

Quartet Education Holdings Pty Ltd

ABN 39 620 427 983

Annual Report - 30 June 2020

Quartet Education Holdings Pty Ltd

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30 June 2020

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Quartet Education Holdings Pty Ltd
Directors' report
30 June 2020

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Quartet Education Holdings Pty Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

The following persons were directors of Quartet Education Holdings Pty Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mark Rohald
Robert Gavshon
Sam Linz
Gregory Fordred
Avee Waislitz
Matthew Gould (appointed 12 February 2020)
John Johnson (appointed 19 June 2020)
Pierre de Villecourt (resigned 15 November 2019)

Principal activities

During the financial year the principal continuing activity of the Group was educational technology providing the development of online tutoring and educational support.

Dividends

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

Review of operations

The loss for the Group after providing for income tax amounted to \$15,232,861 (30 June 2019: \$10,003,001).

During the year the Group continued to develop its online learning capability and services. During the financial year the number of new students increased by 318% to 7,615 and student sessions increased by 364% to 84,009. Over the same period revenue increased 440% to \$4,869,426 and gross profit increased 695% to \$2,329,803.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially marginally positive for the Group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

In August 2020, the Company issued an additional 4,976,103 convertible notes on the same terms as those issued in May 2020, for a total value of \$9,505,352.

The Company is continuing to perform well with strong increase in student numbers and number of tutoring sessions, and is currently considering an Initial Public Offer and listing on the Australian Stock Exchange.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group is continuing to perform well with strong increase in student numbers and number of tutoring sessions, and is currently considering an Initial Public Offer and listing on the Australian Stock Exchange.

Environmental regulation

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

Quartet Education Holdings Pty Ltd
Directors' report
30 June 2020

Shares under option

Unissued ordinary shares of Quartet Education Holdings Pty Ltd under option at the date of this report are as follows:

<i>Grant date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<i>Number under option</i>
Employee Share Option Plan:			
6 February 2018	6 February 2028	\$1.0000	1,057,000
18 June 2018	18 June 2028	\$1.0000	105,162
13 July 2018	13 July 2028	\$1.0000	204,268
3 December 2018	3 December 2028	\$1.0000	32,358
17 May 2019	17 May 2029	\$1.0000	5,393
17 May 2019	17 May 2029	\$1.9102	23,558
15 August 2019	15 August 2029	\$1.9102	47,117
17 February 2020	17 February 2030	\$1.9102	7,853
1 June 2020	1 June 2030	\$1.9102	13,088
1 July 2020	1 July 2030	\$0.0000	39,028
Employee Share Trust:			
1 July 2020	N/A	\$0.0000	175,219
			<u>1,710,044</u>

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

Shares issued on the exercise of options

There were no ordinary shares of Quartet Education Holdings Pty Ltd issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

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 Company 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 year, 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 as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Quartet Education Holdings Pty Ltd
Directors' report
30 June 2020

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

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Mark Rohald', followed by two dots.

Mark Rohald
Director

8 October 2020
Sydney

Quartet Education Holdings Pty Ltd
Level 8, 51 Pitt Street
Sydney NSW 2000

8 October 2020

Dear Sir

Auditor's Independence Declaration to Quartet Education Holdings Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Quartet Education Holdings Pty Ltd.

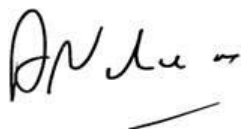
As lead audit partner for the audit of the financial report of Quartet Education Holdings Pty Ltd for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Alfred Nehama
Partner
Chartered Accountants

Quartet Education Holdings Pty Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Revenue			
Revenue from services rendered	6	4,869,426	900,764
Cost of sales	8	(2,539,623)	(607,765)
Gross profit		<u>2,329,803</u>	<u>292,999</u>
Other income	7	344,744	179,976
Interest revenue calculated using the effective interest method		160,496	148,055
Expenses			
Marketing		(4,427,428)	(2,141,198)
Occupancy		(350,418)	(313,078)
Administration		(12,569,363)	(8,169,748)
Loss on revaluation of financial instrument		(201,434)	-
Capital raising transaction cost		(519,261)	-
Finance costs		-	(7)
Loss before income tax expense		<u>(15,232,861)</u>	<u>(10,003,001)</u>
Income tax expense	9	-	-
Loss after income tax expense for the year attributable to the owners of Quartet Education Holdings Pty Ltd		<u>(15,232,861)</u>	<u>(10,003,001)</u>
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Quartet Education Holdings Pty Ltd		<u><u>(15,232,861)</u></u>	<u><u>(10,003,001)</u></u>
		Cents	Cents
Basic earnings per share	29	(1,692.54)	(1,111.44)
Diluted earnings per share	29	(1,692.54)	(1,111.44)

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

Quartet Education Holdings Pty Ltd
Statement of financial position
As at 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	10	13,891,053	16,032,455
Trade and other receivables	11	53,969	97,938
Other		292,871	216,209
Total current assets		<u>14,237,893</u>	<u>16,346,602</u>
Non-current assets			
Property, plant and equipment		115,927	116,199
Intangibles	12	<u>599,003</u>	<u>542,899</u>
Total non-current assets		<u>714,930</u>	<u>659,098</u>
Total assets		<u>14,952,823</u>	<u>17,005,700</u>
Liabilities			
Current liabilities			
Trade and other payables	13	2,655,749	1,231,598
Contract liabilities	14	323,730	55,376
Employee benefits		396,811	204,844
Total current liabilities		<u>3,376,290</u>	<u>1,491,818</u>
Non-current liabilities			
Borrowings	15	11,234,509	-
Total non-current liabilities		<u>11,234,509</u>	<u>-</u>
Total liabilities		<u>14,610,799</u>	<u>1,491,818</u>
Net assets		<u>342,024</u>	<u>15,513,882</u>
Equity			
Issued capital	16	30,542,305	30,517,305
Share-based payments reserve	17	200,716	164,713
Accumulated losses		<u>(30,400,997)</u>	<u>(15,168,136)</u>
Total equity		<u>342,024</u>	<u>15,513,882</u>

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

Quartet Education Holdings Pty Ltd
Statement of changes in equity
For the year ended 30 June 2020

Consolidated	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	6,720,900	32,757	(5,165,135)	1,588,522
Loss after income tax expense for the year	-	-	(10,003,001)	(10,003,001)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(10,003,001)	(10,003,001)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 16)	23,796,405	-	-	23,796,405
Share-based payments (note 30)	-	131,956	-	131,956
Balance at 30 June 2019	<u>30,517,305</u>	<u>164,713</u>	<u>(15,168,136)</u>	<u>15,513,882</u>
Consolidated	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019	30,517,305	164,713	(15,168,136)	15,513,882
Loss after income tax expense for the year	-	-	(15,232,861)	(15,232,861)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(15,232,861)	(15,232,861)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 16)	25,000	-	-	25,000
Share-based payments (note 30)	-	36,003	-	36,003
Balance at 30 June 2020	<u>30,542,305</u>	<u>200,716</u>	<u>(30,400,997)</u>	<u>342,024</u>

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

Quartet Education Holdings Pty Ltd
Statement of cash flows
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		5,394,232	1,048,055
Payments to suppliers and employees		(18,422,906)	(10,224,238)
		(13,028,674)	(9,176,183)
Research and development incentive		290,544	178,137
Interest and other finance costs paid		-	(7)
Net cash used in operating activities	28	(12,738,130)	(8,998,053)
Cash flows from investing activities			
Payments for property, plant and equipment		(39,493)	(94,948)
Payments for intangibles	12	(123,395)	(190,948)
Payments for deposits		-	(2,379)
Proceeds from disposal of property, plant and equipment		-	40,642
Interest received		220,802	73,177
Net cash from/(used in) investing activities		57,914	(174,456)
Cash flows from financing activities			
Proceeds from issue of shares	16	25,000	24,481,092
Capital raising transaction costs		(519,261)	(684,687)
Proceeds from issue of convertible notes	15	11,033,075	-
Net cash from financing activities		10,538,814	23,796,405
Net increase/(decrease) in cash and cash equivalents		(2,141,402)	14,623,896
Cash and cash equivalents at the beginning of the financial year		16,032,455	1,408,559
Cash and cash equivalents at the end of the financial year	10	<u>13,891,053</u>	<u>16,032,455</u>

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

Note 1. General information

The financial statements cover Quartet Education Holdings Pty Ltd as a consolidated entity consisting of Quartet Education Holdings Pty Ltd ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Quartet Education Holdings Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 8
51 Pitt Street
Sydney NSW 2000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 8 October 2020. The directors have the power to amend and reissue the financial statements.

Note 2. First-time Adoption of Australian Accounting Standards

The Group previously prepared special purpose financial statements for internal purposes that adopted only selected recognition and measurement requirements of Australian Accounting Standards. These financial statements are the first general purpose financial statements prepared under Australian Accounting Standards to comply with the Corporations Act 2001 and therefore the accounting policies have been retrospectively applied to all periods presented. There are no reconciling differences either (i) at the date of transition to Australian Accounting Standards (1 July 2018); and (ii) the end of the previous comparative period (30 June 2019).

Note 3. 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 or amended Accounting Standards and Interpretations adopted

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

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Note 3. Significant accounting policies (continued)

Practical expedients applied

When adopting AASB 16 from 1 July 2019, the Group has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases;
- excluding any initial direct costs from the measurement of right-of-use assets;
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease; and
- not apply AASB 16 to contracts that were not previously identified as containing a lease.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	<i>1 July 2019 \$</i>
Operating lease commitments as at 1 July 2019 (AASB 117)	181,752
Short-term leases not recognised as a right-of-use asset (AASB 16)*	<u>(181,752)</u>
Right-of-use assets (AASB 16)	<u>-</u>
Lease liabilities - current (AASB 16)	-
Lease liabilities - non-current (AASB 16)	<u>-</u>
	<u>-</u>
Tax effect on the above adjustments	<u>-</u>
Reduction in opening retained profits as at 1 July 2019	<u><u>-</u></u>

* The Group has one premises lease, which expires within 12 months.

Going concern

The financial report has been prepared on the going concern basis, which assumes that the Group will be able to realise its assets and discharge its liabilities in the normal course of business.

In the year ended 30 June 2020, the Group incurred a loss of \$15,196,858 (30 June 2019: \$10,003,001) and net operating cash outflows of \$12,738,130 (30 June 2019: \$8,998,053).

As described in note 31 to these financial statements, the Group issued additional convertible notes in August 2020, for a total value of \$9,505,352.

As at 30 September 2020, the Group has cash at bank of \$19,979,086.

Management has prepared a cash flow forecast to 31 October 2021, which indicates that sufficient funds are available to fund the operations for 12 months from the date of signing the financial report.

Based on the above, the directors are satisfied the going concern basis is appropriate in the preparation of the financial report.

Basis of preparation

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

Historical cost convention

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

Note 3. Significant accounting policies (continued)

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2020 and the results of the Group for the year then ended.

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

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

Rendering of services

Revenue for tuition services is recognised at a point in time, being the date the service is provided. Payments from customers are received prior to services being delivered. Fees received in advance are recognised as contract liabilities.

Note 3. Significant accounting policies (continued)

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Research and development income

The Group has adopted the income approach to accounting for research and development tax incentive, whereby the incentive is recognised in profit or loss on a systematic basis over the periods in which the Group recognises the eligible expenses.

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.

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.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Quartet Education Holdings Pty Ltd (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 3. Significant accounting policies (continued)

Current and non-current classification

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

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

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

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 allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

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

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Property, plant and equipment

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Office equipment	3 to 10 years
Computer equipment	3 to 10 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 Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases (to 30 June 2019)

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 3. 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 Group 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.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Platform

Significant costs associated with the development of the platform are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Content

Content costs are capitalised on worked hours in development of writing content for lessons and are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

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 Group 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.

Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Note 3. Significant accounting policies (continued)

Financial liabilities

Financial liabilities at fair value through profit or loss ('FVTPL')

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

Financial liabilities measured subsequently at amortised cost

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability

Borrowing costs

Borrowing costs can include interest expense, finance charged in respect of finance leases, amortisation of discounts or premiums, ancillary costs relating to borrowings, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expenses in the period in which they are incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

Employee benefits

Short-term employee benefits

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

Defined contribution superannuation expense

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

Share-based payments

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

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

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

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

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

Note 3. Significant accounting policies (continued)

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

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

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

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.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Quartet Education Holdings Pty Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

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

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.

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

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 Group for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Note 3. Significant accounting policies (continued)

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 July 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

The amendments are applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The amendments refine the definition of material in AASB 101 to clarify the definition of material and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material. The adoption of these amendments from 1 July 2020 will not have a material impact on the Group.

Note 4. 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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain and staffing. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Note 5. Operating segments

Identification of reportable operating segments

The Group is organised into one operating segment as the Group operated in Australia and in one industry being the development of an online tutoring platform and the provision of online tutoring. This assessment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. Accordingly the information provided in this Annual Report reflects the one operating segment.

Note 6. Revenue

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2020	2019
	\$	\$
<i>Major product lines</i>		
Online tutoring	<u>4,869,426</u>	<u>900,764</u>
<i>Geographical regions</i>		
Australia	<u>4,869,426</u>	<u>900,764</u>
<i>Timing of revenue recognition</i>		
Services transferred at a point in time	<u>4,869,426</u>	<u>900,764</u>

Note 7. Other income

	Consolidated	
	2020	2019
	\$	\$
Government grants (COVID-19)	50,000	-
Research and development claim income	290,544	178,137
Other	<u>4,200</u>	<u>1,839</u>
Other income	<u>344,744</u>	<u>179,976</u>

Government Grants (COVID-19)

During the year the Group received payments from the Australian Government amounting to \$50,000 as part of its 'Boosting Cash Flow for Employers' scheme in response to the COVID-19 pandemic. Eligible employers with aggregated annual turnover of less than \$50 million are eligible to receive payments of between \$20,000 and \$100,000 which are credited against amounts owed on an activity statement and based on PAYG withheld on employee's salary and wages for the period March to September 2020. Such amounts have been recognised as government grants in the financial statements, are non-taxable, and are recorded as income once there is reasonable assurance that the Group will comply with any required conditions which is practically at the time that a liability for PAYG withholding tax is incurred and salaries are paid.

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Note 8. Expenses

	Consolidated	
	2020	2019
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Cost of sales</i>		
Tutoring and other costs	2,539,623	607,765
<i>Depreciation (included in administration expenses)</i>		
Computer equipment	23,616	11,258
Office equipment	16,149	14,921
Total depreciation	39,765	26,179
<i>Amortisation (included in administration expenses)</i>		
Platform	17,370	17,370
Content	49,921	34,823
Total amortisation	67,291	52,193
Total depreciation and amortisation	107,056	78,372
<i>Employee benefits expense (included in administration expenses)</i>		
Wages and salaries and other employee benefits	9,535,805	6,450,102
Defined contribution superannuation expense	812,193	524,010
Total employee benefits expense	10,347,998	6,974,112
<i>Leases</i>		
Variable lease payments	-	313,078
Short-term lease payments	350,418	-
	350,418	313,078

Note 9. Income tax

	Consolidated	
	2020	2019
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(15,232,861)	(10,003,001)
Tax at the statutory tax rate of 27.5%	(4,189,037)	(2,750,825)
Current year tax losses not recognised	4,189,037	2,750,825
Income tax expense	-	-

Note 9. Income tax (continued)

	Consolidated	
	2020	2019
	\$	\$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	29,569,991	13,894,690
Potential tax benefit @ 27.5%	8,131,748	3,821,040

The above potential tax benefit for tax losses has not been recognised in the statement of financial position as the Group does not expect to be in a position to utilise these losses in the foreseeable future.

Note 10. Current assets - cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
Cash on hand	48	189
Cash at bank	1,891,005	1,532,266
Cash on short-term deposit	12,000,000	14,500,000
	<u>13,891,053</u>	<u>16,032,455</u>

Note 11. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Trade receivables	29,218	-
Goods and services tax recoverable	10,179	23,060
Interest receivable	14,572	74,878
	<u>53,969</u>	<u>97,938</u>

Note 12. Non-current assets - intangibles

	Consolidated	
	2020	2019
	\$	\$
Platform - at cost	173,700	173,700
Less: Accumulated amortisation	(40,070)	(22,700)
	<u>133,630</u>	<u>151,000</u>
Content - at cost	554,805	431,410
Less: Accumulated amortisation	(89,432)	(39,511)
	<u>465,373</u>	<u>391,899</u>
	<u>599,003</u>	<u>542,899</u>

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Note 12. Non-current assets - intangibles (continued)

Reconciliations

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

Consolidated	<i>Platform</i> \$	<i>Content</i> \$	<i>Total</i> \$
Balance at 1 July 2018	168,370	241,072	409,442
Additions	-	190,948	190,948
Write off of assets	-	(5,298)	(5,298)
Amortisation expense	(17,370)	(34,823)	(52,193)
Balance at 30 June 2019	151,000	391,899	542,899
Additions	-	123,395	123,395
Amortisation expense	(17,370)	(49,921)	(67,291)
Balance at 30 June 2020	<u>133,630</u>	<u>465,373</u>	<u>599,003</u>

Note 13. Current liabilities - trade and other payables

	Consolidated	
	2020	2019
	\$	\$
Trade payables	733,815	499,357
Goods and services tax payable	90,821	-
Accrued expenses	325,944	113,878
Other payables	1,505,169	618,363
	<u>2,655,749</u>	<u>1,231,598</u>

Refer to note 19 for further information on financial instruments.

Included in other payables are deferred PAYG payments of \$988,354 (2019: \$190,751).

Note 14. Current liabilities - contract liabilities

	Consolidated	
	2020	2019
	\$	\$
Contract liabilities	<u>323,730</u>	<u>55,376</u>
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	55,376	-
Payments received in advance	<u>268,354</u>	<u>55,376</u>
Closing balance	<u>323,730</u>	<u>55,376</u>

Note 14. Current liabilities - contract liabilities (continued)

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$323,730 as at 30 June 2020 (\$55,376 as at 30 June 2019) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	2020	2019
	\$	\$
Within 6 months	<u>323,730</u>	<u>55,376</u>

Note 15. Non-current liabilities - borrowings

	Consolidated	
	2020	2019
	\$	\$
Convertible notes payable	<u>11,234,509</u>	<u>-</u>

Refer to note 19 for further information on financial instruments.

In May 2020, the Group issued 5,775,874 convertible notes for a total value of \$11,033,075. Convertible notes attract interest at an effective rate of 15% per annum and expire in May 2022.

The convertible notes are mandatorily convertible into shares on the first of the following to occur:

- 8 May 2022;
- Immediately prior to the occurrence of a qualified financing event (issue of equity of at least \$10,000,000); or
- Immediately prior to the occurrence of a liquidity event (listing on the ASX or sale of 50% or more of the Company).

Interest is paid in full at the time of conversion for the full term of the convertible loan note, and is payable in cash or shares at the sole discretion of the Company.

The interest is accrued within the convertible note balance above.

The number of shares to be issued on conversion varies as follows:

- if, as a result of a qualified financing event or liquidity event, and no down round has occurred, the convertible notes will convert into ordinary shares on a one-for-one basis; or
- if there is no qualified financing event or liquidity event and no down round before 8 May 2022, the number of convertible notes will convert into a variable number of ordinary shares, subject to achieving various revenue hurdles.

Overall, the convertible instrument is a hybrid financial liability in its entirety consisting of two separate obligations:

- (1) a debt host contract involving an obligation to pay interest at 15 per cent per annum on a principal of \$11,033,075 throughout the life of the instrument and to repay the principal at maturity; and
- (2) an embedded derivative which is the conversion valuation adjustment feature.

The convertible instrument does not contain any equity feature. In accordance with AASB 9, the Company has elected to designate the entire hybrid contract as at fair value through profit or loss. Accordingly, the convertible notes are carried at fair value through profit and loss.

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Note 16. Equity - issued capital

	2020 Shares	2019 Shares	Consolidated 2020 \$	2019 \$
Ordinary shares - fully paid	900,000	900,000	900	900
A Class shares - fully paid	8,100,000	8,100,000	9,000,000	9,000,000
Red Pref B Class shares - fully paid	1,625,000	1,625,000	1,500,000	1,500,000
Red Pref C Class shares - fully paid	1,409,079	700,000	700,000	700,000
Investor shares - fully paid	10,483,769	10,470,681	20,026,092	20,001,092
Share issue transaction costs	-	-	(684,687)	(684,687)
	<u>22,517,848</u>	<u>21,795,681</u>	<u>30,542,305</u>	<u>30,517,305</u>

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. 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.

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	900,000		900
Balance	30 June 2019	900,000		900
Balance	30 June 2020	<u>900,000</u>		<u>900</u>

A Class shares

A Class 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, with priority over ordinary shareholders.

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.

Movements in A Class shares

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	4,500,000		5,400,000
Issue of shares	10 August 2018	900,000	\$1.0000	900,000
Issue of shares	29 September 2018	900,000	\$1.0000	900,000
Issue of shares	13 November 2018	900,000	\$1.0000	900,000
Issue of shares	14 January 2018	900,000	\$1.0000	900,000
Balance	30 June 2019	8,100,000		9,000,000
Balance	30 June 2020	<u>8,100,000</u>		<u>9,000,000</u>

Red Pref B Class shares

Red Pref B Class 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, with priority over ordinary shareholders.

Quartet Education Holdings Pty Ltd
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Note 16. Equity - issued capital (continued)

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.

Movements in Red Pref B Class shares

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	1,025,000		900,000
Issue of shares	10 August 2018	150,000	\$1.0000	150,000
Issue of shares	29 September 2018	150,000	\$1.0000	150,000
Issue of shares	13 November 2018	150,000	\$1.0000	150,000
Issue of shares	14 January 2018	150,000	\$1.0000	150,000
Balance	30 June 2019	1,625,000		1,500,000
Balance	30 June 2020	1,625,000		1,500,000

Red Pref C Class shares

Red Pref C Class 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, with priority over ordinary shareholders.

Red Pref C Class shares do not have any voting rights.

Movements in Red Pref C Class shares

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	420,000		420,000
Issue of shares	10 August 2018	70,000	\$1.0000	70,000
Issue of shares	29 September 2018	70,000	\$1.0000	70,000
Issue of shares	13 November 2018	70,000	\$1.0000	70,000
Issue of shares	14 January 2018	70,000	\$1.0000	70,000
Balance	30 June 2019	700,000		700,000
Issue of shares	1 June 2020	709,079	\$0.0000	-
Balance	30 June 2020	1,409,079		700,000

Investor shares

Investor 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, with priority over all other class of shareholders.

Movements in Investor shares

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	-		-
Issue of shares	26 February 2019	7,204,013	\$1.9102	13,761,101
Issue of shares	21 March 2019	1,047,009	\$1.9102	1,999,997
Issue of shares	17 April 2019	1,047,009	\$1.9102	1,999,997
Issue of shares	18 April 2019	125,641	\$1.9102	239,999
Issue of shares	16 May 2019	1,047,009	\$1.9102	1,999,997
Balance	30 June 2019	10,470,681		20,001,091
Issue of shares	16 August 2019	13,088	\$1.9102	25,000
Balance	30 June 2020	10,483,769		20,026,091

Note 16. Equity - issued capital (continued)

Capital risk management

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

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

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

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Note 17. Equity - share-based payments reserve

	Consolidated	
	2020	2019
	\$	\$
Share-based payments reserve	<u>200,716</u>	<u>164,713</u>

Share-based payments reserve

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

Note 18. Equity - dividends

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

Note 19. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks, but none are considered significant. These are described below. Any risk management required is carried out by the senior finance executives

Market risk

Interest rate risk

The Group's fixed rate borrowing exposes it to interest rate risks in that the fair value of the borrowings can vary in line with movements in market rates.

Credit risk

The Group invests its cash with highly reputable financial institutions and has, therefore, no significant risk in this regard. As all payments from customers are required before services are rendered, the Group has no other credit risk.

Liquidity risk

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

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

Note 19. Financial instruments (continued)

Remaining contractual maturities

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

	<i>Weighted average interest rate %</i>	<i>1 year or less \$</i>	<i>Between 1 and 2 years \$</i>	<i>Between 2 and 5 years \$</i>	<i>Over 5 years \$</i>	<i>Remaining contractual maturities \$</i>
Consolidated - 2020						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	733,815	-	-	-	733,815
Other payables	-	1,505,169	-	-	-	1,505,169
<i>Interest-bearing - fixed rate</i>						
Convertible notes payable	15.00%	-	14,334,143	-	-	14,334,143
Total non-derivatives		2,238,984	14,334,143	-	-	16,573,127
Consolidated - 2019						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	499,357	-	-	-	499,357
Other payables	-	618,363	-	-	-	618,363
Total non-derivatives		1,117,720	-	-	-	1,117,720

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

Note 20. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Financial liabilities are recognised at face value at inception. Given the interest rates and credit risk did not vary since inception of the borrowings, the carrying amount of the financial liabilities are assumed to approximate their fair value.

The fair value of convertible notes was determined at inception and at the year end, based on the arms length transaction value associated with the issue of the convertible notes to the note holders. Given the interest rate and credit risk have not changed significantly since inception of the borrowings, the carrying amount of the financial liabilities are assumed to approximate their fair value.

The significant inputs to the value of the convertible notes going forward are the share price, the date of conversion, the average volatility of comparable companies and the probabilities associated with a capital raising.

Note 21. Key management personnel disclosures

Compensation

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

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	1,214,216	875,377
Post-employment benefits	115,333	116,015
Share-based payments	-	57,270
	<u>1,329,549</u>	<u>1,048,662</u>

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

	Consolidated	
	2020	2019
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit of the financial statements	<u>40,000</u>	<u>19,000</u>
<i>Other services - Deloitte Touche Tohmatsu</i>		
Taxation services	<u>-</u>	<u>6,000</u>
	<u>40,000</u>	<u>25,000</u>

Note 23. Contingent liabilities

The Group has given a bank guarantee as at 30 June 2020 of \$99,138 (30 June 2019: \$99,138) to their landlord.

Note 24. Commitments

	Consolidated	
	2020	2019
	\$	\$
<i>Lease commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	<u>190,351</u>	<u>181,752</u>

Lease commitments includes contracted amounts for offices under non-cancellable leases expiring within one year.

Note 25. Related party transactions

Parent entity

Quartet Education Holdings Pty Ltd is the parent entity.

Quartet Education Holdings Pty Ltd
Notes to the financial statements
30 June 2020

Note 25. Related party transactions (continued)

Subsidiaries

Interests in subsidiaries are set out in note 27.

Key management personnel

Disclosures relating to key management personnel are set out in note 21.

Transactions with related parties

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

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2020	2019
	\$	\$
Loss after income tax	(797,113)	(135,753)
Total comprehensive income	(797,113)	(135,753)

Statement of financial position

	Parent	
	2020	2019
	\$	\$
Total current assets	-	-
Total assets	40,919,816	30,421,417
Total current liabilities	-	-
Total liabilities	11,234,509	-
Equity		
Issued capital	30,542,305	30,517,305
Share-based payments reserve	200,716	164,713
Accumulated losses	(1,057,714)	(260,601)
Total equity	29,685,307	30,421,417

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2020 and 30 June 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Note 26. Parent entity information (continued)

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3, except for the following:

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

Note 27. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 3:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Cluey Learning Pty Ltd	Australia	100.00%	100.00%
Quartet Education Holdings Option Share Trust	Australia	100.00%	100.00%
Quartet Education Holdings Employee Share Trust	Australia	100.00%	-

Note 28. Cash flow information

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

	Consolidated	
	2020 \$	2019 \$
Loss after income tax expense for the year	(15,232,861)	(10,003,001)
Adjustments for:		
Depreciation and amortisation	107,056	78,372
Write off of intangibles	-	5,298
Share-based payments	36,003	131,956
Non-operating interest income received (investing activities)	(220,802)	(73,177)
Non-operating deposits made (investing activities)	-	2,379
Loss on revaluation of financial instrument	201,434	-
Capital raising transaction cost	519,261	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	43,969	(74,878)
Increase in prepayments	(74,225)	(77,913)
Increase in other operating assets	(2,437)	(2,129)
Increase in trade and other payables	1,424,151	868,080
Increase in contract liabilities	268,354	55,376
Increase in employee benefits	191,967	91,584
Net cash used in operating activities	<u>(12,738,130)</u>	<u>(8,998,053)</u>

Quartet Education Holdings Pty Ltd
Notes to the financial statements
30 June 2020

Note 28. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	<i>Convertible notes \$</i>
Balance at 1 July 2018	-
Balance at 30 June 2019	-
Net cash from financing activities	11,033,075
Fair value movement*	201,434
Balance at 30 June 2020	<u>11,234,509</u>

* The fair value movement relates to the relevant portion of the interest embedded in the instrument.

Note 29. Earnings per share

	Consolidated 2020 \$	2019 \$
Loss after income tax attributable to the owners of Quartet Education Holdings Pty Ltd	<u>(15,232,861)</u>	<u>(10,003,001)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	900,000	900,000
Weighted average number of ordinary shares used in calculating diluted earnings per share*	<u>900,000</u>	<u>900,000</u>
	Cents	Cents
Basic earnings per share	(1,692.54)	(1,111.44)
Diluted earnings per share	(1,692.54)	(1,111.44)

* Preference shares, investor shares and convertible notes are excluded from the calculations above as their inclusion would be anti-dilutive due to losses in both years.

Note 30. Share-based payments

Employee Share Option Plan

An Employee Share Option Plan ('ESOP') has been established by the Group, whereby the Group may, at the discretion of the Board, grant options to acquire ordinary shares in the Company to certain key personnel of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

Participation in the ESOP is by invitation by the Board. Options have a 10 year expiry from date of grant and are issued with an exercise price of the most recent capital raise. Vesting of options is 25% per annum over the initial 4 year period after grant date.

Note 30. Share-based payments (continued)

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

	<i>Number of options 2020</i>	<i>Weighted average exercise price 2020</i>	<i>Number of options 2019</i>	<i>Weighted average exercise price 2019</i>
Outstanding at the beginning of the financial year	1,770,132	\$1.0122	1,213,395	\$1.0000
Granted	68,058	\$1.9102	632,238	\$1.0342
Expired/forfeited	(5,393)	\$1.0000	(75,501)	\$1.0000
Cancelled	(337,000)	\$1.0000	-	\$0.0000
Outstanding at the end of the financial year	<u>1,495,797</u>	\$1.0560	<u>1,770,132</u>	\$1.0122

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

2020

<i>Grant date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<i>Balance at the start of the year</i>	<i>Granted</i>	<i>Exercised</i>	<i>Expired/ forfeited/ other</i>	<i>Balance at the end of the year</i>
06/02/2018	06/02/2028	\$1.0000	1,057,000	-	-	-	1,057,000
18/06/2018	18/06/2028	\$1.0000	105,162	-	-	-	105,162
13/07/2018	13/07/2028	\$1.0000	204,268	-	-	-	204,268
27/09/2018	27/09/2028	\$1.0000	337,000	-	-	(337,000)	-
03/12/2018	03/12/2028	\$1.0000	37,751	-	-	(5,393)	32,358
17/05/2019	17/05/2029	\$1.0000	5,393	-	-	-	5,393
17/05/2019	17/05/2029	\$1.9102	23,558	-	-	-	23,558
15/08/2019	15/08/2029	\$1.9102	-	47,117	-	-	47,117
17/02/2020	17/02/2030	\$1.9102	-	7,853	-	-	7,853
01/06/2020	01/06/2030	\$0.0000	-	13,088	-	-	13,088
			<u>1,770,132</u>	<u>68,058</u>	<u>-</u>	<u>(342,393)</u>	<u>1,495,797</u>

2019

<i>Grant date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<i>Balance at the start of the year</i>	<i>Granted</i>	<i>Exercised</i>	<i>Expired/ forfeited/ other</i>	<i>Balance at the end of the year</i>
06/02/2018	06/02/2028	\$1.0000	1,067,786	-	-	(10,786)	1,057,000
18/06/2018	18/06/2028	\$1.0000	145,609	-	-	(40,447)	105,162
13/07/2018	13/07/2028	\$1.0000	-	217,750	-	(13,482)	204,268
27/09/2018	27/09/2028	\$1.0000	-	337,000	-	-	337,000
03/12/2018	03/12/2028	\$1.0000	-	48,537	-	(10,786)	37,751
17/05/2019	17/05/2029	\$1.0000	-	5,393	-	-	5,393
17/05/2019	17/05/2029	\$1.9102	-	23,558	-	-	23,558
			<u>1,213,395</u>	<u>632,238</u>	<u>-</u>	<u>(75,501)</u>	<u>1,770,132</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was 8.68 years (2019: 9.30 years).

Note 30. Share-based payments (continued)

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

<i>Grant date</i>	<i>Expiry date</i>	<i>Share price at grant date</i>	<i>Exercise price</i>	<i>Expected volatility</i>	<i>Dividend yield</i>	<i>Risk-free interest rate</i>	<i>Fair value at grant date</i>
15/08/2019	15/08/2029	\$1.9102	\$1.9102	-	-	-	\$0.529
17/02/2020	17/02/2030	\$1.9102	\$1.9102	-	-	-	\$0.529
01/06/2020	01/06/2030	\$1.9102	\$1.9102	-	-	-	\$0.529

Employee Share Plan

During the financial year, the Group established an Employee Share Plan ('ESP'), whereby the Group may, at the discretion of the Board, grant Redeemable Preference C Class shares in the Company to certain key management personnel of the Group.

Under the ESP, the Group provides interest free, non-recourse loans to employees to acquire the shares. The shares will vest and the loans will be repaid upon the occurrence of an exit event, being a trade sale or an Initial Public Offer. The shares are accounted for as in-substance options.

During the year, 709,079 shares were issued under the plan.

The Group will only commence recognising the share based payment expense from the date an exit event becomes probable.

Note 31. Events after the reporting period

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially marginally positive for the Group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

In August 2020, the Company issued an additional 4,976,103 convertible notes on the same terms as those issued in May 2020, for a total value of \$9,505,352.

The Company is continuing to perform well with strong increase in student numbers and number of tutoring sessions, and is currently considering an Initial Public Offer and listing on the Australian Stock Exchange.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Quartet Education Holdings Pty Ltd
Directors' declaration
30 June 2020

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 3 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Mark Rohald
Director

8 October 2020
Sydney

Independent Auditor's Report to the members of Quartet Education Holdings Pty Ltd

Opinion

We have audited the financial report of Quartet Education Holdings Pty Ltd (the "Entity") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying 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 financial 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 Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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.

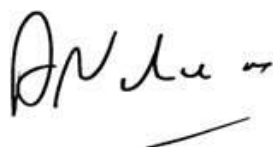
As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- 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's audit. We remain solely responsible for our audit opinion.

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


DELOITTE TOUCHE TOHMATSU



Alfred Nehama
Partner
Chartered Accountants
Sydney 7 October 2020