Schrole Group Limited

ABN 43 131 115 878

Annual Report – 31 December 2016

Schrole Group Limited
Directors' report
31 December 2016

The directors present their report, together with the financial statements, on the consolidated entity consisting of Schrole Group Limited ("the company") and the entities it controlled at the end of, or during, the six months ended 31 December 2016 ("period"). Throughout the report, the consolidated entity is referred to as the Group

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

Robert Graham	
Gregory Smith	appointed 12 November 2015, resigned 10 August 2016, reappointed 7 September 2016
Michael Kirkwood	appointed 17 June 2016, resigned 10 August 2016, reappointed 7 September 2016
Gregory Wheeler	appointed 10 August 2016, resigned 7 September 2016
Sam McDonagh	appointed 10 August 2016, resigned 6 September 2016
Gary Martin	appointed 10 August 2016, resigned 7 September 2016
Robert Breden	appointed 10 August 2016, resigned 7 September 2016

Principal activities
During the period the principal continuing activities of the company was as a holding company of a Group that provides software, consulting and training services to international and domestic schools and businesses and training services to individuals.

Dividends
No dividends were declared nor paid in the current period (year ended 30 June 2016: $650,000 declared and paid).

Review of operations
The loss in the period for the Group after providing for income tax amounted to $750,014 (year ended 30 June 2016: loss of $1,324,691). This included $154,893 of expense related to the issue of options to employees and a supplier for services in the period.

Significant changes in the state of affairs
The company has concluded a seed capital raise of $522,734 (net of costs) settled on 12 July 2016.

The company converted from a Proprietary Limited company to a Public company on 5 August 2016.

The company is planning to list on the Australian Stock Exchange and is progressing towards an Initial Public Offer which is seeking to raise between $5,000,000 and $6,000,000 in Q2 2017.

Matters subsequent to the end of the period
The company received the final $198,196 payment from the Refundable R&D offset claim on 9 January 2017.

The company is planning to list on the Australian Stock Exchange and is progressing towards an Initial Public Offer which is seeking to raise between $5,000,000 and $6,000,000 in Q2 2017. In preparation for this listing event, the company lodged a Notice of Meeting and Explanatory Memorandum with ASIC on 20 January 2017 and it was distributed to shareholders on 23 January 2017 to restructure the share capital. The shareholders unanimously approved all resolutions at the general meeting held on 13 February 2017, which included the following:

1. consolidate the existing shares of the company through the conversion of every five (5) shares held into four (4) shares;
2. the company selectively buy-back and cancel 16,066,456 shares held by Enerly Pty Ltd, a related party of Robert Graham, and create and issue 24,099,684 performance shares allocated into three equal tranches.
3. the performance shares expire 5 years from their date of issue and all have performance milestones as follows:
    a. 8,033,228 Series B performance shares will convert into an equal number of ordinary shares once the company achieves 215 school subscriptions to Schrole Connect or 198 subscription licences to Schrole Cover within 18 months of admission onto the ASX;
    b. 8,033,228 Series C performance shares will convert into an equal number of ordinary shares once the company achieves sales revenue of $7,000,000 over any 12-month period prior to 36 months of admission onto the ASX; and
    c. 8,033,228 Series C performance shares will convert into an equal number of ordinary shares once the company achieves earnings before interest, tax, depreciation and amortisation (EBITDA) of $3,000,000 over any 12-month period prior to 48 months of admission onto the ASX.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Likely developments and expected results of operations
Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

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

Shares under option
At the date of this report, there were 3,799,998 (2015: nil) unissued ordinary shares under option.

Shares issued
On 31 October 2015, as part of the acquisition of Schrole Pty Ltd, the company:

- split its single existing ordinary share issued to Enerly Pty Ltd (ACN 081 624 231, the ultimate parent entity) into 65,612,259 ordinary shares, to reflect the value of its investment in ETAS (WA) Pty Ltd and;
- issued 32,000,020 ordinary shares to acquire 100% of the shares in Schrole Pty Ltd in a Share Exchange Agreement.

The company settled a private placement, on 24 December 2015, issuing 15,592,006 ordinary shares at 7 cents per share ($1,091,440) and a subsequent placement on 23 March 2016 issuing 857,153 ordinary shares at 7 cents per share ($60,001).

The company had issued 4,456,385 shares at a value of $0.07 cents per share between 29 April 2016 and 13 June 2016 to cover the value of the services provided from April 2016 to September 2016 inclusive.

The company did a 1 for 2 share consolidation on 29 June 2016, prior to the 2 August 2016 Seed Capital Raise. This reduced the number of shares on issue from 118,517,824 to 59,258,912 shares.

No options were exercised in the period.

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

During the financial year, the Group paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

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

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

Auditor's independence declaration
A copy of the auditor's independence declaration is set out on the following page.

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

On behalf of the directors

Robert Graham
Director

16 February 2017
Perth

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Australia

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF SCHROLE GROUP LIMITED

As lead auditor of Schrole Group Limited for the period ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Schrole Group Limited and the entities it controlled during the period.

Glyn O'Brien

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 16 February 2017

Contents

General information

Schrole Group Limited ("the company") is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Fogarty Partners
66 Hay Street
Subiaco WA 6008

Principal place of business

Ground Floor
142 Hasler Road
Osborne Park WA 6014

The consolidated financial statements of the company comprise the company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 16 February 2017. The directors have the power to amend and reissue the financial statements.

Schrole Group Limited
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2016

	Note	6 months to 31 December 2016 $
Revenue	3	914,828
Expenses		
Employee benefits expense		(636,092)
Depreciation expense	4	(132,850)
Travel expense		(89,132)
Issue of options	4	(154,893)
Other expenses		(643,833)
Loss before income tax expense	5	(741,972)
Income tax expense	5	(8,042)
Loss after income tax expense for the period attributable to the owners of Schrole Group Limited		(750,014)
Other comprehensive income for the period, net of tax		-
Total comprehensive loss for the period attributable to the owners of Schrole Group Limited		(750,014)

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

Schrole Group Limited
Consolidated statement of financial position
As at 31 December 2016

	Note	December 2016 $	June 2016 $
Assets			
Current assets			
Cash and cash equivalents		48,459	11,246
Trade and other receivables		197,339	355,076
Income tax receivable		198,196	-
Withholding tax		37,895	-
Other		1,189	1,189
Total current assets		483,078	367,511
Non-current assets			
Property, plant and equipment	6	129,456	143,212
Intangible assets	7	625,482	609,978
Other		1,664	1,397
Total non-current assets		756,602	754,587
Total assets		1,239,680	1,122,098
Liabilities			
Current liabilities			
Trade and other payables	8	183,313	231,458
Deferred revenue		454,711	293,878
Provision for employee benefits		72,379	47,895
Bank loans		99,968	99,663
Other		1,000	13,861
Total current liabilities		811,371	686,755
Non-current liabilities			
Provision for employee benefits		14,184	32,209
Loans – Enerly Pty Ltd		256,795	276,621
Bank loans		209,329	250,531
Provision for lease make-good		40,127	39,721
Total non-current liabilities		520,435	599,082
Total liabilities		1,331,806	1,285,837
Net assets		(92,126)	(163,739)
Equity			
Issued capital	9	3,606,123	2,939,389
Reserves	10	(1,232,900)	(1,387,793)
Accumulated losses	11	(2,465,349)	(1,715,335)
Total equity		(92,126)	(163,739)

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

Schrole Group Limited
Consolidated statement of changes in equity
For the period ended 31 December 2016

	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2016	2,939,389	(1,387,793)	(1,715,335)	(163,739)
Shares issued 1 August 2016	522,734	-	-	522,734
Shares issued for services to 31 December 2016	144,000	-	-	144,000
Issue of options	-	154,893	-	154,893
Loss after income tax expense for the period	-	-	(750,014)	(750,014)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	-	-	(750,014)	(750,014)
Balance at 31 December 2016	3,606,123	(1,232,900)	(2,465,349)	(92,126)

	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2015	1	-	259,356	259,357
Dividends paid	-	-	(650,000)	(650,000)
Share exchange to acquire Schrole Pty Ltd	1,600,001	-	-	1,600,001
Shares issued 24 December 2015	1,091,440	-	-	1,091,440
Shares issued 24 March 2016	60,001	-	-	60,001
Shares issued 30 June 2016	20,000	-	-	20,000
Shares issued for services to 30 June 2016	167,946	-	-	167,946
Acquisition of Schrole Pty Ltd	-	(1,387,793)	-	(1,387,793)
Loss after income tax expense for the period	-	-	(1,324,691)	(1,324,691)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	-	-	(1,324,691)	(1,324,691)
Balance at 30 June 2016	2,939,389	(1,387,793)	(1,715,335)	(163,739)

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

Schrole Group Limited
Consolidated statement of cash flows
For the period ended 31 December 2016

	Note	6 months to 31 December 2016 $
Cash flows from operating activities		
Receipts from customers (inclusive of GST)		1,207,347
Payments to suppliers and employees (inclusive of GST)		(1,320,762)
		(113,415)
Interest received		111
Income tax paid		(46,749)
Other		7,703
Net cash used in operating activities		(152,350)
Cash flows from investing activities		
Payments for property, plant and equipment and intangibles		(219,746)
R&D claim refund received		31,180
Net cash used in investing activities		(188,566)
Cash flows from financing activities		
Receipts from Shares issued		523,280
Repayments of bank loans		(40,897)
Enerly Pty Ltd loan repayments		(27,600)
Interest paid		(14,089)
Finance lease costs		(62,565)
Net cash from/(used in) financing activities		378,129
Net increase in cash and cash equivalents		37,213
Cash and cash equivalents at the beginning of the period		11,246
Cash and cash equivalents at the end of the period		48,459

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

Note 1. Significant accounting policies

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

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

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

Basis of preparation
In the directors' opinion, the company is not a reporting entity because there are no users dependent on general purpose financial statements.

These are consolidated special purpose financial statements that have been prepared for the purposes of distributing to the owners. The directors have determined that the accounting policies adopted are appropriate to meet the needs of the owners of Schrole Group Limited.

These consolidated financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the disclosure requirements of AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', AASB 1048 'Interpretation of Standards' and AASB 1054 'Australian Additional Disclosures', as appropriate for for-profit oriented entities.

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

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Basis of consolidation
Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interest in the acquire; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with the business combination are expensed as incurred.

Note 1. Significant accounting policies (continued)

Business combinations involving entities under common control
In the case of acquisitions of businesses or entities under common control the acquired assets and liabilities are initially recognised in the consolidated financial statements at their predecessor carrying amounts, which are the carrying amounts from the consolidated financial statements at the highest level of common control as at the date of acquisition. The difference between the cost of acquisition and the share of the carrying amounts of the acquired net assets is recognised directly in equity.

The profit or loss of the entity joining the group under common control is included from the date of the acquisition.

Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

Loss of control
On the loss of control, the Group derecognises the assets and liabilities of the subsidiary and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains an interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Transaction eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transitions, are eliminated in preparing the consolidated financial statement.

Going Concern
For the period ended 31 December 2016 the Group incurred a loss after tax of $750,014 (of which $154,893 of expenses related to the issue of options Note: 4 and 10), had cash outflows from operating activities of $152,350 and as at 31 December 2016, the Group has net current liabilities of $328,293 (June 2016: $319,244). The ability of the group to continue as a going concern is dependent on securing additional funding through the planned Initial Public Offering ("IPO") to continue to fund its operations or to obtain bridging finance, if the IPO does not proceed.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors believe there are sufficient funds to meet the entity's working capital requirements and as at the date of this report can meet all liabilities as and when they fall due.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business because the company received the final $198,196 on 9 January 2017 from the Refundable R&D offset claim of $229,377 of which $31,181 was received in November 2016. In addition, the company is progressing to an Initial Public Offer which seeks to raise between $5,000,000 and $6,000,000 in Q2 2017 during which Enerly Pty Ltd intends to convert the loan balance ($256,795 shown as a non-current liability) for ordinary shares. The company also has a $200,000 overdraft facility through the ANZ Bank for short term cash management.

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

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Note 1. Significant accounting policies (continued)

Rendering of services
Revenue relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

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

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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

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

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

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

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

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Note 1. Significant accounting policies (continued)

Depreciation is calculated to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Category	Depreciation Method	Useful Life
Developed software	Straight line	4 years – 5 years
Plant and equipment	Diminishing value	6 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

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

Intangible Assets
Goodwill
Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see the note on **Business combinations**.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses.

Other intangible assets
Other intangible assets that are acquired by the Group, and have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Computer software development
Internally developed computer software is initially capitalised at cost, which includes direct expenditure by external developers, employees and on-costs that can be reliably measured and directly attributable to creating the asset for its intended use. Costs associated with maintaining the computer software are recognised as an expense when incurred. Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss.

Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation
Except for goodwill, intangible assets are amortised on a straight line basis in profit or loss over their estimated useful lives, from the date they are available for use.

The estimate useful lives for the current and comparative period are as follows:

- Capitalised software development costs 4 years – 5 years

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Note 1. Significant accounting policies (continued)

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Impairment of non-financial assets

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

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

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Defined contribution superannuation expense

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

Issued capital

Ordinary shares are classified as equity.

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

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Note 1. Significant accounting policies (continued)

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

R&D Incentives
Refundable tax incentives are accounted for as government grants under AASB 120. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Refundable tax incentives are recognised as Other Income to the extent that the claim relates to costs which have been expensed in the Statement of Profit/(Loss) and Other Comprehensive Income. For refundable tax incentives which relate to costs which have been capitalised to an asset, the tax incentive is offset against the carrying amount of the asset.

Share Based Payments
Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 31 December 2016. The company has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

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

Valuation of share based payments
The value of share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes pricing model.

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

Employee benefits provision
As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Impairment of intangible computer software development
The company has tested the intangible computer software development asset for impairment at 31 December 2016 for both the Schrole connect and Schrole Cover assets. The company tested the recoverability of the depreciated values against a projected discounted cashflow of revenue and attributable costs over the remaining life of the asset. The company used a 20% discount rate and applied sensitivity analysis to the revenue projections. The company has been able to satisfy itself that the future returns demonstrate a high probability that the depreciated value of both assets are recoverable and that an impairment charge in not required.

Deferred taxes
The company has not recognised deferred tax assets relating to income tax timing and carried forward tax losses as there is not sufficient certainty that they can be utilised. Utilisation of the tax losses depends on the ability to satisfy certain tests at the time the losses are recouped. Due to the planned Initial Public Offer in Q2 2017, there are some concerns that the company may fail to satisfy the continuity of ownership test and same business test. As a result, the company has not recognised $553,451 of consolidated deferred tax assets relating to carried forward tax losses.

There is also not sufficient certainty to the timing or quantum for future taxable profit to recognise the deferred tax relating to income tax timing. As a result, the company has not recognised $419,987 of net deferred taxes relating to income tax timing.

However, if the company is successful in satisfying the continuity of ownership or same business tests then up to $553,451 of deferred tax assets would have to be recognised as a reduction of income tax expense in a future year and up to a further $419,987 of deferred tax assets could be recognised when future tax profits are achieved.

Note 3. Revenue

	6 months ending 31 December 2016 $
Sales revenue	
Rendering of services	911,911
Other revenue	
Other revenue	2,917
Revenue	914,828

Note 4. Expenses

	6 months ending 31 December 2016 $
Profit/(loss) before income tax includes the following specific expenses:	
Costs of sales	
Costs of sales	111,180
Depreciation	
Developed software	116,105
Leasehold improvements	9,913
Plant and equipment	6,832
Total depreciation	132,850
Rental expense relating to operating leases	
Lease payments	103,295
Discount unwind on make-good provision	405
	103,700
Share based payments	
Issue of options (Black-Scholes value)	154,893
Finance costs	
Interest and bank charges	7,448
Superannuation expense	
Defined contribution superannuation expense	60,915

Note 5. Income Tax

Reconciliation of the effective tax rate	6 months ending 31 December 2016 $
Loss from continuing operations before income tax expense	(741,972)
Tax at the Australia tax rate of 30% (2015: 30%)	(222,592)
Non-deductable expenses:	
- entertainment	544
- expensed R&D costs	4,829
- depreciation on R&D assets	20,650
Current year tax losses written off	224,761
Utilised deferred tax written of in prior periods	(19,649)
Other	501
Income tax (expense) / benefit	(8,042)

Due to the planned Initial Public Offer in Q2 2017, there are some concerns that the company may fail to satisfy the continuity of ownership test and same business test. As a result, the company has not recognised $553,451 of deferred tax assets relating to carried forward tax losses. There is also not sufficient certainty to the timing or quantum of future taxable profit to recognise the deferred tax relating to income tax timing. As a result, the company has not recognised $419,987 of deferred taxes relating to income tax timing. If the company is successful in satisfying the continuity of ownership or same business tests then up to $381,553 of deferred tax assets would be recognised as a reduction of income tax expense in a future year and up to a further $439,636 of deferred tax assets could be recognised when future tax profits are achieved.

Note 6. Non-current assets - property, plant and equipment

	December 2016 $	June 2016 $
Leasehold improvements – at cost	305,886	305,886
Less: Accumulated depreciation	(216,408)	(206,495)
	89,478	99,391
Plant and equipment – at cost	197,933	194,944
Less: Accumulated depreciation	(157,955)	(151,123)
	39,978	43,821
	129,456	143,212

Note 7. Intangible assets

	December 2016 $	June 2016 $
Developed software – at cost	658,855	-
Developed software acquired	-	284,569
Additional development	360,987	426,161
R&D claim offset	(229,377)	(51,875)
	790,465	658,855
Less: Accumulated depreciation	(167,503)	(51,397)
	622,962	607,458
Trademark acquired	2,520	2,520
	625,482	609,978

Note 8. Current liabilities - trade and other payables

	December 2016 $	June 2016 $
Trade payables	85,655	109,203
Other	97,658	122,255
	183,313	231,458

Note 9. Equity - issued capital

	December 2016 Shares	June 2016 Shares	December 2016 $	June 2016 $
30 June 2016 Ordinary shares – fully paid	59,425,577	59,425,577	2,939,389	2,939,389
1 August 2016 Ordinary shares – private placement	4,496,670	-	522,734	-
To 31 December 2016 – equity for services(1)	-	-	144,000	-
31 December 2016 Ordinary shares	63,922,247	59,425,577	3,606,123	2,939,389

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

Note:
(1) The company signed an agreement with its software developer to issue equity in exchange for the provision of services in the development of the Schrole Cover software. The company issued 4,371,430 shares at a value of $0.07 cents per share on 29 April 2016 and 13 June 2016 to cover the value of the services provided from April 2016 to September 2016 inclusive. 2,057,143 (1,028,571 post consolidation) of these shares were unpaid at 30 June 2016, awaiting the provision of future development services. At the date of this report, these shares are fully paid. The value was based on the supplier invoices, which were charged at their commercially available rates, and the previous private placement pre-consolidated share price in December 2015 and March 2016 of $0.07 cents per share, $0.14 cents per share post consolidation.

Note 10. Reserves

Effective close of business 31 October 2015, the Company acquired 100% of the issued shares of Schrole Pty Ltd the through a fully paid Share Exchange Agreement (Note 9). This involved the acquisition of an entity under common control.

The carrying amounts of the assets and liabilities of Schrole Pty Ltd on the date of acquisition were as follows:

	31 October 2015 $
Acquisition reserve	
Consideration	
Fair value of shares issued	(1,600,001)
Value of assets and liabilities acquired	
Cash and cash equivalent	167,643
Trade debtors	148,758
Property, plant and equipment	2,501
Intangible assets	287,089
Trade creditors	(110,542)
Income in advance	(346,636)
Sundry creditors	(11,863)
Deferred tax asset	115,345
Deferred tax liability	-
Provision for income tax	(40,087)
	212,208
Acquisition reserve	(1,387,793)
Options reserve	
Options issued to employees	107,667
Options issued for services	47,227
Options reserve	154,893
Total reserves	(1,232,900)

Options
The value of share-based payments using options is measured at the fair value of the equity instruments issued using the Black-Scholes pricing model applying the relevant expiry date, exercise price, a spot price of $0.12 (the most recent price for the issue of ordinary shares), a raw risk free rate of between 1.39% and 1.56% and a volatility of 90%.

Option Instrument	Number of Options	Expiry date	Exercise Price	Value $
Employee – Tranche 1	1,266,666	30 June 2017	$0.25	20,266
Employee – Tranche 2	1,266,666	30 June 2018	$0.30	36,733
Employee – Tranche 3	1,266,666	30 June 2019	$0.35	50,667
Supplier	858,679	19 August 2019	$0.20	47,227

Note 10. Reserves (continued)

Performance shares
Performance shares were issued to management on 1 August 2016 for salary reductions that occurred in the prior period. Each tranche of performance shares has a future vesting condition that is not sufficiently certain to attribute a value.

Performance Shares	Number of performance shares	Expiry date	Vesting Condition
Series A	2,250,902	31 December 2017	ASX listing
Series B	1,125,450	30 June 2017	Accumulated EBITDA over 12 months
Series C	1,125,450	30 June 2018	Accumulated EBITDA over 12 months

The shareholders unanimously approved to consolidate existing shares and vary the vesting conditions of the Series B and Series C performance shares at a general meeting held on 13 February 2017 as follows:

a. consolidate the existing shares of the company through the conversion of every five (5) shares held into four (4) shares;
b. Series B performance shares will convert into an equal number of ordinary shares once the company achieves 215 school subscriptions to Schrole Connect or 198 subscription licences to Schrole Cover within 18 months of admission onto the ASX;
c. Series C performance shares will convert into an equal number of ordinary shares once the company achieves sales revenue of $7,000,000 over any 12-month period prior to 36 months of admission onto the ASX.

Note 11. Equity – accumulated losses

	December 2016 $	June 2016 $
Retained profits at the beginning of the period	(1,715,335)	259,356
Dividends paid	-	(650,000)
Loss after income tax expense for the period	(750,014)	(1,324,691)
Accumulated losses at the end of the period	(2,465,349)	(1,715,335)

Note 12. Equity - dividends

	December 2016 $	June 2016 $
Dividends		
Franking credits available for subsequent financial years based on a tax rate of 30%	-	650,000
Franking credits		
Franking credits available for subsequent financial years based on a tax rate of 30%	-	-

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 13. Parent entities

The immediate parent entity is Enerly Pty Ltd (incorporated in Australia), which at 31 December 2016 owned 64.1% (30 June 2016: 69.1%) of the issued share capital of the company.

Note 14. Interests in other entities

Name of entity	Place of business / country of incorporation	Ownership interest held	Principal activities
Schrole Pty Ltd (ACN 164 785 488)	Australia	100%	Software and training services to international and domestic schools
ETAS (WA) Pty Ltd (ACN 065 673 896)	Australia	100%	Training services to domestic and international businesses

Note 15. Events after the reporting period

The company received the final $198,196 payment from the Refundable R&D offset claim on 9 January 2017.

The company is planning to list on the Australian Stock Exchange and is progressing towards an Initial Public Offer which will raise between $5,000,000 and $6,000,000 in Q2 2017.

In preparation for this listing event, the company lodged a Notice of Meeting and Explanatory Memorandum with ASIC on 20 January 2017 and it was distributed to shareholders on 23 January 2017 to restructure the share capital. The shareholders unanimously approved all resolutions at the general meeting held on 13 February 2017, which included the following:

2. consolidate the existing shares of the company through the conversion of every five (5) shares held into four (4) shares;
3. the company selectively buy-back and cancel 16,066,456 shares held by Enerly Pty Ltd, a related party of Robert Graham, and create and issue 24,099,684 performance shares allocated into three equal tranches.
4. the performance shares expire 5 years from their date of issue and all have performance milestones as follows:
   a. 8,033,228 Series B performance shares will convert into an equal number of ordinary shares once the company achieves 215 school subscriptions to Schrole Connect or 198 subscription licences to Schrole Cover within 18 months of admission onto the ASX;
   b. 8,033,228 Series C performance shares will convert into an equal number of ordinary shares once the company achieves sales revenue of $7,000,000 over any 12-month period prior to 36 months of admission onto the ASX; and
   c. 8,033,228 Series C performance shares will convert into an equal number of ordinary shares once the company achieves earnings before interest, tax, depreciation and amortisation (EBITDA) of $3,000,000 over any 12-month period prior to 48 months of admission onto the ASX.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Note 16. Commitments and contingencies

The Company has operating leases on office accommodation that expires 31 August 2020

	2016 $
One year or less	141,210
From one to five years	442,096
Operating leases	583,307

Schrole Group Limited
Directors' declaration
31 December 2016

In the directors' opinion:

- the company and Group is not a reporting entity because there are no users dependent on general purpose financial statements. Accordingly, as described in note 1 to the financial statements, the attached special purpose consolidated financial statements have been prepared for the purposes of preparing and distributing financial statements to the owners of Schrole Group Limited;

- the attached financial statements and notes comply with the Accounting Standards as described in note 1 to the financial statements, and other mandatory professional reporting requirements;

- the attached consolidated financial statements and notes present fairly the Group's financial position as at 31 December 2016 and of its performance for the financial period ended on that date; and

- there are reasonable grounds to believe that the company and the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors

On behalf of the directors

Robert Graham
Director

16 February 2017
Perth

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INDEPENDENT AUDITOR'S REPORT

To the members of Schrole Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Schrole Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the statement of cash flows for the 6 months then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors declaration.

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the 6 months then ended in accordance with the basis of accounting described in note 1.

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 ethical requirements of the Accounting 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 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Emphasis of matter - Basis of accounting

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist Schrole Group Limited to meet the requirements of the Constitution. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information in the Directors' report for the period ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report, and have determined that the basis of preparation described in Note 1 is appropriate to meet the requirements of the Constitution and for such internal control as the directors determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_files/ar3.pdf

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien

Glyn O'Brien
Director

Perth, 16 February 2017