December 2018	Share placement	-	-	17,065,280	10,239,168
Transaction costs relating to shares issued		<u>-</u>	<u>-</u>	<u>-</u>	<u>(107,070)</u>
At reporting date		<u>63,847,231</u>	<u>29,214,882</u>	<u>46,929,280</u>	<u>25,064,098</u>

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020		2019	
	Number	\$	Number	\$

NOTE 16: SHARE CAPITAL (CONTINUED)

(a) Ordinary shares (Continued)

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

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

(b) Performance shares

Opening balance	30,000,000	39	30,000,000	39
24 January 2020	Conversion of Class B performance shares to ordinary shares	<u>(10,000,000)</u>	<u>(13)</u>	<u>-</u>
At reporting date		<u>20,000,000</u>	<u>26</u>	<u>30,000,000</u>
				<u>39</u>

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

Class	Milestone	No. 2020	No. 2019
A	The company completes the acquisition of all the issued capital of all or substantially all of the business and assets of UK Cloud Limited	10,000,000	10,000,000
B	The Company has undertaken a capital raising or series of capital raising under which it has raised at least \$10 million or an exit event has occurred	-	10,000,000
C	The Company completes an exit event in which the value of the ordinary shares is at least \$1.50	10,000,000	10,000,000

An exit event includes an IPO, trade sale or the sale of all the share capital in the company. If the company completes an exit event but has not completed the UKCloud acquisition, the class A performance shares will be automatically redeemed for \$1.

The performance shares are nontransferable, have no voting rights and do not entitle the holder to any dividends.

In October 2019, when the final funds were received in respect of the placement of shares (\$10,239,168) on 1 December 2018, the performance milestone for the Class B performance shares had been achieved, which resulted in the Class B performance shares being converted into ordinary shares.

As at 30 June 2020 none of the milestones in respect of the Class A performance shares and Class C performance shares had been achieved.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 16: SHARE CAPITAL (CONTINUED)

Capital management

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

NOTE 17: RESERVES

Share based payments reserve	17(a)	<u>320,293</u>	<u>243,113</u>
		<u>320,293</u>	<u>243,113</u>

(a) Share based payments reserve

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

Movements in reserve

Opening balance	243,113	-
Share based payments expensed	<u>77,180</u>	<u>243,113</u>
Closing balance	<u>320,293</u>	<u>243,113</u>

NOTE 18: ACCUMULATED LOSSES

Accumulated losses at beginning of year	(15,089,247)	(7,738,932)
Net profit / (loss)	<u>(8,224,556)</u>	<u>(7,350,315)</u>
Accumulated losses at end of year	<u>(23,313,803)</u>	<u>(15,089,247)</u>

NOTE 19: INTERESTS IN SUBSIDIARIES

Subsidiaries

The following are the group's significant subsidiaries:

Subsidiaries of Sovereign Cloud Holdings Limited:	Country of incorporation	Ownership interest held by the group	
		2020 %	2019 %
Sovereign Cloud Australia Pty Ltd	Australia	100	100

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
NOTE 20: CASH FLOW INFORMATION		
(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position is as follows:		
Cash at bank	1,129,906	2,211,242
At call deposits with financial institutions	<u>-</u>	<u>3,000,000</u>
	<u>1,129,906</u>	<u>5,211,242</u>
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit / (loss) from ordinary activities after income tax	(8,224,556)	(7,350,315)
Adjustments and non-cash items		
Amortisation	35,842	7,890
Depreciation	1,699,498	470,074
Share based payment expense	77,180	243,113
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	(118,815)	(27,504)
(Increase) / decrease in other assets	245,210	128,934
Increase / (decrease) in payables	(79,540)	(619,918)
Increase / (decrease) in provisions	<u>69,176</u>	<u>137,497</u>
Cash flows from operating activities	<u>(6,296,005)</u>	<u>(7,010,229)</u>
(c) Non-cash financing and investing activities		
Borrowings - prepaid services	-	845,743
Borrowings - recoverable GST	-	556,825

NOTE 21: SHARE BASED PAYMENTS

(a) Equity-settled share-based payments

(i) Employee option plan

The company commenced an Employee Share Options Plan ("ESOP") as part of its overall long term employee incentive arrangements. In July 2018 the company granted 2,725,029 options over ordinary shares under the ESOP.

In August 2019 the Company granted 353,252 options over ordinary shares under the ESOP.

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 21: SHARE BASED PAYMENTS (CONTINUED)

(a) Equity-settled share-based payments (Continued)

(i) Employee option plan (Continued)

Details of the options granted are provided below:

2020

Grant date	Expiry date	Exercise price*	Balance at beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Exercisable at end of the year
1/07/2018	30/06/2022	\$ 0.60	210,045	-	(91,323)	-	118,722	118,722
1/07/2018	30/06/2022	\$ 0.60	838,328	-	(33,677)	(201,810)	602,841	602,841
1/07/2018	30/06/2022	\$ 0.60	838,328	-	-	(235,490)	602,838	-
1/07/2018	30/06/2022	\$ 0.60	838,328	-	-	(235,487)	602,841	-
13/08/2019	30/06/2023	\$ 0.60	-	117,751	-	(20,560)	97,191	-
13/08/2019	30/06/2023	\$ 0.60	-	117,751	-	(20,559)	97,192	-
13/08/2019	30/06/2023	\$ 0.60	-	117,751	-	(20,560)	97,191	-
			<u>2,725,029</u>	<u>353,253</u>	<u>(125,000)</u>	<u>(734,466)</u>	<u>2,218,816</u>	<u>721,563</u>

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

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

2019

Grant date	Expiry date	Exercise price*	Balance at beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Exercisable at end of the year
1/07/2018	30/06/2022	\$ 0.60	-	210,045	-	-	210,045	210,045
1/07/2018	30/06/2022	\$ 0.60	-	838,328	-	-	838,328	-
1/07/2018	30/06/2022	\$ 0.60	-	838,328	-	-	838,328	-
1/07/2018	30/06/2022	\$ 0.60	-	838,328	-	-	838,328	-
			<u>-</u>	<u>838,328</u>	<u>-</u>	<u>-</u>	<u>838,328</u>	<u>-</u>
			<u>-</u>	<u>2,725,029</u>	<u>-</u>	<u>-</u>	<u>2,725,029</u>	<u>210,045</u>

Fair value of options granted:

The assessed fair value of the options at grant date was \$0.17, \$0.19 and \$0.21 respectively (2019: \$0.11, \$0.13, \$0.15 and \$0.16 respectively). Fair value was determined using the Black Scholes pricing model. The following inputs were utilised:

- Exercise price: \$0.60 (2019: \$0.60)
- Grant date: 13/08/2019 (2019: 1/07/2018)
- Expiry date: 30/06/2023 (2019: 30/06/2022)
- Expected price volatility of the group's shares: 50% (2019: 50%)
- Expected dividend yield: 0.0% (2019: 0.0%)
- Risk-free interest rate: 0.68% (2019: 2.25%)

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 21: SHARE BASED PAYMENTS (CONTINUED)

(a) Equity-settled share-based payments (Continued)

(ii) Expenses recognised from share-based payment transactions

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

	2020	2019
	\$	\$
Options issued under employee option plan	<u>77,180</u>	<u>243,113</u>
Total expenses recognised from share-based payment transactions	<u>77,180</u>	<u>243,113</u>

NOTE 22: CONTINGENT LIABILITIES

Technology Licence Agreement

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

NOTE 23: RELATED PARTY TRANSACTIONS

(a) Transactions with shareholders

- i. In December 2018 the Company received an application from a UK based shareholder for the issue of 1.25 million ordinary shares at 60 cents each (\$750,000) as part of the capital raising undertaken in that month. The proceeds had not been received by the Company as at 30 June 2019 (see note 8). As part of these arrangements, Cathie Reid (a director of the Company) and Stuart Giles have agreed to provide the shareholder with a loan for \$750,000 to fund their placement subscription. Stuart Giles has also provided the Company with an unconditional commitment to pay the \$750,000 on demand at the request of the Company which was paid in October 2019.
- ii. In a separate arrangement, Reid/Giles provided the UK based shareholder with a term loan to fund their initial contribution of \$2,500,000 in December 2017. The original intention was for the UK based shareholder to transfer this investment to form part of a UK based fund. In January 2020 it was agreed that the total loan (\$3,250,000) be repaid by the transfer of shares in the Company to Reid/Giles which were held as security for the loan. At the same time Reid/Giles agreed to sell a proportion of these shares to an existing shareholder (the McBeath Family). This arrangement provided more certainty for the Company from an ownership perspective, and also materially increased the Australian sovereign ownership of the Company to 87%. Reid/Giles and the McBeath Family have subsequently moved to equal shareholding in the Company following the placement of shares in August 2020 to WAM Microcap Limited and existing shareholders (see note 29 below).
- iii. An entity associated with Cathie Reid, together with another major shareholder, agreed to underwrite up to \$2.5 million of the FY20 Entitlement Offer, including their entitlements under the offer. The underwriters did not receive a fee for underwriting the Entitlement Offer. Under the arrangements between the Company and the entity associated with Cathie Reid, the Company received \$579,015 for the shares issued under her entitlement offer and a further \$524,287 for the shares issued to her under the underwriting agreement.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$

NOTE 24: PARENT ENTITY DETAILS

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

(a) Summarised statement of financial position

Assets

Current assets	23,436,802	19,456,158
Non-current assets	<u>5,314,707</u>	<u>5,314,707</u>
Total assets	<u>28,751,509</u>	<u>24,770,865</u>

Liabilities

Current liabilities	60,000	4,559
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>60,000</u>	<u>4,559</u>
Net assets	<u>28,691,509</u>	<u>24,766,306</u>

Equity

Share capital	29,214,908	25,064,137
Retained earnings	(843,692)	(540,944)
Reserves		
Share based payments reserve	<u>320,293</u>	<u>243,113</u>
Total equity	<u>28,691,509</u>	<u>24,766,306</u>

(b) Summarised statement of comprehensive income

Profit for the year	(302,748)	(319,000)
Other comprehensive income for the year	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>(302,748)</u>	<u>(319,000)</u>

NOTE 25: KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation	<u>443,614</u>	<u>363,746</u>
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NOTE 26: FINANCIAL RISK MANAGEMENT

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

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

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The group holds the following financial instruments:

	2020	2019
	\$	\$
Financial assets		
<i>Amortised cost</i>		
- Cash and cash equivalents	1,129,906	5,211,242
- Receivables	<u>456,454</u>	<u>1,243,137</u>
	<u>1,586,360</u>	<u>6,454,379</u>
Financial liabilities		
<i>Amortised cost</i>		
- Payables	540,285	570,608
- Borrowings	-	5,299,954
- Lease liabilities	<u>7,669,863</u>	<u>-</u>
	<u>8,210,148</u>	<u>5,870,562</u>

(a) Interest rate risk

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

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

2020		
Financial instruments	Interest bearing	Weighted average
	\$	effective interest rate
<i>Financial assets</i>		
Cash	<u><u>1,129,906</u></u>	0.5 %
2019		
<i>Financial assets</i>		
Cash	<u><u>5,211,242</u></u>	1.0 %

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

Sensitivity

If interest rates were to increase/decrease by 50 basis points (2019: 100 basis points) from the rates prevailing at the reporting date, assuming all other variables remain constant, then the impact of profit for the year and equity would be as follows:

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Interest rate risk (Continued)

	2020	2019
	\$	\$
+ / - 50 basis points (2019: 100 basis points)		
Impact on profit after tax	5,650	52,112
Impact on equity	5,650	52,112

(b) Credit risk

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

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

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

(i) Cash deposits

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

(ii) Receivables from contracts with customers

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

(iii) Other receivables

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

(c) Liquidity risk

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

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

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

Year ended 30 June 2020	< 6 months	6-12 months	1-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Payables	540,285	-	-	540,285	540,285
Lease liabilities	<u>1,550,969</u>	<u>1,592,915</u>	<u>4,835,484</u>	<u>7,979,368</u>	<u>7,669,863</u>
Net maturities	<u>2,091,254</u>	<u>1,592,915</u>	<u>4,835,484</u>	<u>8,519,653</u>	<u>8,210,148</u>
Year ended 30 June 2019					
Payables	570,608	-	-	570,608	570,608
Borrowings	<u>947,218</u>	<u>980,436</u>	<u>3,780,756</u>	<u>5,708,410</u>	<u>5,299,954</u>
Net maturities	<u>1,517,826</u>	<u>980,436</u>	<u>3,780,756</u>	<u>6,279,018</u>	<u>5,870,562</u>

(d) Fair values compared with carrying amounts

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

NOTE 27: ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the group. The group has decided not to early adopt any of these new and amended pronouncements. Management has assessed that none of these standards will have a material impact on the group's financial statements in the period of initial application.

NOTE 28: ENTITY DETAILS

The registered office of the group is:

Sovereign Cloud Holdings Limited
Level 38, 345 Queen Street
Brisbane QLD 4000

The principal place of business is:

Unit 7, 15-21 Beaconsfield Street
Fyshwick ACT 2609

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

NOTE 29: EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material matters or circumstances which have arisen between 30 June 2020 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial periods except as follows:

- Placement of 4,166,667 fully paid ordinary shares at 60 cents each (\$2,500,000) to WAM Microcap Limited in August 2020.
- Issue of a further 4,876,499 fully paid ordinary shares at 60 cents each (\$2,925,900) under the Entitlement Offer dated 31 January 2020.
- The Company has agreed additional lease finance facilities with a major supplier to fund the purchase of computer equipment and software. These facilities include the purchase of compute and storage computer equipment at a cost of \$1,559,357, and a further \$1,366,155 for equipment and software payable on delivery acceptance.
- On 30 September 2020 the Company granted 1,102,707 options over ordinary shares to employees under the Employee Share Option Plan.

NOTE 30: COVID-19 IMPACT ASSESSMENT

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

SOVEREIGN CLOUD HOLDINGS LIMITED AND CONTROLLED ENTITY

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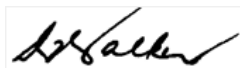
DIRECTORS' DECLARATION

The directors of the Company declare that:

1. In the directors opinion, the financial statements and notes thereto, as set out on pages 7 - 40, are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) as stated in Note 1, the consolidated financial statements also comply with *International Financial Reporting Standards*; and
 - (c) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2020 and its performance for the year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Director: _____



Ross Walker

Dated this

01 day of October

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



Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Sovereign Cloud Holdings Limited and controlled entity (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the director's declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Australian Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1(c) in the financial report, which indicates that the Group incurred a net loss of \$8,224,556 during the year ended 30 June 2020. As stated in Note 1(c) the ability of the Group to continue as a going concern is principally dependent upon the ability of the Group to raise additional funding in the future. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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



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

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

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas
Director
Brisbane
16 October 2020