



23 November 2020

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ASX QUERY LETTER

Schrole Group Limited (ASX: SCL) ("Schrole" or the "Company") refers to your Query letter dated 11 November 2020.

As part of the Company's reply and before responding to your formal queries, it is important that the background upon which the decision around the grant and conversion of the Series B Performance Shares is recorded. It is also important the Company confirms that the decision has been made, in conjunction with the holders of the now converted Series B Performance Shares, that the ordinary shares issued on conversion be cancelled.

In respect of the agreed cancellation, the Company refers to the ASX announcement released on ASX on 23 November 2020 where the Company announced that it has signed separate deeds with the holders to cancel the ordinary shares issued on conversion of the Series B Performance Shares.

The decision to cancel the ordinary shares issued on conversion of the Series B Performance Shares is due to the holders indicating to the Company their willingness to cancel the ordinary shares following the recent queries and the question which has arisen as to whether the correct interpretation of the words "total annual sales revenue" is "total revenue (invoiced sales)" or "Revenue" as determined by AASB 15.

In agreeing to the cancellation, neither the holders nor the Company provide any admissions that the actions of either party was in breach of any ASX requirements however in good faith, and in the best interests of all shareholders, this action was deemed appropriate in the circumstances. The cancellation will occur by way of a selective capital reduction which will be subject to shareholder approval at a meeting to be convened as soon as practicable.

Background

Schrole delivers innovative, technology-based solutions for the education sector. The Company has four revenue generating business units:

- ISS-Schrole Advantage for the international school market – an online Software-as-a-Service platform that enables international schools to streamline teacher recruitment and candidate management activities;
- Schrole Verify – a new global standard for background screening in the international schools sector;
- Schrole Cover – a cloud-based software platform that engages your preferred relief staff at the touch of a button; and
- Schrole ETAS – Schrole Education and Training Advisory Service provides accredited training solutions customised to the contexts in which our clients operate.

On 13 June 2017, the Company, then called Acquaint Capital Holdings Limited ("Acquaint"), announced that it had entered into a binding conditional agreement with Schrole Operations Ltd ("Schrole Operations") and its majority vendors pursuant to which the Company agreed to acquire 100% of the issued capital of Schrole Operations.



Acquaint's acquisition of Schrole Operations was subject to, amongst other things, Acquaint shareholder approval and re-compliance with chapters 1 and 2 of the ASX Listing Rules. As part of the re-compliance, the name of Acquaint was changed to Schrole Group Limited.

The then Board of Acquaint ("Acquaint Directors") negotiated the acquisition of Schrole Operations on behalf of Acquaint and prepared the necessary submissions for approval to ASX together with the Notice of Meeting. The transaction was approved by the shareholders of Acquaint and the Company completed the acquisition of Schrole Operations and changed its name.

Mr Rob Graham, Mr Shaun Hardcastle, Mr Stuart Carmichael and Mr Craig Read-Smith were appointed to the Board of the Company on 4 October 2017 and the Acquaint Directors resigned as directors on that same date.

Schrole commenced trading on the ASX on 12 October 2017.

Since re-admission to the ASX, the Company has consistently reported "total revenue (invoiced sales)" as this is a key metric for evaluating the performance of the Company, both for internal reporting purposes and as part of its communications to the market.

The Board of Schrole made its determination on whether the Series B Performance Share milestone had been met based on "total revenue (invoiced sales)" as this was the manner of reporting and given the wording of the Series B Performance Share milestone, being "total annual sales revenue", these terms were understood to be consistent. The Company acknowledges that "total revenue (invoiced sales)" is not Revenue as defined by the determination under AASB 15 Revenue however the wording of the milestone is not defined by this standard nor specifically drafted to be assessed against this standard. It is noted that changes made to ASX Guidance Note 19 concerning the specificity of milestones, which gave rise to the market practice of defining revenue in accordance with AASB 15, became effective on 1 December 2019 and 28 August 2020. Prior to these changes becoming effective, there was no market standard for revenue milestones, and entities were free to use definitions that were consistent with their internal reporting practices or otherwise align their reporting to their preferred standard.

In assessing whether the Series B Performance Share milestone had been achieved, an internal report and then external report was prepared for the Board based on "total revenue (invoiced sales)". In determining whether the Series B Performance Share milestone had been achieved, the internal report did not consider the need to change the Company's interpretation of "total revenue (invoiced sales)" to align with the new market practice. Arguably, such a retrospective change of interpretation would:

- potentially prejudice the rights of the relevant holders who were likely to be of the understanding that the Company was assessing revenue according the "total revenue (invoiced sales)" definition; and
- would constitute a change to the terms of the Performance Shares that would require shareholder approval.

The Company has consistently reported in this manner and has kept the market fully informed of this key metric, such that investors could readily track this figure against its interpretation of the milestone as disclosed in the Prospectus.

At all times the Company and the Directors acted in good faith, exercised appropriate and reasonable judgment, on the information available in making the determination of the achievement of the milestone based on its interpretation of the milestone.

In addition, the Company has spoken with BDO, who prepared the independent expert report (IER) that accompanied the Notice of Meeting. BDO has confirmed that their understanding at the time of preparing the

IER, was that "total annual sales revenue" referred to invoiced annual sales. BDO was not privy to the negotiations and structuring of the transaction in accordance with the requirements of RG 112 Independence.

BDO Notes AASB 15 did not exist at the time the agreement was entered into. BDO advised that typically when revenue is to be used in accordance with accounting standards, it is generally referred to as "revenue" or "sales revenue" on its own and not referred to as "total annual sales revenue". The implied meaning may be argued to be taken as revenue recognised in the accounts and deferred revenue as such requiring the use of the word "total". This would be equivalent to invoiced sales. Total revenue without the use of the word sales would include items of other income such as interest.

We now turn to the queries and request for information. We have included the query and the response is set out below the relevant query.

Questions and Request for information

Having regard to the above, ASX asks SCL to respond separately to each of the following questions and requests for information:

1. ASX notes that:

- SCL stated that *'it was the intent of management and the Board at the time of the Prospectus that the total annual sales revenue reflect the total annual sales invoices, rather than AASB 15 Revenue'* (see paragraph Q above).
- The Confirmation Request stated that *'at 31 December 2016 annual sales revenue for Schrole was \$1,664,185'* (see sub-paragraph B(ii) above), and this figure is virtually equivalent to the annual sales revenue figure reported in accordance with the accounting standards in SCL's 2017 Annual Report (see sub-paragraph G(iii) above).

In light of the above, please explain why the Confirmation Request:

- a) advised ASX that the calculation of 'annual sales revenue' at 31 December 2016 (i.e. for the financial year to 31 December 2016) was \$1,664,185;

The Confirmation Request was prepared in accordance with the instructions of the Acquaint Directors. It should also be noted that the current Board did not specifically review the Confirmation Request as part of determining if the milestone was met, rather the decision was based on the interpretation of the words of the milestone as drafted in the terms of the Series B Performance Shares, against the backdrop of the manner in which the Company reported, being "total revenue (invoiced sales)".

- b) made a submission that the Series B Milestone of 'total annual sales revenue' satisfied the requirements of section 8 of Guidance Note 19 (see sub-paragraph W(i) above), including that it was a clearly articulated milestone which investors can readily understand, with reference to the annual sales revenue figure of \$1,664,185 at 31 December 2016; and

The Confirmation Request was prepared in accordance with the instructions of the Acquaint Directors. As set out above, the current Board did not specifically review the Confirmation Request as part of determining if the milestone was met, rather the decision was based on the interpretation of the words of the milestone as drafted in the terms of the Series B Performance Shares, against the backdrop of the manner in which the Company reported, being "total revenue (invoiced sales)".

- c) did not advise ASX that the calculation of 'total annual sales revenue' for the purposes of the Series B Milestone:

- (i) would not be made in accordance with the accounting standard for revenue; and

- (ii) would be based on invoiced sales / total revenue (invoiced sales).

The Confirmation Request was prepared in accordance with the instructions of the Acquaint Directors. In our view we do not believe that the Company should have advised ASX in the manner suggested. Given the Series B Milestone was not drafted with reference to AASB 15, it would have been inconsistent for the Company to have changed its interpretation of the Series B Milestone to align the Series B Milestone with changing market practice in the manner asserted by ASX.

The wording of the milestone was set out in its terms and the interpretation of whether it was met or not was conducted by the current Board over 2 years after the Confirmation Request was provided by the Acquaint Directors. As set out above, the current Board did not specifically review the Confirmation Request as part of determining if the milestone was met, rather the decision was based on the interpretation of the words of the milestone as drafted, against the backdrop of the manner in which the Company reported, being "total revenue (invoiced sales)".

2. Please provide a copy of all documentation in relation to the issue of the Series B Performance Shares, including any relevant board minutes, invitation letters, prospectus verification, documents provided to the independent expert (see sub-paragraph D(iii) above), and documents evincing the intention of the board and management regarding the definition of 'total annual sales revenue' at the time of the Notice and Prospectus (see paragraph Q above) (not for release to the market).⁴

Please refer to attachment A.

3. ASX notes that the Confirmation included a condition which required the Notice to include sufficient information about the terms and conditions of the Performance Shares (see sub-paragraph C(i) above).

In light of this, please explain why the Notice:

- a) did not state that the calculation of 'total annual sales revenue' for the purposes of the Series B Milestone:
- (iii) would not be made in accordance with the accounting standard for revenue; and
 - (iv) would be based on invoiced sales / total revenue (invoiced sales); and
- b) included sales revenue figures from financial statements based on the accounting standards on page 37 (see sub-paragraph D(ii) above) and in the IER (see sub-paragraph D(iii) above) but did not state that the Series B Milestone would not be calculated on this basis.

In response to paragraphs (a) and (b) above, the Notice of Meeting was prepared in accordance with the instructions of the Acquaint Directors. The Notice of Meeting included the required information and was reviewed by the ASX and included the wording of the relevant milestone. The wording of the relevant milestone did not refer to AASB 15 (or similar accounting standard) and to date, the Directors have not seen any materials that give rise to the expectation that AASB 15 (or similar accounting standard) was contemplated in the drafting of the relevant milestone. As set out above, in our view, these matters should not necessarily have been stated when a decision on whether the milestone was met or not was conducted by the current Board over 2 years after the Confirmation Request and the Notice of Meeting was provided by the Acquaint Directors.

4. Did SCL change its definition of 'total annual sales revenue' for the purposes of the Class B Milestone after it was re-admitted to the official list?

As set out above, there was no change of the definition. The current Board, as part of determining if the milestone was met, considered the interpretation of the words of the milestone as drafted, against the backdrop of the manner in which the Company reported, being "total revenue (invoiced

sales)”.

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If the answer to this question is ‘yes’:

- a) When was the definition changed?

Not applicable

- b) Why didn’t SCL seek the prior approval of ASX and SCL’s shareholders for this change (see sub-paragraph C(ii) above)?

Not applicable.

5. Please provide a copy of the documents and working papers (not for release to the market) in relation to SCL management’s assessment of the probability of achieving the Class B Milestone being 0% as at:

- a) 31 December 2018 (see sub-paragraph H(vi) above); and

Please see attachment 5.a

- b) 31 December 2019 (see sub-paragraph K(v) above).

Please see attachment 5.b

6. Was ‘total revenue’ of \$1.72m for the June 2020 quarter (see paragraph M above) calculated in accordance with the accounting standards?

Yes, based on AASB 15.

If the answer to this question is ‘yes’:

- a) What were SCL’s invoiced sales / total revenue (invoiced sales) for the June 2020 quarter?

Total revenue (Invoiced sales) for the June 2020 quarter was \$2,342,818.

- b) Why weren’t invoiced sales / total revenue (invoiced sales) for the June 2020 quarter disclosed in the June Quarter Report?

This was an error for the June 2020 quarter and the reference was not included and was unintentional. In any event, the new finance personnel made the decision commencing from the September 2020 quarter to align the reporting against both the total revenue (invoiced sales) to be consistent with the past reporting and the total revenue (AASB 15).

7. Please provide SCL’s invoiced sales for the June 2019 quarter together with an explanation of any year-on-year variation in the invoiced sales figures (i.e. for the June 2020 quarter vs the June 2019 quarter).

Total revenue (Invoiced sales) for the June 2019 quarter was \$0.8m.

Total revenue (invoiced sales) for the June 2020 quarter was \$2.3m.

The timing of Invoicing of customers varies depending on when negotiations for renewal are completed by Account Managers. In 2020, the maturing of the Company’s account management processes and the developing situation with COVID-19 meant that negotiations and invoicing of renewals commenced earlier than the prior comparable period.

8. ASX notes that total revenue (invoiced sales) in the September 2019 quarter were \$2.3m (see paragraph I above).

Please provide SCL’s invoiced sales for the September 2020 quarter together with an explanation of any year-on-year variation in the invoiced sales figures (i.e. for the September 2020 quarter vs the September 2019 quarter).

Total revenue invoiced sales for the September 2019 quarter was \$2.3m.

Total revenue invoiced sales for the September 2020 quarter was \$0.9m.

The total revenue (invoiced sales) for the September 2020 quarter was lower than the prior comparable period due to earlier engagement with customers as per the response to question 7.

9. Did SCL's total annual sales revenue calculated in accordance with the accounting standards exceed \$7 million over any 12 month period prior to 12 October 2020?

The total Revenue calculated in accordance with AASB 15 did not exceed this figure.

10. Please provide a copy of the following documents (not for release to the market):

- a) a breakdown of monthly invoiced sales by customer (noting the invoiced sales period) for June 2019 to September 2020;

Please see attachment 10.a.

- b) the Company Secretary's report referred to in paragraph Q above;

Please see attachment 10.b

- c) BDO's confirmation referred to in sub-paragraph R(ii) above; and

Please see attachment 10.c

- d) the board minutes relating to the satisfaction of the Class B Milestone.

Please see attachment 10.d

11. Please confirm that SCL is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Schrole confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

12. Please confirm that SCL's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of SCL with delegated authority from the board to respond to ASX on disclosure matters.

Yes



11 November 2020

Reference: 25764

Mr Ben Donovan
Company Secretary
Schrole Group Ltd
Ground Floor
142 Hasler Road
OBSORNE PARK WA 6017

By email

Dear Mr Donovan

Schrole Group Ltd ('SCL' or the 'Company'): Query letter

ASX Limited ('ASX') refers to the following:

- A. The Company's announcement titled 'Acquisition Announcement' released on the ASX Market Announcements Platform ('MAP') on 13 June 2017,¹ which announced that it had entered into a conditional binding agreement to acquire 100% of the issued capital of Schrole Group Limited and included the following statements (emphasis added):

'As consideration under the Acquisition Agreement, the Company will issue to Schrole's ordinary shareholders (subject to shareholder approval) 150 million fully paid ordinary Company shares.'

In addition, under the Acquisition Agreement the Company will issue 290 million Company performance shares to current management of Schrole and will also issue options to current Schrole security holders. The performance shares will be converted into ordinary Company shares upon the achievement of agreed performance milestones. The performance share milestones and terms of the options will be included in the relevant notice of meeting for shareholder approval.'

- B. The Company's request for confirmation from ASX for the purposes of Listing Rule 6.1 that the terms and conditions of the proposed performance shares to be issued in relation to the acquisition ('Performance Shares') are, in ASX's opinion, appropriate and equitable ('Confirmation Request'),² which included the following statements (emphasis added):

(i) *'The consideration payable is as follows: ...'*

(ii) *issue of 290,000,000 performance shares (Performance Shares), in consideration for the cancellation of existing performance shares on issue in Schrole held by the existing Schrole directors, as follows: ...'*

B. *100,000,000 Performance Shares, convertible on a 1:1 basis upon Schrole achieving total annual sales revenue of \$7,000,000 over any twelve month period prior to the date that is within 36 months of re-listing (Series B Performance Shares) ...'*

(ii) *'There is an appropriate link between the milestones and the Transaction. In this regard we note that in respect of the:*

¹ SCL was formerly known as Aquaint Capital Holdings Limited.

² The confirmation request was included in a letter from the Company's lawyers dated 6 July 2017.

- (ii) Series B Milestone, as at 31 December 2016 annual sales revenue for Schrole was \$1,664,185 ...'
- (iii) 'The milestones are clearly articulated by reference to objective criteria. Investors and analysts can readily understand, and have reasonable certainty as to, the circumstance in which the milestones will be taken to have been met.'
- C. ASX's confirmation that, based solely on the information provided by the Company, ASX considered the terms of the Performance Shares are appropriate and equitable for the purposes of Listing Rule 6.1 subject to a number of conditions ('Confirmation'),³ which included (emphasis added):
- (i) 'The Company obtains shareholder approval for the issue of the Performance Shares and the notice of meeting seeking shareholder approval includes sufficient information about the terms and conditions of the Performance Shares ...'
- (ii) 'The terms and conditions of the Performance Shares, including without limitation the relevant vesting conditions that have to be satisfied before each Performance Share is converted into an ordinary share, are not to be changed without the prior approval of ASX and the Company's shareholders.'
- D. The Company's notice of annual general meeting dated 14 August 2017 ('Notice') which included:
- (i) Resolutions to approve the creation of the Performance Shares (Resolution 4), and approve the issue of various securities including the Performance Shares (Resolutions 5 and 7) on the terms and conditions set out in the explanatory memorandum accompanying the Notice.
- (ii) The following disclosures (emphasis added):
- On page 37 (under 'Revenue model'): 'Schrole's entities generated sales revenue of \$3.5 million and \$1.7 million in the years ending 30 June 2015 and 30 June 2016 respectively.'
 - On page 43: 'The Performance Shares will convert into Shares on a one for one basis upon satisfaction of the following milestones: ...

(ii) 100,000,000 Performance Shares will convert upon Schrole achieving total annual sales revenue of \$7,000,000 over any 12 months period prior to the date that is within 36 months of re-listing ...

The other terms of the Performance Shares are detailed in Schedule 8.'
 - In Schedule 8: 'Subject to paragraphs 3(b) and 3(c), each Performance Share will convert into one Share upon satisfaction of the relevant Milestone ...'
- (iii) An accompanying Independent Expert's Report ('IER'), which included the following disclosures:
- On page 21 of the IER: The historical Statement of Comprehensive Income which disclosed revenue of \$3,551,349 and \$1,779,506 in the financial years ending 30 June 2015 and 30 June 2016 respectively, and revenue of \$914,828 in the half year to 31 December 2016.
 - On page 19 of the IER: The historical Balance Sheet which disclosed deferred revenue (current liability) of \$293,878 at 30 June 2016 and \$454,711 at 31 December 2016.

³ The Confirmation was provided on 4 August 2017.

E. The Company's prospectus dated 18 August 2017 ('Prospectus'), which disclosed the following (emphasis added):

- (i) In section 12.7: The milestone for the Series B Performance Shares ('Series B Milestone') is '*Schrole achieving total annual sales revenue of \$7,000,000 over any twelve month period prior to the Milestone Date*', and the relevant 'Milestone Date' is that date that is within 36 months of the Company's re-admission to the official list of ASX.
- (ii) On page 56: '*Schrole's entities generated sales revenue of \$3.5 million, \$1.7 million and \$1.6 million in the years ending 30 June 2015, 30 June 2016 and 30 June 2017 respectively.*'
- (iii) In Appendix 4 of the Independent Accountant's Report (on page 90) - Summary of significant accounting policies:

'Revenue recognition ...

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.'

F. SCL's re-admission to the official list of ASX on 12 October 2017.

G. SCL's Annual Report for the financial year ended 31 December 2017 ('FY2017') released on MAP on 3 April 2018, which included the following disclosures:

- (i) In Note 1 - Summary of Significant Accounting Policies (on page 29): The same accounting policy in relation to revenue recognition for rendering of services as detailed in sub-paragraph E(iii) above
- (ii) In Note 16 - Deferred Revenue (on page 40): '*Revenue from software service contract subscriptions is recognised evenly over the life of the contract. The deferred revenue balance represents that portion of software service subscription income for which recognition will occur after the reporting date.*'
- (iii) Sales revenue of \$1,674,291 for the financial year ended 31 December 2016, and \$1,302,713 for FY2017.
- (iv) Deferred revenue (current liability) of \$454,711 at 31 December 2016, and \$623,470 at 31 December 2017.

H. SCL's Annual Report for the financial year ended 31 December 2018 ('FY2018') released on MAP on 29 March 2019, which included the following disclosures:

- (i) Sales revenue of \$2,621,796 for FY2018.
- (ii) Deferred revenue (current liability) of \$2,544,634 at 31 December 2018.
- (iii) On page 3: '*The net asset deficit of approximately \$655,000 at 31 December 2018 is substantially due to an increase in deferred revenue of approximately \$1,921,000 during the year, resulting in a deferred revenue liability of approximately \$2,545,000 as at the year end.*

This liability represents the proportion of the value of annual software licences sold to clients during the year that relates to services to be delivered after 31 December 2018, and reflects the substantial

increase in invoiced software licence sales during the year of approximately \$3,768,000 compared with approximately \$1,035,000 in 2017 ...'

- (iv) On page 23: 'The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes to accounting policies but no adjustments to the amounts recognised in the financial statements.'

- (v) In Note 1 - Summary of Significant Accounting Policies (on page 30):

'(m) Revenue Recognition ...

Software licence fees

Revenue from software licence fees is recognised over the term of the licence, with such recognition reflecting the progressive satisfaction of the separate performance obligations within the respective licence. These performance obligations include the provision of the software licence platform for the relevant products and, in some cases, the opportunity to attend recruitment fairs that take place during the term of the licence.'

- (vi) On pages 34-35 (emphasis added): 'Management have assessed the probability of achieving the respective performance milestone of each tranche of Performance Shares, based on its understanding of the entity and its market, and have determined the probability of achieving the milestone for Tranche A to be 100% and the probability of achieving the milestones for Tranche B and C to be 0%.'

- (vii) In Note 16 - Note 16. Deferred Revenue (on page 43):

'Revenue from software service contract subscriptions is recognised when the performance obligations associated with the software service contract are satisfied, which has been assessed as being satisfied over the duration of the contract. The deferred revenue balance represents that portion of software service subscription income for which the associated performance obligations have not been satisfied as at the reporting date ...'

- I. SCL's quarterly activities report for the September 2019 quarter released on MAP on 31 October 2019, which included the following statement:

'The period reflected a record quarter of revenues for the Company, with total revenue (invoiced sales) in Q3 increasing by 33% over Q3 2018 to \$2.3m.'

- J. SCL's quarterly activities report for the December 2019 quarter released on MAP on 31 January 2020, which included the following statements:

'Total revenue (invoiced sales) in FY19 increased by 36% to \$6.2m from \$4.5m in FY18.

During Q4 FY19, total revenue (invoiced sales) increased by 7% over Q4FY18 to \$2.1m.'

- K. SCL's Annual Report for the financial year ended 31 December 2019 ('FY2019') released on MAP on 31 March 2020, which included the following disclosures (emphasis added):

- (i) Sales revenue of \$5,604,360 for FY2019.

- (ii) Deferred revenue (current liability) of \$3,009,493 at 31 December 2019.

- (iii) On page 3: 'As Schrole Group's software licences typically have a 12 month term, the Company is required to defer recognition of that element of software licence income that relates to subsequent financial periods ...

The net asset deficit of approximately \$709,968 at 31 December 2019 is substantially due to a deferred revenue liability of approximately \$3,009,000 as at the year end.

This liability represents the proportion of the value of annual software licences sold to clients during the year that relates to services to be delivered after 31 December 2019, and reflects the substantial increase in invoiced software licence sales during the year of approximately \$4,638,000 compared with approximately \$3,768,000 in 2018. The deferred revenue liability of \$3,009,000 as at 31 December 2019 will be recognised as revenue from ordinary activities in the year ended 31 December 2020.'

- (iv) On page 33: *'Management have assessed the probability of achieving the respective performance milestone of each tranche of Performance Shares, based on its understanding of the entity and its market, and have determined the probability of achieving the milestone for Tranche A to be 100% and the probability of achieving the milestones for Tranche B and C to be 0%.'*
- (v) On page 41: *'Management has assessed the number of performance shares that are expected to vest as nil for the Series B and Series C performance shares.'*
- L. SCL's quarterly activities report for the March 2020 quarter released on MAP on 29 April 2020, which included the following statement:

'Total revenue (invoiced sales) in Q1 FY20 increased by 27% to \$1,086,979'
- M. SCL's quarterly activities report for the June 2020 quarter released on MAP on 23 July 2020 ('June Quarter Report'), which included the following statement:

'Total revenue in Q2 FY20 grew by 23.7% to \$1.72m vs. \$1.39m in Q1 FY20.'
- N. SCL's half year report for the six months ended 30 June 2020 ('1H FY20') released on MAP on 27 August 2020, which included the following disclosures:
 - (i) Sales revenue of \$2,823,449 for 1H FY20.
 - (ii) Deferred revenue of \$3,544,695 at 30 June 2020.
 - (iii) Trade receivables of \$1,749,677 at 30 June 2020, which represented an increase of \$1,275,515 from 31 December 2019 (\$474,162).
 - (iv) Page 14: *'As at 30 June 2020, management assessed the number of performance shares that are expected to vest as 100% for Tranche A, 100% for Tranche B, and 0% for Tranche C.'*
- O. SCL's announcement titled 'Conversion of Series B Performance Shares' released on MAP on 27 August 2020, which disclosed the following (emphasis added):
 - (i) That *'the sales milestone for conversion of its Series B Performance Shares into ordinary shares'* had been satisfied.
 - (ii) *'The conversion criteria is upon the Company achieving total annual sales of \$7 million over any 12 month period prior to the milestone date of 12 October 2020.'*

The annual sales figure is based on gross (invoiced) sales and does not account for unearned revenue and is not recognised in accordance with accounting standards ...'
- P. SCL's Appendix 2A released on MAP on 27 August 2020, which applied for the quotation of 93,000,000 ordinary fully paid shares ('Shares') upon the conversion of 93,000,000 Series B Performance Shares.

Item 2.2c.2 disclosed that the date the Series B Performance Shares were converted was 27 August 2020.

Item 4.2d disclosed the value of the securities to be quoted was \$1,860,000 (based on SCL's share price as at 27 August 2020).

Q. ASX's query letter dated 16 September 2020 and SCL's response dated 18 September 2020, released together on MAP on 21 September 2020, which included the following questions (in bold) and SCL's responses (emphasis added):

'1. Please provide the final "annual sales figure" that SCL used to determine whether the Series B Performance Shares milestone had been met and what twelve month period was used.

The value for determining whether the milestone had been met is \$7,666,388, covering the amount invoiced by SCL in the period from June 2019 to May 2020 ...

As noted in the 27 August 2020 announcement (Conversion Announcement), this figure is based on invoiced sales and does not account for un-earned revenue.

Since admission, SCL has reported total invoiced sales and total annual invoices and this is a key metric for evaluating the performance of the Company, both for internal reporting purposes and for communication to the market.

Management of SCL considers this to be a key metric for SCL, as it is a readily ascertainable metric which is indicative of sales performance and cashflow. For this reason, management reports to the board its total revenue (invoiced sales) figure on a monthly basis. Similarly, total annual invoiced sales have been consistently reported to the market, examples include the following: ...

2. ASX notes the milestone definition in the Prospectus (paragraph A) makes a specific reference to "total annual sales revenue". However, the Conversion Announcement refers to "total annual sales". Please explain ...

2.2. why SCL considers it acceptable that it has not followed the milestone wording used in the Prospectus.

SCL has consistently reported total annual sales figures both to the market in its quarterly activities report, annual report and internally, and is of the view that the total annual sales figures is consistent with the Prospectus disclosure.

Due to the annual subscription nature of SCL's business, customers are invoiced for their annual subscription in one lump sum each year and (subsequently pay in one instalment) ...

Annual recurring revenues are a common metric used to assess technology companies that use a subscription model. It is common industry practice for invoiced sales to be used as a running proxy for this figure, notwithstanding that it is not consistent with the AASB definition of revenue (AASB 15 Revenue), as the total invoiced sales figure can be readily calculated on a rolling basis.

The Prospectus did not define revenue and it was the intent of management and the Board at the time of the Prospectus that the total annual sales revenue reflect the total annual sales invoices, rather than AASB 15 Revenue. While SCL concedes that it has used revenue in a manner that is not consistent with AASB 15 Revenue, and that there has been some interchangeability of terminology used to describe (total revenue) invoiced sales, it maintains that it has always kept the market abreast of this key metric, such that investors could readily track this figure against the milestone disclosed in the Prospectus ...

3. Please confirm whether satisfaction of the Series B Performance Shares milestone was independently verified.

The Board requested the Company Secretary to audit the annual sales revenue figures provided by management and present a summary of findings ...

A report was prepared to the Board based on the above, and in light of Schrole's ongoing reporting of total revenue (invoiced sales), it was considered that the performance share milestone had been met in a manner consistent with the milestone disclosed in the Prospectus.'

- R. SCL's quarterly activities report and Appendix 4C for the September 2020 quarter released on MAP on 29 October 2020, which included the following statements:
 - (i) *'YTD sales revenue (invoiced sales) was \$4.3 million, representing a 2.4% increase on the same period in 2019.*
Total revenue (AASB 15) for the quarter declined by 5% to \$1.48 million, compared to Q2 FY20.'
 - (ii) *'On 27 August the Company announced the conversion of series B performance shares. The Company's auditors, BDO, have independently confirmed invoiced sales exceeded \$7m from June 2019 to May 2020.'*
- S. SCL's announcement titled 'Appointment of CFO and Change of Company Secretary' released on MAP on 30 October 2020, which included the following statements:

'Ms Stephanie Syme has been appointed as permanent CFO after commencing initially on a contract basis in Q2 FY20 ... Further, Mr Ben Donovan has been appointed as Company Secretary, replacing Mr Brett Tucker.'
- T. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- U. Listing Rule 6.1, which states:

'The terms that apply to each class of equity securities must, in ASX's opinion, be appropriate and equitable.'
- V. Listing Rule 14.7, which states:

'If an entity states in a notice of meeting that it will do something that the listing rules require it to do, the entity must do that thing. If the thing is to be done by another person, the entity must take all reasonable steps to ensure that the other person does it.'
- W. Guidance Note 19 – Performance Shares, which includes the following statements:
 - (i) In section 8:

'To meet the requirements of Listing Rules 6.1 and 12.5 or Listing Rule 1.1 condition 1, the performance milestone attached to a performance share must be appropriate and equitable.

ASX considers that this requires the following: ...

 - (2) *the performance milestone must be clearly articulated by reference to objective criteria so that investors and analysts can readily understand, and have reasonable certainty as to, the circumstances in which the performance milestone will be taken to have been met; ...'*
 - (ii) In section 9:

'In all cases, ASX will also generally consider it appropriate and equitable, and therefore impose a condition, that the terms of the performance shares, including (without limitation) the applicable milestone that has to be satisfied before the performance shares may be converted into ordinary shares, must not be changed without the prior approval of the holders of the entity's ordinary shares and that a voting exclusion statement apply in relation to any holder of the performance shares.'

Questions and Request for information

Having regard to the above, ASX asks SCL to respond separately to each of the following questions and requests for information:

1. ASX notes that:

- SCL stated that *'it was the intent of management and the Board at the time of the Prospectus that the total annual sales revenue reflect the total annual sales invoices, rather than AASB 15 Revenue'* (see paragraph Q above).
- The Confirmation Request stated that *'at 31 December 2016 annual sales revenue for Schrole was \$1,664,185'* (see sub-paragraph B(ii) above), and this figure is virtually equivalent to the annual sales revenue figure reported in accordance with the accounting standards in SCL's 2017 Annual Report (see sub-paragraph G(iii) above).

In light of the above, please explain why the Confirmation Request:

- a) advised ASX that the calculation of 'annual sales revenue' at 31 December 2016 (i.e. for the financial year to 31 December 2016) was \$1,664,185;
 - b) made a submission that the Series B Milestone of 'total annual sales revenue' satisfied the requirements of section 8 of Guidance Note 19 (see sub-paragraph W(i) above), including that it was a clearly articulated milestone which investors can readily understand, with reference to the annual sales revenue figure of \$1,664,185 at 31 December 2016; and
 - c) did not advise ASX that the calculation of 'total annual sales revenue' for the purposes of the Series B Milestone:
 - (i) would not be made in accordance with the accounting standard for revenue; and
 - (ii) would be based on invoiced sales / total revenue (invoiced sales).
2. Please provide a copy of all documentation in relation to the issue of the Series B Performance Shares, including any relevant board minutes, invitation letters, prospectus verification, documents provided to the independent expert (see sub-paragraph D(iii) above), and documents evincing the intention of the board and management regarding the definition of 'total annual sales revenue' at the time of the Notice and Prospectus (see paragraph Q above) (not for release to the market).⁴
3. ASX notes that the Confirmation included a condition which required the Notice to include sufficient information about the terms and conditions of the Performance Shares (see sub-paragraph C(i) above).

In light of this, please explain why the Notice:

- a) did not state that the calculation of 'total annual sales revenue' for the purposes of the Series B Milestone:
 - (iii) would not be made in accordance with the accounting standard for revenue; and
 - (iv) would be based on invoiced sales / total revenue (invoiced sales); and
- b) included sales revenue figures from financial statements based on the accounting standards on page 37 (see sub-paragraph D(ii) above) and in the IER (see sub-paragraph D(iii) above) but did not state that the Series B Milestone would not be calculated on this basis.

⁴ The fact that ASX tells an entity that a document is not for release to the market does not prevent ASX from releasing any of the information contained in the document (as opposed to the document itself) to the market if ASX considers it necessary to inform the market.

4. Did SCL change its definition of 'total annual sales revenue' for the purposes of the Class B Milestone after it was re-admitted to the official list?
- If the answer to this question is 'yes':
- a) When was the definition changed?
 - b) Why didn't SCL seek the prior approval of ASX and SCL's shareholders for this change (see sub-paragraph C(ii) above)?
5. Please provide a copy of the documents and working papers (not for release to the market) in relation to SCL management's assessment of the probability of achieving the Class B Milestone being 0% as at:
- a) 31 December 2018 (see sub-paragraph H(vi) above); and
 - b) 31 December 2019 (see sub-paragraph K(v) above).
6. Was 'total revenue' of \$1.72m for the June 2020 quarter (see paragraph M above) calculated in accordance with the accounting standards?
- If the answer to this question is 'yes':
- a) What were SCL's invoiced sales / total revenue (invoiced sales) for the June 2020 quarter?
 - b) Why weren't invoiced sales / total revenue (invoiced sales) for the June 2020 quarter disclosed in the June Quarter Report?
7. Please provide SCL's invoiced sales for the June 2019 quarter together with an explanation of any year-on-year variation in the invoiced sales figures (i.e. for the June 2020 quarter vs the June 2019 quarter).
8. ASX notes that total revenue (invoiced sales) in the September 2019 quarter were \$2.3m (see paragraph I above).
- Please provide SCL's invoiced sales for the September 2020 quarter together with an explanation of any year-on-year variation in the invoiced sales figures (i.e. for the September 2020 quarter vs the September 2019 quarter).
9. Did SCL's total annual sales revenue calculated in accordance with the accounting standards exceed \$7 million over any 12 month period prior to 12 October 2020?
10. Please provide a copy of the following documents (not for release to the market):
- a) a breakdown of monthly invoiced sales by customer (noting the invoiced sales period) for June 2019 to September 2020;
 - b) the Company Secretary's report referred to in paragraph Q above;
 - c) BDO's confirmation referred to in sub-paragraph R(ii) above; and
 - d) the board minutes relating to the satisfaction of the Class B Milestone.
11. Please confirm that SCL is complying with the Listing Rules and, in particular, Listing Rule 3.1.
12. Please confirm that SCL's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of SCL with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:30am AWT on Wednesday, 18 November 2020**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, SCL's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require SCL to request a trading halt immediately.

Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in SCL's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in SCL's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to SCL's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 - 3.1B. It should be noted that SCL's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence with ASX

ASX reserves the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Vanessa Nevjestic

Adviser, Listings Compliance (Perth)