



# Annual Report

For the year ended 30 June 2017



3P Learning

3P Learning Limited ABN 50 103 827 836

# A message from the Chairman and CEO

Dear Fellow Shareholders

Last year we set three strategic priorities for 3P Learning Limited. These were to:

- strengthen the maths and literacy product portfolio
- develop a scalable sales and marketing platform
- globalise our operating model.

We are pleased to report that our execution against these three priorities has delivered strong results in Financial Year 2017. We are on track to build the foundation for 3P Learning to deliver sustainable and accelerated growth in the balance of this year and into Financial Year 2019.

## Year in review

Key Financial Information A\$M (unless stated)	FY2017	FY2016	Variation %
Revenue	52.5	49.3	6%
Underlying Core EBITDA	16.0	13.3	20%
Underlying Net Profit after Tax	6.3	5.3	19%
Statutory Net Profit after Tax	(7.3)	3.7	(297%)
Underlying Earnings Per Share (cents)	(5.11)	2.66	(292%)
Net Debt	6.2	7.2	(14%)

During the year, we met our commitment to you to grow our revenues faster than our cost base.

Group Revenue grew by 6%, and on a constant currency basis was 11% higher than Financial Year 2016. Our APAC region (including our home market of Australia) increased revenue by 3%, EMEA grew by 3% and the Americas was 31% higher than the prior year. On a constant currency basis EMEA grew by 19% and the Americas by 33%. In all regions we saw improved EBITDA, licence renewals, Average Revenue Per User (ARPU) and a reduction in the cost to acquire new users. The Americas region is now profitable.

Encouragingly, we delivered a 20% increase in underlying core EBITDA while we simultaneously made positive movements in key areas to support our strategic priorities such as investments in our product portfolio, marketing automation, UserVoice and Service Cloud. These were all designed to improve revenue, customer experience and retention — at the same time reducing operating cost.

As reported in our First Half Financial Year 2017 results, we concluded a strategic review of IntoScience and our technology assets and investments, resulting in a one-off non-cash write down after tax of \$12.0M. Underlying NPAT was up 19% year over year and we ended the year with net debt at \$6.2M.





The key to a high performance organisation is in its culture and its people. During the year we partnered with the *Great Place to Work* Institute to benchmark our cultural performance against the best companies nationally and internationally. We were most encouraged by our employees' responses and have kicked off a series of *Great Place to Work* initiatives based on insight from the survey in relation to our strengths and opportunities.

### **The year ahead**

Our strategic priorities remain unchanged in Financial Year 2018 and by staying focused on these priorities we expect 3P Learning to be in a position to profitably scale growth globally. We remain committed to another year of delivering revenue growth faster than cost growth.

3P Learning expects to accelerate profitability and revenue growth in Financial Year 2019 by focusing on the launch of our literacy product range, Mathletics upsells and add-on sales opportunities, geographic expansion largely using variable cost third party partners who have strong market knowledge, and existing go to market assets. We will look to improve retention through increased student engagement, digitisation, data and analytics and an improved customer experience.

### **Thank you**

We both want to say a heartfelt thank you to the extraordinary team at 3P Learning located in offices around the world, each of whom has contributed to the success not only of our Company during the year, but also in helping children achieve their own potential and more. Our colleagues on the Board have provided exceptional support and leadership during this year of transition and we are grateful to them for always being prepared to 'go the extra mile'. Finally, we are deeply appreciative of the support from our shareholders and schools, teachers, education administrators, parents and students who place their confidence in 3P Learning.

Thank you.

Yours sincerely,

**Samuel Weiss**  
Chairman

**Rebekah O'Flaherty**  
CEO and Managing Director

**3P Learning Limited**  
**Directors' report**  
**30 June 2017**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of 3P Learning Limited (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 2017.

### **Directors**

The following persons were directors of 3P Learning Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Samuel Weiss (Chairman)  
Rebekah O'Flaherty  
Roger Amos  
Claire Hatton

### **Principal activities**

During the financial year the principal continuing activities of the Group consisted of developing, sales and marketing of online educational programs to schools and parents of school-aged students. There was no significant change in the nature of these activities during the year.

### **Dividends**

#### *Current year*

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

#### *Previous year*

A final dividend was declared on 26 August 2015 for the year ended 30 June 2015 of 1.8 cents per ordinary share totalling \$2,428,000 and was paid on 22 October 2015 to shareholders registered on 8 October 2015.

### **Operating and financial review**

#### *Business overview*

The Group is a global online education provider with e-learning programs for mathematics, spelling, literacy, reading and science. Our resources are fully aligned with over a dozen international curricula, are designed to reduce teacher workload and make learning fun. We have over 240 educators, engineers, product designers and other personnel based in 11 countries, servicing schools in more than 100 countries.

Today we are trusted by over 5.5 million students in over 17,000 schools across the world. Our mission is to create a place where students, families and teachers love learning.

#### *Financial review*

The performance of the Group was impacted following a strategic review of the business that resulted in significant restructuring costs and the non-cash write-down of certain intangible technology assets. This led to a loss for the Group after providing for income tax and non-controlling interest amounted to \$7,106,000 (30 June 2016: profit of \$3,632,000).

A reconciliation of earnings before interest, tax, depreciation and amortisation ('EBITDA') to statutory profit after tax for the year is as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit/(loss) attributable to owners of 3P Learning Limited</b>	<u>(7,106)</u>	<u>3,632</u>
Non-controlling interest	(155)	18
<b>Net profit after income tax expense for the year</b>	<u>(7,261)</u>	<u>3,650</u>
Non-cash impairment expense	15,285	-
Tax benefit on impairment expense	(3,386)	-
Non-cash loss on sale	134	-
Restructuring costs	1,869	2,231
Tax benefit on restructuring costs	(314)	(596)
<b>Underlying profit after income tax expense*</b>	<u>6,327</u>	<u>5,285</u>
Income tax expense	2,112	2,476
<b>Underlying profit before income tax expense**</b>	<u>8,439</u>	<u>7,761</u>
Depreciation and amortisation expense	6,474	5,064
Interest income	(26)	(148)
Finance costs	1,074	649
<b>Underlying core EBITDA***</b>	15,961	13,326
Share of profits of associates	(703)	(480)
<b>Adjusted EBITDA****</b>	<u>15,258</u>	<u>12,846</u>

\* Underlying profit after income tax expense represents reported profit after income tax expense of the Group, excluding restructuring costs, impairment expense, non-cash loss on sale and the tax impact of these items.

\*\* Underlying profit before income tax expense represents reported profit before income tax expense of the Group, excluding restructuring costs, impairment expense and non-cash loss on sale.

\*\*\* Underlying core EBITDA represents earnings before interest, tax, depreciation and amortisation, excluding restructuring costs, impairment expense and non-cash loss on sale.

\*\*\*\* Adjusted EBITDA represents earnings before interest, tax, depreciation and amortisation, excluding restructuring costs, impairment expense, non-cash loss on sale and share of profits of associates.

The directors have provided adjusted EBITDA, underlying core EBITDA, underlying profit before income tax expense and underlying profit after income tax expense ('Underlying Information') after careful consideration of the requirements and guidelines contained in ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying information, including this reconciliation to net profit after income tax expense, has been provided in order to meet the demands from users of the financial reports for information to better understand aspects of the Group's performance. The directors believe that underlying profit after income tax expense is the most appropriate measure of the maintainable earnings of the Group and thereby best reflects the core drivers of, and ongoing influences upon, those earnings. For this reason, the impact of restructuring costs is excluded from the measurement of underlying profit after income tax expense.

#### Revenue

Total revenue for the year ended 30 June 2017 was \$52,455,000 (30 June 2016: \$49,264,000). Each of the geographic segments showed modest growth, reflecting our success to increase average revenue per user ('ARPU') by 4% across the Group.

*Performance*

The loss for the Group after providing for income tax and non-controlling interest amounted to \$7,106,000 (30 June 2016: profit of \$3,632,000).

All three of the Group's segments improved their sales revenue due to modest ARPU growth which was created from a focus on driving profitable revenue. Adjusted EBITDA performance in all segments improved due to revenue growth and cost management, particularly around employee costs.

Depreciation and amortisation expenses in the current year increased by \$1,410,000 to \$6,474,000. This was the result of the accumulation of capitalised product development and a change in effective life from five years to three years to reflect the increasing velocity of technological change.

Net interest expense in the current year was \$1,048,000 compared to \$501,000 for the previous year. This was driven by a higher average net debt balance and higher weighted-average interest rate during the current year when compared to the previous year.

Following a strategic review of all technology assets, a non-cash impairment charge of \$11,288,000 was made in the current year to address the carrying value of capitalised product development.

A non-cash impairment charge of \$3,997,000 and a loss on sale of \$134,000 was recorded on the sale of Desmos Inc.

One-off restructuring costs of \$1,869,000 relating to the cessation of our development operations in Pune, India and the consolidation of the real estate footprint in the Americas and APAC segments were recognised in the current year. The Group's headcount declined from 338 to 242 during the year. In the prior year, one-off restructuring costs of \$2,231,000 relating to the leadership transition and transactions costs associated with the investment in Learnosity Holdings Limited were recorded.

*Segment review*

Segment revenue for the year is as follows:

	2017 \$'000	2016 \$'000	Change \$'000	Change %
APAC	31,819	30,791	1,028	3%
Americas	7,664	5,846	1,818	31%
EMEA	12,972	12,627	345	3%
Total Revenue	52,455	49,264	3,191	6%

Segment adjusted EBITDA (excluding share of profits of Associates) is as follows:

	2017 \$'000	2016 \$'000	Change \$'000	Change %
APAC	15,117	14,751	366	2%
Americas	(2,874)	(4,039)	1,165	(29%)
EMEA	3,015	2,134	881	41%
Total Adjusted EBITDA	15,258	12,846	2,412	19%

*APAC segment*

The performance saw revenue growth of 3% to \$31,819,000 driven by licence growth of 1% and ARPU growth of 2%. Adjusted EBITDA improved 2% to \$15,117,000 due to revenue growth.

*Americas segment*

Revenue in Americas grew 31% to \$7,664,000 driven by ARPU growth. Adjusted EBITDA improved \$1,165,000 due to revenue contribution less growth in inter-segment royalties and operating cost containment to only 3% increase.

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*EMEA segment*

EMEA recorded revenue growth of 3%, largely due to ARPU growth which occurred in Australian Dollars despite a significant depreciation of the British Pound against the Australian Dollar. Adjusted EBITDA increased 41% to \$3,015,000 due to revenue contribution less growth in inter-segment royalties and favourable impacts on costs from the depreciation of British Pound against the Australian Dollar during the year.

The Group has net assets of \$34,407,000 (30 June 2016: \$43,549,000) which have declined from the previous year due to the loss on total comprehensive income for the financial year.

As at 30 June 2017, the Group was in a net current liability position of \$24,958,000 (2016: \$29,193,000) of which \$28,928,000 (2016: \$28,423,000) is deferred revenue which is expected to be recognised as income in the next financial year with no further cash outflows to the Group. Further, there is \$20,500,000 available of the working capital debt facility. Accordingly, the financial statements continue to be prepared on a going concern basis.

*Material Business Risks*

The risk associated with the market requires management to continually focus on innovation and change to keep pace with competitors and new entrants to the market who may develop new technologies that could affect our business model. The Group invested \$9,339,000 (30 June 2016: \$11,382,000) in intangibles, including product development and software and this level of investment is expected to continue to remain competitive.

The material business risks faced by the Group that are likely to have an effect on the financial prospects of the Group are outlined below:

**Competition risks:** The Group operates in a highly competitive industry and there are a large number of participants targeting the K-12 segment, many with significant resources and capital.

**Distribution rights to 3rd Party Product risks:** The Group does not own the intellectual property rights to Reading Eggs, Reading Eggspress and Mathseeds.

**Technology:** The Group's technology platforms and systems may be disrupted which could affect the Group's reputation, ability to generate income and financial performance. As a technology-focused business, managing security and taking care of the customer and student data is essential.

**Change to school funding risk:** The K-12 market is driven by our customers' ability to fund investment into technology. A decline in school funding could result in declined demand for our products.

**Exchange rate risk:** Volatility in exchange rates can impact the Group's ability to maintain or grow margins, However, to a significant extent the Group's business currently enjoys natural hedges: the revenue that the Group obtains in a particular foreign currency closely matches the expenses it incurs in that currency (such as the British Pound). The Board believes that natural hedges presently mitigate any exchange rate volatility risk for the Group to an economically acceptable level.

**Significant changes in the state of affairs**

On 24 August 2016, the Group amended the HSBC bank loan facilities agreements from \$20,000,000 to \$30,000,000.

*Divestments*

On 25 May 2017, the Group disposed of its 17.2% stake in Desmos Inc., (<https://www.desmos.com>) a US based, graphic calculator application business for total proceeds of \$2,551,000.

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

**Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2017 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's growth is expected to be supported by the continuing shift of consumers seeking more engaging and interactive online learning resources and resources with proven academic rigour.

The Group expects to focus on its core products in mathematics and literacy by increasing their functionality, adding additional content and enhancing the user experience. The Group also expects to continue establishing its scalable sales and operational model to support its growth in both existing and potential new territories.

### Environmental regulation

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

### Information on directors

**Name:** Samuel Weiss  
**Title:** Independent Non-Executive Chairperson  
**Qualifications:** AB, MS, FAICD  
**Experience and expertise:** Significant experience as a senior executive and as a Non-Executive Director in education, technology and consumer products companies in Australia, North America, Europe and Asia.  
**Other current directorships:** Chairman of Altium Limited (ASX: ALU) and Surfstitch Group Limited (ASX: SRF).  
**Former directorships (last 3 years):** Non-Executive Director of Oroton Group Limited (ASX: ORL), Breville Group Limited (ASX: BRG) and Chairman of Ensogo Limited (ASX: E88)  
**Special responsibilities:** Member of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee  
**Interests in shares:** 526,508 ordinary shares

**Name:** Rebekah O'Flaherty  
**Title:** Chief Executive Officer  
**Qualifications:** B.Ec., MBA, GAICD  
**Experience and expertise:** Extensive experience in technology, digital, product development, sales, marketing and distribution across Asia Pacific, Europe and United States gained over 12 years with Hewlett Packard, Telstra and most recently Origin Energy.  
**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** None  
**Interests in shares:** None  
**Interests in options:** 2,015,419 options  
**Interests in rights:** 500,000 performance rights

**Name:** Roger Amos  
**Title:** Independent Non-Executive Director  
**Qualifications:** FCA, FAICD  
**Experience and expertise:** Over 35 years of experience in finance, business and accounting. Previously a partner at the international accounting firm KPMG for 25 years.  
**Other current directorships:** Non-Executive Director of REA Group Limited (ASX: REA), Chairman of Contango Asset Management Limited (ASX: CGA) and Deputy Chairman of Enero Group Limited (ASX: EGG)  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Member of the Nomination and Remuneration Committee and Chairman of the Audit and Risk Committee  
**Interests in shares:** 61,743 ordinary shares

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Name:	Claire Hatton
Title:	Independent Non-Executive Director
Qualifications:	BSc, MBA, GAICD
Experience and expertise:	Over 20 years of global experience in strategy, sales, marketing and operations. Significant experience in the digital and technology market. Previously held senior roles at Google, Travelport and Zuji.com.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Nominations and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	31,000 ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

**Company secretary**

Mr Jonathan Kenny (AICD, MBA, B.Econ) was appointed as company secretary on 2 September 2016. Jonathan has over 20 years' experience in finance and operations roles for ASX listed and multinational corporations. His broad industry experience includes publishing, software, property development, data and analytics. Previously Jonathan was chief financial officer of ASX listed RP Data and Bravura Solutions.

Ms Stephanie Belton resigned as company secretary on 2 September 2016.

**Meetings of directors**

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Samuel Weiss	9	9	2	2	5	5
Rebekah O'Flaherty*	9	9	-	-	-	-
Roger Amos	9	9	2	2	5	5
Claire Hatton	9	9	2	2	5	5

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

\* Rebekah O'Flaherty attended the Nomination and Remuneration Committee and Audit and Risk Committee meetings as an observer.

## Letter from the Chair of the Nomination and Remuneration Committee

Dear Shareholder,

The purpose of this introductory letter to the 2017 Remuneration Report is to set out the progress that we have made since last year and to clearly articulate our remuneration policies, how they have been applied in determining our compensation plans and how they support our company strategy and culture.

This has been a year of strategy implementation for 3P Learning Limited. Our Chief Executive Officer, Rebekah O'Flaherty, is leading the process to put in place our plans to restore the underlying value in 3P Learning Limited and to become a global market leader in K-12 online education.

Our strategic priorities remain to:

- strengthen our product portfolio,
- develop scalable sales and marketing, and
- globalise our operating model.

Each is supported by a robust people and culture strategy. Remuneration is a key component ensuring that we attract and retain top talent with the skills that we need to deliver our strategy and to align incentives to create shareholder value.

### Remuneration

Last year we made some significant changes to our Long Term Incentive (LTI) Plan. We believe our remuneration framework of a mixture of fixed compensation, coupled with grants under the Short Term Incentive (STI) Plan and LTI Plan, provides the best motivation for our Executive team to increase the velocity of our growth and build shareholder value. After this year's review of our remuneration plans, your Board has decided to maintain both the STI and LTI Plans with no changes.

Consistent with FY17, our STI Plan has two key hurdles; Revenue and Underlying core EBITDA. We believe these are the most appropriate measures to tie performance to growth and profitability. These measures will continue to apply for grants with respect to FY18.

Rebekah O'Flaherty joined 3P Learning as Chief Executive Officer on 1 June 2016. The Remuneration Report includes full details of Rebekah's salary and benefits package, including all share based benefits that were approved by shareholders last year. Rebekah's remuneration package was benchmarked against the market and incentivises her to transform 3P Learning in the medium term.

Rebekah's first 12 months were concentrated on the first part of our three year strategic plan to restore underlying value, and to position us as a global market leader in K-12 online education. She has been focused on leading change in our products and how we sell them, the transformation of our customer experience, and the digitisation of our platforms to ensure they are fit for purpose as we scale.

Jonathan Kenny, our Chief Financial Officer, who took on the role of interim Chief Executive Officer for 3P Learning from January to June 2016, has also taken on the responsibility for globalising our systems and processes. As disclosed last year, we extended a retention and reward grant to Jonathan in February 2016, in recognition of his performance as interim CEO and his ongoing contribution to the Group. Full details are available in the Remuneration Report.

### Diversity and inclusion

Diversity and inclusion are important for 3P Learning Limited. This year the Board set a target of 50% gender diversity at a Board level, senior leadership team level and as an aggregate globally across the organisation. We're proud to be able to say that we have achieved this target today with women comprising 50% of our Board, 53% of our senior leadership team and 51% of our employees aggregated globally as at 30 June 2017. During this financial year we also carried out and acted upon a pay equity review to ensure there is no inherent bias in our rewards system. We believe diversity shouldn't stop at gender, and our next area of focus will be on encouraging diversity of thinking, in its broader sense.

We conducted the Great Place to Work survey for the first time, and received positive results which highlighted that employees rated highly that 'they belonged and could be themselves'. However, as we think about our Workplace of the Future, we believe there is more that we can do around flexibility, accessibility, global engagement and finding, attracting

and retaining in demand skills. Your Board believes that this is a critical factor in our ability to build an adaptable, innovative and fast moving global education technology company.

#### **Governance changes**

Our Chairman, Samuel Weiss, will be up for re-election at this year's Annual General Meeting (AGM). Sam is a Non-Executive Director ('NED') and chairman of three ASX listed companies, which some proxy advisors consider to be the equivalent of six Board positions. We have no doubt that Sam has the time and energy to give 3P Learning his priority and we are confident that he is not over extended.

We have reviewed the composition of our Board and believe that the Company will be better served with a broader set of Director skills. In the medium term we plan to increase the size of our Board from four to five (NED's & CEO) whilst considering over the longer term another member to bring us to six. We started this process during the past financial year. We have published our Board Skills Matrix and plan to appoint a Board member who compliments our skills and will provide diverse viewpoints that benefit our thinking.

As a consequence of reviewing our Board composition we will ask for approval from shareholders to increase the NED Remuneration Pool at our 2017 Annual General Meeting to give us the flexibility to appoint up to two new Board Directors.

Our business is at an important point in its evolution and we believe we have put the right foundations and strategy in place to restore the underlying value in 3P Learning and aggressively grow the business to be a global market leader in K-12 online education. 3P Learning and I welcome your feedback so we can continue to evolve our remuneration and governance framework.

Yours sincerely



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Claire Hatton  
Chair of the Nominations and Remuneration Committee

24 August 2017  
Sydney

### Remuneration report (audited)

This remuneration report for the year ended 30 June 2017 outlines the director and executive remuneration arrangements for the Group in accordance with the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel ('KMP') are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all directors, whether executive or non-executive. The disclosures in the remuneration report have been audited.

The Company has not engaged any remuneration consultants to advise on remuneration policy or the structure or level of executive remuneration.

The remuneration report is presented under the following headings:

- Letter from the Chair of the Nomination and Remuneration Committee (not audited);
- Overview of 3P Learning remuneration policy;
- Details of senior executive remuneration structure;
- Non-executive directors' remuneration;
- Service agreements;
- Share-based compensation
- Additional disclosure relating to key management personnel

### Overview of 3P Learning remuneration policy

The Nomination and Remuneration Committee ('NRC') is responsible for the remuneration arrangements for its directors and senior executives for reviewing and approving key employment policies and practices. The performance of the Group depends on the quality of its directors and executives. The Company's remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Group's executive reward framework is based on objectives to:

- drive growth and profitability;
- align executive rewards with achievement of strategic objectives and the delivery of shareholder value; and
- provide competitive remuneration packages that recognise both individual and organisational performance.

The NRC has structured an executive remuneration framework that is market competitive, is designed to retain and motivate the Company's leadership team and sets a standard for transparency and good corporate governance.

The determination of non-executive director and executive remuneration is separate.

### Details of senior executive remuneration structure

The senior executive remuneration structure has three key components stated below, including what the Board has agreed is the optimal mix between fixed and 'at risk' components for the Chief Executive Officer and senior executives. Details for each of the individual components are as follows:

Fixed annual remuneration	Short term incentive	Long term incentive
<ul style="list-style-type: none"> <li>• Fixed salary set by reference to appropriate benchmark information and experience of individuals</li> <li>• Includes superannuation and salary-sacrifice non-monetary benefits</li> </ul>	<ul style="list-style-type: none"> <li>• 25 - 50% of fixed remuneration</li> <li>• Annual cash incentive</li> <li>• 12 month period</li> <li>• Targets linked to group performance</li> </ul>	<ul style="list-style-type: none"> <li>• 25 - 50% of fixed remuneration</li> <li>• Grant of options</li> <li>• 3 year performance period</li> <li>• Performance hurdles linked to revenue and EPS growth</li> </ul>

### Executive remuneration

#### Fixed remuneration

The objective for fixed remuneration is to provide a base level of compensation appropriate to the senior executive's role, responsibilities and experience.

Fixed remuneration is determined with reference to available market data including benchmarks, the scope of the role and the qualifications and experience of the individual.

Fixed remuneration includes base salary, non-monetary benefits, superannuation and other statutory components such as long service leave.

Fixed remuneration is reviewed annually by the NRC, based on individual and business unit performance, the overall performance of the Group, and comparable market remuneration. Superannuation in excess of the concessional contribution cap is provided as cash salary.

Senior executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs for the Group and provides additional value to the executive.

The fixed remuneration for the Chief Executive Officer is reviewed annually by the NRC, for approval by the Board, following consideration of her performance against her annual KPIs.

*Performance based remuneration*

The performance based remuneration components for senior executives align reward with the achievement of annual and longer term objectives of the Group, and the optimisation of shareholder value over the short and long term.

The performance based components comprise a STI plan and a LTI plan, each of which is designed to link to key elements of the Group business plan and budget. Further information about the performance measures for the STI and LTI plan can be found in subsequent sections of this remuneration report. The table below shows the Company's performance history against these financial measures since the IPO in 2014.

Financial Year	2014	2015	2016	2017
Revenue (\$m)	36	44	49	52.5
Underlying core EBITDA (\$m)	13	17	13	16.0
EPS (cents)	4.03	3.04	2.66	(5.11)

**3P Learning Limited**  
**Directors' report**  
**30 June 2017**

*Executive remuneration*

Details of remuneration paid to the current and former executives, for the years ended 30 June 2017 and 30 June 2016, are set out below:

**Current executives**

	Salary	STI plan	Post employment benefits	LTI plan and additional incentives*	Total	Performance related	LTIP
	\$	\$	\$	\$	\$	%	%
R O'Flaherty (Chief Executive Officer appointed 1 June 2016)							
2017	576,667	331,444	33,333	189,269	1,130,713	36%	17%
2016	48,333	-	2,500	3,457	54,290	-	6%
J Kenny (Chief Financial Officer and Interim Chief Executive Officer from 11 January 2016 to 31 May 2016)							
2017	358,000	210,820	30,000	456,723**	1,055,543	37%	43%
2016	377,802	-	30,000	138,142	545,944	-	25%

**Former executive**

	Salary	STI plan	Termination benefits	Post employment benefits	Long term employee benefits	LTI plan*	Total	Performance related	LTIP
	\$	\$	\$	\$	\$	\$	\$	%	%
T Power (Former Chief Executive Officer resigned 11 January 2016)									
2016	254,433	225,000	438,524	30,000	98,288	-	1,046,245	N/A	-

• 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.

\*\* Further information about Jonathan Kenny's incentives are detailed in the sections entitled 'long term incentives' and 'additional incentives' below.

**Short term incentives**

*What is the STI and who participates?*

The remuneration of the Group's senior executives is linked to the Company's short term annual performance through a cash based STI. The Group STI program is designed to deliver sustainable performance and continued growth by retaining talent and rewarding performance. The key objectives of the STI program are to:

- drive and reward outstanding performance against annual strategic financial and operational performance objectives;
- promote effective management of capital, in the short, medium and long term;
- position the Company to over achieve in future years;
- emphasise and reward team and Company performance outcomes;
- provide competitive and motivating reward opportunities;
- create a clear and transparent link between performance and rewards with minimum subjectivity; and
- be simple to administer and easily understood.

*What are the performance measures?*

Financial performance measures are set for each senior executive based on profit and revenue targets. These targets are in turn derived from the Company's business plan and budget as the NRC considers this to be the best way to ensure the aims of the business plan and budget are met.

Currently, the Company's STI Plan does not include non-financial performance objectives.

The performance measures are as follows:

Performance measure	Executive allocation
Revenue	50%
Underlying core EBITDA	50%

*Why were these performance measures chosen?*

The Board considers the financial measures to be appropriate as they are aligned with the Group's objective of delivering profitable growth and, improved shareholder returns.

The Group operates in the fast moving and rapidly changing global environment of education technology in which a large number of companies, individuals, startups and even global technology giants like Amazon and Google are trying to establish themselves as credible suppliers to schools for education services. Today, no one company has significant market share, or a perceived advantage to any other. The Board believes that the Group is capable of achieving a market leading position in the countries in which it operates if management is incentivised to deliver both rapid growth in revenue and consistent growth in earnings.

*What is the amount the executives can earn?*

Financial measure – level of performance	% of Target incentive award*
Below Threshold (i.e. <95% of Target)	0%
Target	100%
Above Target (i.e. > 100% of Target)	Up to 160%

\* Pro-rata payment made between these points

*When are the performance conditions tested?*

Performance conditions are tested and incentive payments under the STI plan are determined by the NRC after the approval and release of the Company's annual results in August.

*STI for the 2017 financial year*

The target STI opportunity for the financial year ended 30 June 2017 was up to an amount equal to 25% of the senior executive's fixed remuneration (up to 50% in the case of the Chief Executive Officer and Chief Financial Officer).

There were four participants in the STI program for FY17 and four achieved their targets for the year. For FY17, a total of \$667,234 will be paid for STI awards. Payment will be made after the release of the financial results for FY17.

Specific information relating to the STI payable to the Chief Executive Officer and Chief Financial Officer for FY17 is set out below:

Executive	Actual STI payment	% of Target STI payable
Chief Executive Officer	\$331,444	109%
Chief Financial Officer	\$210,820	109%

These payments are based on the following STI metrics for FY17:

Performance measure	FY17 – At Target
Revenue	\$53,000,000
Underlying core EBITDA	\$14,000,000

### Long term incentives

As foreshadowed in last year's report, changes to the LTI plan were made in 2016 following feedback from the Company's shareholders and a review of the Company's remuneration framework. The objective of the LTI plan is to link the long term reward for senior executives with the creation of shareholder value through the allocation of equity awards which are subject to specific performance conditions.

The key changes made to the plan were as follows:

- a revenue based hurdle was included in the plan, in addition to an EPS hurdle;
- participants in the plan were restricted to the senior executive team comprising the Chief Executive Officer and her direct reports; and
- the equity vehicle under the plan was changed from performance rights to options.

The revenue hurdle was chosen to reward participants for increasing the rate of growth for the Company especially in international markets. This hurdle is complemented by the EPS hurdle, which ensures that there is also focus on shareholder value.

The senior executive team has been tasked with driving significant growth for shareholders. The choice of options as the equity vehicle under the plan is in recognition of the high growth nature of online education and its fragmented early stage state in global markets. This should maximise the opportunity for the senior executive team to benefit from that growth in a way that is consistent with providing value for shareholders.

#### *What are the objectives of the LTI?*

The key objectives of the LTI program are to:

- align executive performance with shareholder return;
- drive and reward outstanding performance against three year strategic financial and operational performance objectives;
- emphasise and reward senior executives for long term Company performance outcomes;
- provide competitive reward opportunities that motivate participants; and
- create a clear and transparent link between long term performance and rewards with minimum subjectivity.

#### *Who are the participants of the LTI?*

The Chief Executive Officer and her direct reports are eligible to participate in the LTI plan. As at 30 June 2017, the Chief Executive Officer had four direct reports.

#### *What is the amount that executives can earn?*

Beneficiaries under the LTI plan can earn an amount equal to a percentage of their annual fixed remuneration in the range of 25%-50%.

#### *How is the LTI grant determined?*

Awards take the form of options. Each option represents a conditional right to acquire one share in the Company on exercise by payment of an exercise price. Options do not carry a right to vote or to dividends.

Grants are made in September of each year, following finalisation of the 30 June financial statements, are subject to pre-defined performance conditions and have a 3 year vesting (performance) period.

Any options which do not meet the performance conditions at the end of the performance period will lapse.

#### *Cessation of employment, Change of Control and Clawback*

Options may lapse in the event that the relevant performance conditions are not met. In addition, if the relevant employee resigns or is dismissed, all unvested options are forfeited. If an employee leaves for any other reason the Board may determine the number of options which will lapse or be retained. Options may also be forfeited if a 'claw back' event occurs during the performance period. A claw back event includes circumstances where a senior executive has engaged in fraud, dishonesty or gross misconduct, where the financial results that led to the equity award are subsequently shown to be materially misstated, or where the behaviour of a senior executive brings the Company into disrepute or impacts the Company's long term financial strength. If a change of control event occurs, the Board has discretion to determine whether options will vest or lapse.

#### *2017 LTI Award*

The exercise price of options granted in FY17 was set at a premium of 43% to the Company's share price on the date of grant. The life of the FY17 grant is four years.

The number of options granted was determined by dividing the dollar award value by the value of an option at the time of grant (based on a two week volume weighted average price ('VWAP') of the Company's shares at that time).

The performance conditions for the year ending 30 June 2017 grant are based on the following:

- 50% of award to be tested based on compound annual growth in revenue; and
- 50% of award to be tested based on compound annual growth in EPS.

Each performance condition is tested following finalisation of the annual financial results for the year ending 30 June 2019 (performance period).

The financial hurdles are independent of each other. One can be achieved without the other hitting threshold.

*What vesting schedules apply?*

The Board approved challenging threshold, target and stretch growth rates in respect of both the revenue and EPS hurdles, which are based on the Company's strategic plan and are reflective of the Company's growth objectives. Both hurdles require double digit growth at the threshold level for any award to occur.

The following award schedule applies to both performance hurdles:

Performance level	% of options awarded
Below threshold	0%
Threshold	80%
Target	100%
Stretch	150%

The Board has chosen to offer significant incentive opportunity if the Senior Executive team can substantially increase the rate of growth in revenue and EPS as the Board believes this is in the interest of the Senior Executive team and shareholders alike. The target hurdle has been set to be stretching but achievable and the stretch target to be particularly ambitious.

*Performance conditions and disclosure of targets*

The Board considers the combination of revenue and EPS hurdles an appropriate balance to ensure that 'top line' growth is pursued over the long term, whilst growth in earnings is maintained.

In particular, the revenue hurdle has been adopted in light of the Group's desire to accelerate growth to achieve national and international expansion. The Board has selected EPS as a performance measure because it provides a relevant indicator of shareholder value and provides a clear target to drive and motivate senior executive performance.

The publication of prospective revenue and EPS targets for future performance periods would require the disclosure of price sensitive information. Accordingly, the Company will not disclose prospective targets but will disclose historic targets and the Company's performance against those targets. The hurdles for the options granted in FY17 will be disclosed in August 2019 after the applicable performance period.

*Additional incentives*

As outlined in last year's remuneration report, as part of the remuneration package negotiated with Rebekah when she joined as Chief Executive Officer on 1 June 2016, Rebekah received an award of performance rights, which were subject to shareholder approval at the 2016 Annual General Meeting.

Those performance rights were issued during the financial year, and include:

- (1) 400,000 performance rights under the LTI plan which are subject to specific long term performance indicators:
  - a) where the VWAP of the Company's ordinary shares for the period of 60 consecutive days after the date of release of the Company's annual results for the period ended 30 June 2019 is:
    - i) Less than \$3.95, none of the performance rights will vest;
    - ii) Greater than \$3.95 per share, 50% of the performance rights will vest;
    - iii) Greater than \$4.45 per share, 75% of the performance rights will vest; and
    - iv) Greater than \$5.70 per share, 100% of the performance rights will vest; and
  - b) any shares issued on vesting of any performance right shall be placed in escrow for a period of 12 months from the date of vesting.
- (2) 100,000 performance rights under the terms of the LTI plan which are subject to Rebekah remaining in the role of Chief Executive Officer until 1 September 2019.

Additionally, in recognition of Jonathan's increased responsibilities and ongoing contributions to the Group as Interim Chief Executive Officer during FY16, and in lieu of incentive payments with respect to FY16, it was determined that 300,000 ordinary shares and a cash bonus of \$194,000 were to be issued to Jonathan as a retention and reward bonus subject to continued employment. The first issue of shares was on 15 September 2016, and subsequent allotments of 100,000 shares will be made in September 2017 and 2018, subject to continued employment at that time. The Board may, at its absolute discretion, elect to issue some or all of these shares, regardless of the vesting dates. The cash bonus was paid in August 2017.

#### **Non-executive directors' remuneration**

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors have not been granted or issued equity as part of their remuneration, and there is no current intention to do so. To preserve independence and impartiality, non-executive directors do not receive performance related compensation and are not eligible to participate in the Company's equity incentive plan.

Non-executive directors' fees and payments are reviewed annually by the NRC. The Chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was in 2014, prior to the IPO of the Company, when shareholders set the aggregate remuneration at \$650,000 per annum. Directors' fees also were set before the July 2014 IPO and have not been changed since then.

As mentioned in the Letter from the Chair of the Nomination & Remuneration Committee at the outset of the Remuneration Report, the Board is in the midst of an evaluation of the Board composition and compensation.

Approval will be sought from shareholders at the 2017 Annual General Meeting to increase the aggregate fee pool to \$900,000 per annum to provide flexibility to appoint additional board members in the medium to long term as well as to accommodate any potential change in Directors' fees as a consequence of the compensation review. Board and committee fees, as well as statutory superannuation contributions made on behalf of the non-executive directors, are included in the aggregate fee pool.

The table below shows the structure and level of non-executive director fees (exclusive of superannuation) for the financial year ended 30 June 2017.

Fee applicable	Chair \$	Member \$
Board	150,000	75,000
Audit and Risk Committee	20,000	10,000
Nominations and Remuneration Committee	20,000	10,000

Details of the remuneration for the Chairman and independent non-executive directors for the financial years ended 30 June 2017 and 30 June 2016 are set out in the table below.

Name		Fees and allowances \$	Post-employment benefits \$	Total \$
S Weiss (Chairman)	2017	170,000	16,150	186,150
	2016	176,333	16,752	193,085
R Amos	2017	105,000	9,975	114,975
	2016	105,000	9,975	114,975
C Hatton	2017	105,000	9,975	114,975
	2016	98,667	9,373	108,040
<b>Total</b>	2017	<b>380,000</b>	<b>36,100</b>	<b>416,100</b>
	2016	380,000	36,100	416,100

### Service agreements

Non-executive directors do not have fixed term contracts with the Company. On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation. Non-executive directors retire by whichever is the longer period: the third annual general meeting following their appointment or the third anniversary date of appointment, but may then be eligible for re-election.

Remuneration and other terms of employment for executives are formalised in employment agreements. The Chief Executive Officer and Chief Financial Officer do not have a fixed term contract with the Company. Details of the employment agreements as at 30 June 2017 are as follows:

Name:	Rebekah O'Flaherty
Title:	Chief Executive Officer
Agreement commenced:	1 June 2016
Term of agreement:	Open ended
Details:	Rebekah will receive a fixed annual remuneration of \$610,000, inclusive of statutory superannuation. Rebekah will be eligible to receive an annual short term incentive with a target STI of 50% of her fixed annual remuneration, as determined by the Board. Payment of the cash bonus will depend on the Group's performance and Rebekah's achievement of certain key performance indicators or at the discretion of the Board. As part of a long term incentive package and subject to shareholder approval, Rebekah may be entitled to receive an equity based award under the LTI plan with a value equivalent to 50% of her fixed annual remuneration. Either party may terminate the employment contract by giving six months' notice in writing. The Company may terminate Rebekah's employment contract by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the Company may terminate Rebekah's employment contract immediately by notice in writing and without payment in lieu of notice. Upon the termination of Rebekah's employment contract, she will be subject to a restraint of trade period of 12 months. The Company may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

**3P Learning Limited**  
**Directors' report**  
**30 June 2017**

Name: Jonathan Kenny  
 Title: Chief Financial Officer  
 Agreement commenced: 1 July 2014  
 Term of agreement: Open ended  
 Details: Jonathan will receive annual fixed remuneration of \$388,000 inclusive of statutory superannuation. Jonathan will be eligible to receive an annual short term incentive with a target STI of 50% of his fixed annual remuneration, as determined by the Board. Payment of the cash bonus will depend on the Group's performance and Jonathan's achievement of certain key performance indicators or at the discretion of the Board. As part of a long term incentive package Jonathan may be entitled to receive an equity based award under the LTI plan with a value equivalent to 50% of his fixed annual remuneration. Either party may terminate the employment contract by giving six months' notice in writing. The Company may terminate Jonathan's employment contract by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the Company may terminate Jonathan's employment contract immediately by written notice and without payment in lieu of notice. Jonathan's employment contract also contains a post-employment restraint of trade period of up to 18 months. The Company may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

***Share-based compensation***

*Issue of shares*

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Date	Shares	Issue price	\$
Jonathan Kenny	15 September 2016	100,000	\$1.41	141,000

### Options

Details of options issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below. No NEDs hold options, and no options have been granted since the end of the reporting period. The options were provided at no cost to the recipients. Details of the performance hurdles are included in the Long Term Incentive section of this Remuneration Report. No options lapsed or were exercised during the financial year ended 30 June 2017.

Name	Number	Grant Date	Accounting fair value	Exercise Price	Vesting Date	Expiry Date
Rebekah O'Flaherty	2,015,419	21 Nov 2016*	\$0.395*	\$1.256	2 Sept 2019	2 Sept 2020
Jonathan Kenny	1,281,938	2 Sept 2016	\$0.247	\$1.256	2 Sept 2019	2 Sept 2020

\* Options were granted on 2 September 2016, subject to shareholder approval. The options were subsequently issued to Rebekah on 21 November 2016 following the 2016 AGM. Consequently, the grant date for accounting purposes is 21 November 2016, and the accounting fair value for Rebekah's options was determined on 21 November 2016.

The accounting fair value for Jonathan's options was determined on 2 September 2016 being the grant and issue date of those options.

### Performance Rights

Details of performance rights issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below. No NEDs hold performance rights, and no performance rights have been granted since the end of the reporting period. The performance rights were provided at no cost to the recipient. Details of the applicable hurdles to vesting are outlined earlier in this Remuneration report. No performance rights lapsed or were exercised during the financial year ended 30 June 2017.

Name	Number	Grant Date	Accounting fair value	Expiry Date
Rebekah O'Flaherty	100,000	21 Nov 2016*	\$0.710*	1 Sept 2019
	400,000	21 Nov 2016*	\$0.003*	60 days after release of FY19 results

\* Performance Rights were granted on 1 June 2016, subject to shareholder approval. The performance rights were subsequently issued to Rebekah on 21 November 2016 following the 2016 AGM. The grant date for accounting purposes is 21 November 2016, and the accounting fair value was determined on 21 November 2016.

### Additional disclosures relating to key management personnel

#### Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals /other	Balance at the end of the year
<i>Ordinary shares</i>					
Samuel Weiss	306,508	-	220,000	-	526,508
Roger Amos	32,070	-	29,673	-	61,743
Claire Hatton	31,000	-	-	-	31,000
Jonathan Kenny	148,100	100,000	-	-	248,100
	517,678	100,000	249,673	-	867,351

*Other share based holdings*

The number of performance rights and options held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

		Balance at the start of the year	Granted during the year	Vested	Expired/ forfeited	Balance at the end of the year
Rebekah O'Flaherty	Options	-	2,015,419	-	-	2,015,419
	Performance Rights	-	500,000	-	-	500,000
Jonathan Kenny	Options	-	1,281,938	-	-	1,281,938

*This concludes the remuneration report, which has been audited.*

### Shares under option

Unissued ordinary shares of 3P Learning Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
02/09/2016	02/09/2020	\$1.26	2,334,525
21/11/2016	02/09/2020	\$1.26	2,015,419
			4,349,944

### Shares under performance rights

Unissued ordinary shares of 3P Learning Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
21/11/2016	02/09/2020	\$0.00	500,000

No person entitled to exercise the performance rights had or has any right by virtue of the performance right 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 3P Learning Limited issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report.

### Shares issued on the exercise of performance rights

There were no ordinary shares of 3P Learning Limited issued on the exercise of performance rights during the year ended 30 June 2017 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

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during the financial year and up to the date of this report.

### 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.

**3P Learning Limited**  
**Directors' report**  
**30 June 2017**

**Non-audit services**

Details of the amounts paid or payable of \$63,000 to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 28 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

**Officers of the Company who are former partners of Ernst & Young**

There are no officers of the Company who are former partners of Ernst & Young.

**Rounding of amounts**

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**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.

**Auditor**

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001

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



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Samuel Weiss  
Chairman

24 August 2017  
Sydney

## Auditor's Independence Declaration to the Directors of 3P Learning Limited

As lead auditor for the audit of 3P Learning Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of 3P Learning Limited and the entities it controlled during the financial year.



Ernst & Young



Lisa Nijssen-Smith  
Partner  
24 August 2017

**3P Learning Limited**  
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**30 June 2017**

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**3P Learning Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2017**

	Note	Consolidated 2017 \$'000	2016 \$'000
<b>Revenue</b>	5	52,455	49,264
Share of profits of associates accounted for using the equity method		703	480
Other income	6	67	429
<b>Expenses</b>			
Employee benefits expense	7	(25,026)	(23,738)
Depreciation and amortisation expense	7	(6,474)	(5,064)
Professional fees		(1,775)	(2,356)
Technology costs		(2,755)	(2,583)
Marketing expenses		(1,959)	(3,060)
Occupancy expenses		(2,502)	(2,281)
Administrative expenses		(3,221)	(2,681)
<b>Operating profit</b>		9,513	8,410
Finance costs	7	(1,074)	(649)
Restructuring costs		(1,869)	(2,231)
Loss on disposal of available for sale financial assets		(134)	-
Impairment of assets	7	(15,285)	-
<b>Profit/(loss) before income tax (expense)/benefit</b>		(8,849)	5,530
Income tax (expense)/benefit	8	1,588	(1,880)
<b>Profit/(loss) after income tax (expense)/benefit for the year</b>		(7,261)	3,650
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(85)	85
Foreign currency translation		(2,273)	120
Other comprehensive income for the year, net of tax		(2,358)	205
<b>Total comprehensive income for the year</b>		(9,619)	3,855
Profit/(loss) for the year is attributable to:			
Non-controlling interest		(155)	18
Owners of 3P Learning Limited		(7,106)	3,632
		(7,261)	3,650
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(155)	18
Owners of 3P Learning Limited		(9,464)	3,837
		(9,619)	3,855
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	39	(5.11)	2.66
Diluted earnings per share	39	(5.11)	2.66

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

**3P Learning Limited**  
**Statement of financial position**  
**As at 30 June 2017**

	Note	Consolidated 2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	3,287	4,281
Trade and other receivables	10	6,056	7,308
Income tax receivable		1,481	48
Other	11	939	696
<b>Total current assets</b>		<b>11,763</b>	<b>12,333</b>
<b>Non-current assets</b>			
Royalty receivable		41	80
Investments accounted for using the equity method	12	46,624	48,884
Available-for-sale financial assets	13	-	6,607
Plant and equipment	14	1,070	1,216
Intangibles	15	16,058	23,917
Deferred tax	16	7,785	5,881
<b>Total non-current assets</b>		<b>71,578</b>	<b>86,585</b>
<b>Total assets</b>		<b>83,341</b>	<b>98,918</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	5,632	10,745
Derivative financial instruments	18	-	313
Provisions	19	2,151	2,036
Deferred revenue		28,928	28,423
Finance lease payable		10	9
<b>Total current liabilities</b>		<b>36,721</b>	<b>41,526</b>
<b>Non-current liabilities</b>			
Borrowings	20	9,500	11,500
Provisions	21	268	549
Deferred revenue		2,415	1,754
Finance lease payable		30	40
<b>Total non-current liabilities</b>		<b>12,213</b>	<b>13,843</b>
<b>Total liabilities</b>		<b>48,934</b>	<b>55,369</b>
<b>Net assets</b>		<b>34,407</b>	<b>43,549</b>
<b>Equity</b>			
Issued capital	22	34,092	33,951
Reserves	23	5,360	7,382
Retained profits/(accumulated losses)		(4,946)	2,160
Equity attributable to the owners of 3P Learning Limited		<b>34,506</b>	<b>43,493</b>
Non-controlling interest		(99)	56
<b>Total equity</b>		<b>34,407</b>	<b>43,549</b>

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

**3P Learning Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2017**

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2015	25,113	7,035	956	38	33,142
Profit after income tax expense for the year	-	-	3,632	18	3,650
Other comprehensive income for the year, net of tax	-	205	-	-	205
Total comprehensive income for the year	-	205	3,632	18	3,855
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 22)	8,838	-	-	-	8,838
Share-based payments (note 38)	-	142	-	-	142
Dividends paid (note 24)	-	-	(2,428)	-	(2,428)
Balance at 30 June 2016	<u>33,951</u>	<u>7,382</u>	<u>2,160</u>	<u>56</u>	<u>43,549</u>

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits/(accumulated losses) \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	33,951	7,382	2,160	56	43,549
Loss after income tax benefit for the year	-	-	(7,106)	(155)	(7,261)
Other comprehensive income for the year, net of tax	-	(2,358)	-	-	(2,358)
Total comprehensive income for the year	-	(2,358)	(7,106)	(155)	(9,619)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 22)	141	(141)	-	-	-
Share-based payments (note 38)	-	477	-	-	477
Balance at 30 June 2017	<u>34,092</u>	<u>5,360</u>	<u>(4,946)</u>	<u>(99)</u>	<u>34,407</u>

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

**3P Learning Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2017**

	Note	Consolidated 2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		59,757	59,467
Payments to suppliers and employees (inclusive of GST)		(42,788)	(45,397)
Interest received		26	148
Interest and other finance costs paid		(1,099)	(359)
Income taxes paid		(1,161)	(2,206)
		<hr/>	<hr/>
Net cash from operating activities	36	14,735	11,653
<b>Cash flows from investing activities</b>			
Payment for previous year's business combinations		(294)	(495)
Payments for investments		-	(1,318)
Payments for investments in associates		(5,876)	(33,748)
Payments for derivatives		(398)	-
Payments for plant and equipment		(364)	(912)
Payments for intangibles		(9,339)	(11,382)
Proceeds from disposal of plant and equipment		-	1
Proceeds from release of security deposits		-	500
Proceeds from disposal of available for sale financial assets		2,551	-
		<hr/>	<hr/>
Net cash used in investing activities		(13,720)	(47,354)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		18,500	17,500
Repayment of borrowings		(20,509)	(6,000)
Dividends paid		-	(2,404)
		<hr/>	<hr/>
Net cash from/(used in) financing activities		(2,009)	9,096
Net decrease in cash and cash equivalents		(994)	(26,605)
Cash and cash equivalents at the beginning of the financial year		4,281	30,886
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	9	3,287	4,281
		<hr/> <hr/>	<hr/> <hr/>

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

**3P Learning Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 1. General information**

The financial statements cover 3P Learning Limited as a Group consisting of 3P Learning Limited (the 'Company' or 'parent entity') and its subsidiaries (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is 3P Learning Limited's functional and presentation currency.

3P Learning Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 18, 124 Walker Street  
North Sydney NSW 2060

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 24 August 2017. The directors have the power to amend and reissue the financial statements.

**Note 2. 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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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

**Net current asset deficiency**

As at 30 June 2017, the Group was in a net current liability position of \$24,958,000 (2016: \$29,193,000) of which \$28,928,000 (2016: \$28,423,000) is deferred revenue which is expected to be recognised as income in the next financial year with no further cash outflows to the Group. Further, there is \$20,500,000 available of the working capital debt facility. Accordingly, the financial statements continue to be prepared on a going concern basis.

**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 except for certain financial instruments that are measured at revalued amounts or fair values, as detailed in the accounting policies in this note.

*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 3.

**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 32.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of 3P Learning Limited as at 30 June 2017 and the results of all subsidiaries for the year then ended.

## Note 2. Significant accounting policies (continued)

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.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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.

### Foreign currency translation

The financial statements are presented in Australian dollars, which is 3P Learning Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. A number of recognition criteria must also be met before revenue is recognised.

#### *Mathletics, Spellodrome and IntoScience licence revenues*

The Group recognises revenue pursuant to software licence agreements upon the provision of access to its customers of the Group's intellectual property as it exists at any given time during the period of the license. Revenue is therefore recognised over the duration of the agreement or for as long as the customer has been provided access, when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

## Note 2. Significant accounting policies (continued)

### *Third party licence revenue*

The Group recognises commission revenue pursuant to a distribution agreement when it sells a third party's online products to customers which provide these customers with access to the third party's intellectual property as it exists at any given time. Revenue from the sale of Reading Eggs and Mathseeds products is recorded on a net basis when the online product is sold, consistent with an agency relationship.

### *Sponsorship income*

Revenue is recognised in relation to sponsorship amounts provided by various external parties when the Company becomes entitled to the benefit and all of its obligations have been fulfilled.

### *Sale of workbooks*

Revenue is recognised in relation to workbook materials sold to schools and students, on sale of the items.

### *Copyright licence fee*

Revenue is recognised in relation to copyright agency fees upon becoming entitled to compensation being at a time when the Group's materials and resources are reproduced by third parties.

### *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.

### *Deferred revenue*

Deferred revenue is recognised on all customer contracts where appropriate as revenue is recorded over the contract duration.

## **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.

## Note 2. Significant accounting policies (continued)

3P Learning Limited (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.

### *Research and development rebate*

Research and development rebate are credited against tax payable and are not treated as revenue.

### **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 provision for impairment. Trade receivables are generally due for settlement within 14-30 days or if later, the licence start date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

### **Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

## Note 2. Significant accounting policies (continued)

### *Cash flow hedges*

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

### **Associates**

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### **Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

### *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

## Note 2. Significant accounting policies (continued)

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

### 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 plant and equipment over their expected useful lives as follows:

Furniture & fittings	three to seven years
Computer equipment	two to three years
Office equipment	three to five years

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

An item of 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

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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.

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.

#### *Group as a lessee*

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.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and an expense is recognised in the statement of comprehensive income in the year in which the expenditure is incurred.

## Note 2. Significant accounting policies (continued)

### *Goodwill*

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### *Product development*

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the internal development and their costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of three years. The useful life changed from 5 years in the first half of the year to 3 years from 1 January 2017.

### *Patents and trademarks*

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of three years.

### *Customer contracts*

Customer contracts include direct incremental costs of establishing a customer contract such as sales commissions. Customer contracts are amortised over the period in which the related benefits are expected to be realised, being the customer contract period.

### *Software*

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

## **Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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.

## **Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

## **Finance costs**

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

## Note 2. Significant accounting policies (continued)

### Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

### Employee benefits

#### *Short-term employee benefits*

Employee benefits expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

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

#### *Defined contribution superannuation expense*

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

#### *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 is measured at fair value on grant date. Fair value is determined using the Binomial 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 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 is 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.

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.

## Note 2. Significant accounting policies (continued)

### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### Contributed equity

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.

### Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

### Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of 3P Learning Limited, 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.

## Note 2. Significant accounting policies (continued)

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### Comparatives

Comparatives in the statement of profit or loss and other comprehensive income have been realigned to current year presentation. There has been no effect on the profit for the year.

### 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 2017. 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.

#### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group expects to adopt this standard from 1 July 2018 and the adoption of this standard is not expected to have a material impact for the Group.

#### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group expects to adopt this standard from 1 July 2018 and is undertaking a comprehensive review of the implementation impact of AASB 15. The Group has not reached a determination as to the impact of this accounting standard and has not determined whether the retrospective method or cumulative effect method will be adopted.

## Note 2. Significant accounting policies (continued)

### *AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (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 will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group expects to adopt this standard from 1 July 2019 and the impact of its adoption will be that operating leases, such as those detailed in note 30, will be brought onto the statement of financial position with a corresponding liability.

## Note 3. 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.

### *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 a Binomial 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.

### *Goodwill and other indefinite life intangible assets*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

### *Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

### *Income tax*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### *Recovery of deferred tax assets*

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

#### *Product development costs*

The Group capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, as with the nature of Software-as-a-Service delivery model, key judgement is required in determining whether incremental product enhancements will provide additional future economic benefit.

#### *Investments accounted for using the equity method*

The Group assesses the recoverable amount of its equity-accounted investments when objective evidence of impairment is identified. In assessing the recoverable amount, assumptions are made about the growth prospects of the investment and in determining the discount rate used to calculate the net present value of future cash flows when a discounted cash flow model is used.

#### *Estimation of useful lives of capitalised product development*

Capitalised product development is depreciated over its useful life. The actual lives of the assets are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account.

### Note 4. Operating segments

#### *Identification of reportable operating segments*

The Group is organised into geographic operating segments: Asia-Pacific ('APAC' formerly 'ANZ'), America, Canada and South America ('Americas') and Europe, Middle-East and Africa ('EMEA'). These operating segments are 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. There is no aggregation of operating segments.

The CODM reviews adjusted EBITDA (earnings before interest, tax, depreciation and amortisation, excluding restructuring costs, impairment expense, non-cash loss on sale and share of profits of associates). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis. The CODM does not regularly review segment assets and segment liabilities. Refer to statement of financial position for assets and liabilities.

#### *Intersegment transactions*

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

#### *Major customers*

There are no major customers that contributed more than 10% of revenue to the Group.

**3P Learning Limited**  
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**Note 4. Operating segments (continued)**

*Operating segment information*

<b>Consolidated - 2017</b>	<b>APAC \$'000</b>	<b>Americas \$'000</b>	<b>EMEA \$'000</b>	<b>Total \$'000</b>
<b>Revenue</b>				
Sales to external customers	31,819	7,664	12,972	52,455
<b>Total revenue</b>	<b>31,819</b>	<b>7,664</b>	<b>12,972</b>	<b>52,455</b>
<b>Adjusted EBITDA*</b>				
Share of profits of associates				703
Depreciation and amortisation				(6,474)
Interest revenue				26
Finance costs				(1,074)
Other non-cash expenses - impairment expenses and loss on sale of investments				(15,419)
Other cash expenses - restructuring expenses				(1,869)
<b>Loss before income tax benefit</b>				<b>(8,849)</b>
Income tax benefit				1,588
<b>Loss after income tax benefit</b>				<b>(7,261)</b>

\* Adjusted EBITDA is after inter-segment royalty expense incurred by Americas segment of \$2,793,000 and EMEA segment of \$4,616,000.

<b>Consolidated - 2016</b>	<b>APAC \$'000</b>	<b>Americas \$'000</b>	<b>EMEA \$'000</b>	<b>Total \$'000</b>
<b>Revenue</b>				
Sales to external customers	30,791	5,846	12,627	49,264
<b>Total revenue</b>	<b>30,791</b>	<b>5,846</b>	<b>12,627</b>	<b>49,264</b>
<b>Adjusted EBITDA*</b>				
Share of profits of associates				480
Depreciation and amortisation				(5,064)
Interest revenue				148
Finance costs				(649)
Restructuring expenses				(2,231)
<b>Profit before income tax expense</b>				<b>5,530</b>
Income tax expense				(1,880)
<b>Profit after income tax expense</b>				<b>3,650</b>

\* Adjusted EBITDA is after inter-segment royalty expense incurred by Americas segment of \$2,324,000 and EMEA segment of \$4,582,000.

**Note 5. Revenue**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Licence fees	42,063	39,799
Sponsorship income	409	683
Sale of workbooks	49	-
Copyright licence fees	2,198	1,724
Other revenue	211	233
Net commission revenue	7,525	6,825
	<hr/>	<hr/>
Revenue	<b>52,455</b>	<b>49,264</b>
	<hr/> <hr/>	<hr/> <hr/>

**Note 6. Other income**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest	26	148
Other income	41	281
	<hr/>	<hr/>
Other income	<b>67</b>	<b>429</b>
	<hr/> <hr/>	<hr/> <hr/>

**Note 7. Expenses**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Fixtures and fittings	191	164
Computer equipment	189	421
Office equipment	40	32
Total depreciation	<u>420</u>	<u>617</u>
<i>Amortisation</i>		
Product development	5,340	3,983
Patents and trademarks	92	103
Customer contracts	40	138
Software	582	223
Total amortisation	<u>6,054</u>	<u>4,447</u>
Total depreciation and amortisation	<u>6,474</u>	<u>5,064</u>
<i>Impairment of assets</i>		
Available for sale financial assets	3,997	-
Intangibles - product development	11,288	-
Total impairment of assets	<u>15,285</u>	<u>-</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	<u>1,074</u>	<u>649</u>
<i>Net foreign exchange loss</i>		
Net foreign exchange loss/(gain)	<u>109</u>	<u>(615)</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>2,147</u>	<u>1,395</u>
<i>Employee benefits expense:</i>		
Salaries and wages	18,022	19,134
Bonus and commission	3,997	1,807
Share based payments	477	142
Superannuation	2,530	2,655
Total employee benefits expense	<u>25,026</u>	<u>23,738</u>

**Note 8. Income tax expense/(benefit)**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense/(benefit)</i>		
Current tax	1,826	809
Deferred tax - origination and reversal of temporary differences	(1,904)	1,719
Research and developments rebates recognised	(982)	(588)
Adjustments in respect of current income tax of previous year	(528)	(60)
	<u>(1,588)</u>	<u>1,880</u>
Aggregate income tax expense/(benefit)		
Deferred tax included in income tax expense/(benefit) comprises:		
Decrease/(increase) in deferred tax assets (note 16)	(1,904)	1,719
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Profit/(loss) before income tax (expense)/benefit	(8,849)	5,530
Tax at the statutory tax rate of 30%	(2,655)	1,659
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	1,396	71
Impact of foreign tax rate	(391)	(385)
Other tax offsets	(112)	314
Current year tax benefit not recognised	1,114	869
Tax losses derecognised	570	-
	(78)	2,528
Research and developments rebates recognised	(982)	(588)
Other	(528)	(60)
Income tax expense/(benefit)	<u>(1,588)</u>	<u>1,880</u>

**Note 9. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	3,287	4,219
Short-term deposits	-	62
	<u>3,287</u>	<u>4,281</u>

**Note 10. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	6,061	7,098
Less: Provision for impairment of receivables	(207)	(20)
	<u>5,854</u>	<u>7,078</u>
Other receivables	202	230
	<u>6,056</u>	<u>7,308</u>

**3P Learning Limited**  
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**Note 10. Current assets - trade and other receivables (continued)**

*Impairment of receivables*

The Group has recognised a loss of \$259,000 (2016: \$52,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

The ageing of the impaired receivables provided for above are as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
One to three months overdue	-	3
Three to six months overdue	27	10
Over six months overdue	180	7
	207	20
	207	20

Movements in the provision for impairment of receivables are as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	20	18
Additional provisions recognised	305	52
Receivables written off during the year as uncollectable	(72)	(50)
Unused amounts reversed	(46)	-
	207	20
	207	20

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$390,000 as at 30 June 2017 (\$1,791,000 as at 30 June 2016).

The ageing of the past due but not impaired receivables are as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
1 to 12 months overdue	253	1,791
Over 12 months overdue	137	-
	390	1,791
	390	1,791

**Note 11. Current assets - other**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	916	672
Term deposits	15	16
Other deposits	8	8
	939	696
	939	696

**Note 12. Non-current assets - investments accounted for using the equity method**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Investment in Learnosity Holdings Limited	46,624	48,884

Refer to note 34 for further information on interests in associates.

**Note 13. Non-current assets - available-for-sale financial assets**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Unlisted ordinary shares	-	6,607

Refer to note 26 for further information on fair value measurement.

On 25 May 2017, the Group sold its investment interest of 17.2% in Desmos Inc for the total consideration of \$2,551,000. The loss on disposal of available-for-sale financial assets and impairment is recognised in the statement of profit or loss.

**Note 14. Non-current assets - plant and equipment**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Furniture & fittings - at cost	1,420	1,510
Less: Accumulated depreciation	(816)	(753)
	604	757
Computer equipment - at cost	2,378	3,499
Less: Accumulated depreciation	(2,023)	(3,161)
	355	338
Office equipment - at cost	231	268
Less: Accumulated depreciation	(120)	(147)
	111	121
	1,070	1,216

**3P Learning Limited**  
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**Note 14. Non-current assets - plant and equipment (continued)**

*Reconciliations*

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

<b>Consolidated</b>	Furniture and fittings \$'000	Computer equipment \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2015	437	459	69	965
Additions	448	302	162	912
Disposals	(2)	(6)	(67)	(75)
Exchange differences	38	4	(11)	31
Depreciation expense	(164)	(421)	(32)	(617)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2016	757	338	121	1,216
Additions	99	233	32	364
Disposals	(39)	(18)	-	(57)
Exchange differences	(22)	(9)	(2)	(33)
Depreciation expense	(191)	(189)	(40)	(420)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2017	<u>604</u>	<u>355</u>	<u>111</u>	<u>1,070</u>

*Property, plant and equipment secured under finance leases*

Refer to note 30 for further information on property, plant and equipment secured under finance leases.

**Note 15. Non-current assets - intangibles**

	<b>Consolidated</b> <b>2017</b> <b>\$'000</b>	<b>2016</b> <b>\$'000</b>
Goodwill - at cost	<hr/> 4,558	<hr/> 4,414
Product development - at cost	33,314	24,683
Less: Accumulated amortisation	(12,079)	(6,742)
Less: Impairment	(11,288)	-
	<hr/> 9,947	<hr/> 17,941
Patents and trademarks - at cost	3,083	3,074
Less: Accumulated amortisation	(3,074)	(2,982)
	<hr/> 9	<hr/> 92
Customer contracts - at cost	428	316
Less: Accumulated amortisation	(316)	(276)
	<hr/> 112	<hr/> 40
Software - at cost	2,446	1,861
Less: Accumulated amortisation	(1,014)	(431)
	<hr/> 1,432	<hr/> 1,430
	<hr/> <u>16,058</u>	<hr/> <u>23,917</u>

**Note 15. 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:

<b>Consolidated</b>	<b>Goodwill \$'000</b>	<b>Product development \$'000</b>	<b>Patents and trademarks \$'000</b>	<b>Customer contracts \$'000</b>	<b>Software \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2015	4,654	11,848	195	198	347	17,242
Additions	-	10,076	-	-	1,306	11,382
Exchange differences	(240)	-	-	(20)	-	(260)
Amortisation expense	-	(3,983)	(103)	(138)	(223)	(4,447)
Balance at 30 June 2016	4,414	17,941	92	40	1,430	23,917
Additions	-	8,634	9	112	584	9,339
Exchange differences	144	-	-	-	-	144
Impairment of assets	-	(11,288)	-	-	-	(11,288)
Amortisation expense	-	(5,340)	(92)	(40)	(582)	(6,054)
Balance at 30 June 2017	<u>4,558</u>	<u>9,947</u>	<u>9</u>	<u>112</u>	<u>1,432</u>	<u>16,058</u>

*Impairment testing for goodwill*

Goodwill acquired through business combinations have been allocated to the following cash-generating units ('CGUs'):

	<b>Consolidated</b>	
	<b>2017 \$'000</b>	<b>2016 \$'000</b>
CGU1: APAC	3,012	3,012
CGU2: EMEA	1,546	1,402
	<u>4,558</u>	<u>4,414</u>

The recoverable amount of each CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on business plan, prior to any future restructuring to which the Group is not yet committed, approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

The following key assumptions were used in the discounted cash flow model for the different CGUs:

- Pre-tax discount rate: APAC 10.25% and EMEA 8.75% (2016: APAC 10.98% and EMEA 11.48%).
- Operating cash flow projections are extracted from the most recent approved strategic plans or forecasts that relate to the existing asset base. For each CGU, the cash flow projections for a five-year period have been determined based on expectations of future performance. Key assumptions in the cash flows include sales volume growth and the costs of doing business. These assumptions are based on expectations of market demand and operational performance. Cash flow projections are based on risk-adjusted forecasts allowing for estimated changes in the business, the competitive trading environment, legislation and economic growth.
- Increase in operating costs and overheads based on current levels adjusted for inflationary increases.

For the financial year ended 30 June 2017, the recoverable amount of net assets for all CGUs are greater than the carrying value of the assets and therefore, the goodwill is not considered to be impaired.

#### Note 15. Non-current assets - intangibles (continued)

##### *Sensitivity*

As disclosed in note 3, management have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting carrying amounts of assets may decrease.

For all CGUs, any reasonable change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

##### *Impairment of product development assets*

During the year ended 30 June 2017, the new leadership team of the Group has undertaken a strategic review with the first priority of the plan to strengthen the product portfolio with a focus on Maths and Literacy. As a result, a decision was made to withdraw from further development and sales of IntoScience. This led to the redesign of the technological platform which underpins Mathletics and Spellodrome, and to convert content into the more contemporary technology of HTML5 from Adobe Flash.

As a result, an impairment of \$11,288,000 for APAC product development assets has been recorded during the year ended 30 June 2017. The impairment loss represents the difference between the assets carrying amount and its recoverable amounts, being the value in use.

#### Note 16. Non-current assets - deferred tax

**Consolidated**  
**2017**                      **2016**  
**\$'000**                      **\$'000**

*Deferred tax asset comprises temporary differences attributable to:*

Amounts recognised in profit or loss:

Tax losses	75	707
Accrued expenses	1,110	1,075
Deferred Revenue	7,014	6,200
IPO costs	1,293	2,094
Royalty asset	802	882
Intangibles	(2,705)	(5,153)
Unrealised foreign exchange fluctuation	183	15
Plant and equipment	13	61
	7,785	5,881
Deferred tax asset	7,785	5,881
<i>Movements:</i>		
Opening balance	5,881	7,600
Credited/(charged) to profit or loss (note 8)	1,904	(1,719)
	7,785	5,881
Closing balance	7,785	5,881

Tax losses of \$570,000 have been derecognised during the year ended 30 June 2017.

Deferred tax assets of \$2,633,000 (2016: \$869,000) for unused tax losses have not been recognised as at 30 June 2017. There is no expiry date on these tax losses.

The deferred tax liability in relation to the intangibles includes a tax benefit of \$3,386,000 on the impairment recognised during the year ended 30 June 2017.

**Note 17. Current liabilities - trade and other payables**

	Consolidated	
	2017 \$'000	2016 \$'000
Trade payables	1,704	1,281
Accrued expenses	3,212	2,640
Deferred consideration on investments	-	5,779
Goods and service tax	679	735
Other payables	37	310
	5,632	10,745
	5,632	10,745

Refer to note 25 for further information on financial instruments.

**Note 18. Current liabilities - derivative financial instruments**

	Consolidated	
	2017 \$'000	2016 \$'000
Forward foreign exchange contracts - cash flow hedges	-	313
	-	313
	-	313

Refer to note 25 for further information on financial instruments.

Refer to note 26 for further information on fair value measurement.

**Note 19. Current liabilities - provisions**

	Consolidated	
	2017 \$'000	2016 \$'000
Employee benefits	1,255	1,232
Lease make good	396	510
Other provisions	500	-
Contingent consideration	-	294
	2,151	2,036
	2,151	2,036

*Employee benefits*

Employee benefits comprise of provisions for annual leave and current long service leave. Where an obligation is presented as current, the Group does not have an unconditional right to defer settlement.

*Lease make good*

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

*Contingent consideration*

The provision represents contingent consideration payable on acquisition of business. It is measured at the present value of the estimated liability.

*Other provisions*

Other provisions represents redundancy, onerous lease, professional fees and related costs. The provision represents present value of the estimated termination costs.

#### Note 19. Current liabilities - provisions (continued)

##### *Movements in provisions*

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

<b>Consolidated - 2017</b>	Lease make good \$'000	Contingent consideration \$'000	Other provisions \$'000
Carrying amount at the start of the year	510	294	-
Payments	(114)	(294)	-
Additional provisions recognised	-	-	500
Carrying amount at the end of the year	<u>396</u>	<u>-</u>	<u>500</u>

#### Note 20. Non-current liabilities - borrowings

	<b>Consolidated 2017 \$'000</b>	<b>2016 \$'000</b>
Bank loans	<u>9,500</u>	<u>11,500</u>

Refer to note 25 for further information on financial instruments.

The Group has the following banking facilities with HSBC Bank:

- Facility A - Acquisition and general corporate facility of \$20,000,000, maturing on 24 August 2019;
- Facility B - General corporate facility of \$10,000,000, maturing on 28 February 2018; and
- Facility C - Bank guarantee and other ancillary facility for \$2,000,000, maturing on 24 August 2019.

The facilities are subject to variable interest rate, which is based on bank bill swap rate ('BBSY'), plus a margin. The banking facilities are secured by fixed and floating charge over the Group's assets.

##### *Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated 2017 \$'000</b>	<b>2016 \$'000</b>
Bank loans	<u>9,500</u>	<u>11,500</u>

**Note 20. Non-current liabilities - borrowings (continued)**

*Financing arrangements*

Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Bank loans - acquisition and general corporate facility	30,000	20,000
Bank guarantee and ancillary facility	2,000	2,000
Lease liability	40	49
	<u>32,040</u>	<u>22,049</u>
Used at the reporting date		
Bank loans - acquisition and general corporate facility	9,500	11,500
Bank guarantee and ancillary facility	1,766	1,839
Lease liability	40	49
	<u>11,306</u>	<u>13,388</u>
Unused at the reporting date		
Bank loans - acquisition and general corporate facility	20,500	8,500
Bank guarantee and ancillary facility	234	161
Lease liability	-	-
	<u>20,734</u>	<u>8,661</u>

**Note 21. Non-current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	<u>268</u>	<u>549</u>

*Employee benefits*

Employee benefits represents provision for long service leave.

**Note 22. Equity - issued capital**

	<b>Consolidated</b>			
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	<u>139,134,170</u>	<u>139,034,170</u>	<u>34,092</u>	<u>33,951</u>

**Note 22. Equity - issued capital (continued)**

*Movements in ordinary share capital*

Details	Date	Shares	\$'000
Balance	1 July 2015	134,814,660	25,113
Issue of shares	1 October 2015	100,000	250
Issue of shares under Dividend Reinvestment Plan	22 October 2015	10,983	24
Issue of shares	7 December 2015	2,292,649	4,940
Issue of shares	31 March 2016	<u>1,815,878</u>	<u>3,624</u>
Balance	30 June 2016	139,034,170	33,951
Issue of shares	15 September 2016	<u>100,000</u>	<u>141</u>
Balance	30 June 2017	<u><u>139,134,170</u></u>	<u><u>34,092</u></u>

*Ordinary shares*

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

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

*Share buy-back*

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

*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 would look to raise capital when an opportunity to invest in a business or company was seen as value adding.

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.

As the Company is by its nature a growth company, the Board has not adopted any dividend policy in respect of future periods and may look to retain capital generated by the Group's business to reinvest in its growth.

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

**Note 23. Equity - reserves**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency reserve	(2,243)	30
Acquisition reserve	(798)	(798)
Hedging reserve - cash flow hedges	-	85
Share-based payment reserve	8,401	8,065
	<u>5,360</u>	<u>7,382</u>

*Foreign currency reserve*

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

*Acquisition reserve*

The reserve resulted from the acquisition of non-controlling interests in a subsidiary. The acquisition of non-controlling interest is not a business combination but is an equity transaction between owners. Accordingly, the difference between consideration paid and identifiable net assets of the non-controlling interest has been accounted for in the acquisition reserve.

*Hedging reserve - cash flow hedges*

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

*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.

*Movements in reserves*

Movements in each class of reserve during the current and previous financial year are set out below:

<b>Consolidated</b>	Foreign currency reserve \$'000	Acquisition reserve \$'000	Hedging reserve \$'000	Share based payment reserve \$'000	Total \$'000
Balance at 1 July 2015	(90)	(798)	-	7,923	7,035
Foreign currency translation	120	-	-	-	120
Net investment hedge	-	-	85	-	85
Share based payments	-	-	-	142	142
	<u>30</u>	<u>(798)</u>	<u>85</u>	<u>8,065</u>	<u>7,382</u>
Balance at 30 June 2016	30	(798)	85	8,065	7,382
Foreign currency translation	(2,273)	-	-	-	(2,273)
Net change in fair value of cash flow hedges	-	-	(85)	-	(85)
Share based payments	-	-	-	477	477
Transfer to issued capital on exercise of options	-	-	-	(141)	(141)
	<u>(2,243)</u>	<u>(798)</u>	<u>-</u>	<u>8,401</u>	<u>5,360</u>
Balance at 30 June 2017	(2,243)	(798)	-	8,401	5,360

## Note 24. Equity - dividends

### Dividends

#### Current year

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

#### Previous year

A final dividend was declared on 26 August 2015 for the year ended 30 June 2015 of 1.8 cents per ordinary share totalling \$2,428,000 and was paid on 22 October 2015 to shareholders registered on 8 October 2015.

### Franking credits

	Consolidated	
	2017	2016
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	784	877

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

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

## Note 25. Financial instruments

### Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

The Board of directors have overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit and Risk Committee, which is responsible for managing risk. The committee reports to the Board of Directors on its activities.

Risk management processes are established to identify and analyse the risks faced by the Group, to analyse the risk exposure of the Group and appropriate procedures, controls and risk limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit and Risk Committee, oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### Market risk

#### Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting.

To a significant extent, the Group's business currently enjoys natural hedges, the revenue that the Group obtains in a particular foreign currency closely matches the expenses it incurs in that currency (such as the British Pound). The board believes that natural hedges presently mitigate any exchange rate volatility risk for the Group to an economically acceptable level.

From time to time the Group enters into forward foreign exchange contracts to protect against exchange rate movements on significant contracts with highly probable forecast cash flows.

**Note 25. Financial instruments (continued)**

There were no outstanding forward foreign exchange contracts as at 30 June 2017. The maturity, settlement amounts and the average contractual exchange rates of the Group's outstanding forward foreign exchange contracts during the comparative year were as follows:

	Sell Australian dollars 2016 \$'000	Average exchange rates 2016
<b>Buy US dollars</b>		
Maturity:		
0 - 3 months	1,929	0.7037
3 - 6 months	4,198	0.7008

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities (unhedged) at the reporting date were as follows:

	Assets		Liabilities	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Consolidated</b>				
US dollars	301	1,207	31	64
Euros	141	195	5	5
Pound Sterling	227	77	-	-
Canadian dollars	187	89	-	-
Other currencies	51	453	-	262
	<u>907</u>	<u>2,021</u>	<u>36</u>	<u>331</u>

The Group had net assets denominated in foreign currencies of \$871,000 (assets \$907,000 less liabilities \$36,000) as at 30 June 2017 (2016: \$1,690,000 (assets \$2,021,000 less liabilities \$331,000)). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 10% (2016: weakened by 10%/strengthened by 10%) against these foreign currencies with all other variables held constant, the Group's loss before tax for the year would have been \$87,000 lower/\$87,000 higher (2016: Group's profit before tax would have been \$169,000 higher/\$169,000 lower). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations.

*Price risk*

The Group is not exposed to any significant price risk.

*Interest rate risk*

The Group's main interest rate risk arises from its borrowings and term deposits. Borrowings and term deposits issued at variable rates expose the Group to interest rate risk.

As at the reporting date, the Group had the following variable rate borrowings and short term deposits:

	2017		2016	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
<b>Consolidated</b>				
Bank loans	4.41%	9,500	3.75%	11,500
Short term deposits	-	-	7.98%	(78)
Net exposure to cash flow interest rate risk		<u>9,500</u>		<u>11,422</u>

## Note 25. Financial instruments (continued)

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

An official increase/decrease in interest rates of 50 (2016:50) basis points would have an adverse/favourable effect on loss before tax of \$48,000 (2016: \$57,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The majority of schools pay upfront and the nature of the customer base has a low impact on the Group's credit risk exposure.

### Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities 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.

### Financing arrangements

Unused borrowing facilities at the reporting date:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans - acquisition and general corporate facility	20,500	8,500
Bank guarantee and ancillary facility	234	161
	20,734	8,661

### 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.

<b>Consolidated - 2017</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	1,704	-	-	-	1,704
Other payables	-	37	-	-	-	37
<i>Interest-bearing - variable</i>						
Bank loans	4.41%	419	419	9,563	-	10,401
<i>Interest-bearing - fixed rate</i>						
Lease liability	7.40%	16	35	-	-	51
Total non-derivatives		2,176	454	9,563	-	12,193

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**Note 25. Financial instruments (continued)**

<b>Consolidated - 2016</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	1,281	-	-	-	1,281
Other payables	-	310	-	-	-	310
Deferred consideration	-	5,779	-	-	-	5,779
Contingent consideration	-	294	-	-	-	294
<i>Interest-bearing - variable</i>						
Bank loans	3.75%	431	1,885	10,068	-	12,384
<i>Interest-bearing - fixed rate</i>						
Lease liability	7.40%	16	52	-	-	68
<b>Total non-derivatives</b>		<b>8,111</b>	<b>1,937</b>	<b>10,068</b>	<b>-</b>	<b>20,116</b>
<b>Derivatives</b>						
Forward foreign exchange contracts net settled	-	313	-	-	-	313
<b>Total derivatives</b>		<b>313</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>313</b>

Other than bank loans, the cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above. The Group may repay debt when cash is sufficiently available, and this may occur earlier than contractually disclosed above.

**Note 26. Fair value measurement**

*Fair value hierarchy*

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

There were no assets and liabilities measured at fair value as at 30 June 2017.

<b>Consolidated - 2016</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Ordinary shares available-for-sale	-	-	6,607	6,607
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>6,607</b>	<b>6,607</b>
<b>Liabilities</b>				
Contingent consideration	-	-	294	294
Forward foreign exchange contracts	-	313	-	313
<b>Total liabilities</b>	<b>-</b>	<b>313</b>	<b>294</b>	<b>607</b>

There were no transfers between levels during the financial year.

### Note 26. Fair value measurement (continued)

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The carrying value of borrowings approximate their fair value. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

#### *Valuation techniques for fair value measurements categorised within level 2 and level 3*

##### *Ordinary shares - available-for-sale*

The fair values of the unquoted ordinary shares have been estimated using a discounted cash flow method. The valuations require management to make certain assumptions about the inputs, including forecast cash flows, growth rate and discount rate. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity instruments.

##### *Contingent consideration arising on business combinations*

The fair value is determined using the discounted cash flow method. Significant unobservable valuation inputs in relation to contingent consideration includes assumed cash billing earnings before interest, tax, depreciation and amortisation and discount rate.

##### *Derivatives - forward foreign exchange contracts*

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

##### *Level 3 assets and liabilities*

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

<b>Consolidated</b>	Available- for-sale \$'000	Contingent consideration \$'000
Balance at 1 July 2015	6,607	(789)
Payments	-	495
	<hr/>	<hr/>
Balance at 30 June 2016	6,607	(294)
Losses recognised in profit or loss	(134)	-
Impairment of investments	(3,997)	-
Disposals	(2,551)	-
Payments	-	294
Exchange differences	75	-
	<hr/>	<hr/>
Balance at 30 June 2017	<u>-</u>	<u>-</u>

### Note 27. 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:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,856,931	1,285,568
Post-employment benefits	99,433	98,600
Long-term benefits	194,000	98,288
Termination benefits	-	438,524
Share-based payments	451,992	141,599
	<hr/>	<hr/>
	<u>2,602,356</u>	<u>2,062,579</u>

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**Note 28. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Ernst &amp; Young</i>		
Audit or review of the financial statements	324,777	303,500
<i>Other services - Ernst &amp; Young</i>		
Tax services	50,000	56,924
Other services	13,000	123,182
	63,000	180,106
	<u>387,777</u>	<u>483,606</u>

**Note 29. Contingencies**

The Group has given bank guarantees as at 30 June 2017 of \$1,766,000 (2016: \$1,839,000) for merchant facility and operating leases.

**Note 30. Commitments**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating payable</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,755	1,725
One to five years	6,815	3,973
More than five years	1,595	-
	<u>10,165</u>	<u>5,698</u>
<i>Lease commitments - finance payable</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	16	16
One to five years	35	52
	<u>51</u>	<u>68</u>
Total commitment	51	68
Less: Future finance charges	<u>(11)</u>	<u>(19)</u>
Net commitment recognised as liabilities	<u>40</u>	<u>49</u>
<i>Lease commitments - operating receivable</i>		
Committed at the reporting date but not recognised as assets, receivables:		
Within one year	511	-
One to five years	2,186	-
More than five years	535	-
	<u>3,232</u>	<u>-</u>

### Note 30. Commitments (continued)

Operating lease commitments includes contracted amounts for commercial leases under non-cancellable operating leases expiring within one to seven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases may be renegotiated.

Finance lease commitments include contracted amounts for various plant and equipment under finance leases expiring within one to five years. Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Commitments do not include onerous leases already provided for.

### Note 31. Related party transactions

#### *Parent entity*

3P Learning Limited is the parent entity.

#### *Subsidiaries*

Interests in subsidiaries are set out in note 33.

#### *Associates*

Interests in associates are set out in note 34.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the directors' report.

#### *Transactions with related parties*

##### *Agreement with Learnosity*

On 1 January 2016 the Group entered into an agreement with Learnosity Limited ('Learnosity') to licence the Learnosity Assessment Software for the period 1 January 2016 to 31 December 2020. Under the agreement no licence fee is payable until 1 July 2017.

##### *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.

##### *Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.

### Note 32. Parent entity information

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

#### *Statement of profit or loss and other comprehensive income*

	Parent	
	2017 \$'000	2016 \$'000
Profit/(loss) after income tax	(9,191)	6,749
Total comprehensive income	(9,191)	6,749

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**Note 32. Parent entity information (continued)**

*Statement of financial position*

	<b>Parent</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	18,828	2,188
Total assets	99,484	78,390
Total current liabilities	53,221	6,006
Total liabilities	62,990	32,894
Equity		
Issued capital	34,092	33,951
Reserves	8,401	8,150
Retained profits/(accumulated losses)	(5,999)	3,395
Total equity	<u>36,494</u>	<u>45,496</u>

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

The parent entity and its Australian subsidiary are parties to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist with the subsidiary. Refer to note 35 for further details.

*Contingent liabilities*

The parent entity has given bank guarantees as at 30 June 2017 of \$1,766,000 (2016: \$1,839,000) for merchant facility and operating leases.

*Capital commitments - Plant and equipment*

The parent entity had no capital commitments for plant and equipment as at 30 June 2017 and 30 June 2016.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries 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 33. 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 2:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>	<b>Ownership interest</b>	
		<b>2017</b>	<b>2016</b>
		<b>%</b>	<b>%</b>
3P Learning Australia Pty Limited	Australia	100%	100%
Into Science Pty Ltd	Australia	100%	100%
3P International Holdings Pty Ltd	Australia	100%	100%
3P Learning Limited	New Zealand	100%	100%
3P Learning Limited	United Kingdom	100%	100%
3P Learning Inc.	United States	100%	100%
3P Learning Canada Limited	Canada	100%	100%
Mathletics LLP	India	60%	60%

#### Note 34. Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the Group are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2017 %	2016 %
Investment in Learnosity Holdings Limited*	Ireland	40.00%	40.00%

\* Strategic investment by the Group, entity involved in providing SaaS Assessment tools.

#### Summarised financial information

	Investment in Learnosity Holdings Limited	
	2017 \$'000	2016 \$'000
<i>Summarised statement of financial position</i>		
Current assets	11,015	5,916
Non-current assets	547	624
Total assets	11,562	6,540
Current liabilities	8,890	6,492
Total liabilities	8,890	6,492
Net assets	2,672	48
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	16,797	10,623
Expenses	(13,918)	(8,727)
Profit before income tax	2,879	1,896
Income tax expense	(1,136)	(136)
Profit after income tax	1,743	1,760
Other comprehensive income	56	-
Total comprehensive income	1,799	1,760
<i>Reconciliation of the Group's carrying amount</i>		
Opening carrying amount	48,884	-
Additions in Associates	-	48,404
Share of profit after income tax	703	480
Exchange differences	(2,963)	-
Closing carrying amount (refer note 12)	46,624	48,884

#### Contingent liabilities

Share of contingent liabilities not recognised as liability as at 30 June 2017 \$Nil (2016: \$Nil).

#### Commitments

Share of commitments not recognised as liability as at 30 June 2017 \$Nil (2016: \$Nil)

**3P Learning Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 35. Deed of cross guarantee**

On 15 June 2017, the following entities entered into a deed of cross guarantee under which each company guarantees the debts of the others:

3P Learning Limited (holding entity)  
3P Learning Australia Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by 3P Learning Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

<b>Statement of profit or loss and other comprehensive income</b>	<b>2017 \$'000</b>
Revenue	36,789
Share of profits of associates accounted for using the equity method	703
Other income	4,259
Employee benefits expense	(14,428)
Depreciation and amortisation expense	(5,741)
Professional fees	(1,001)
Technology costs	(2,634)
Marketing expenses	(940)
Occupancy expenses	(1,017)
Administrative expenses	(2,685)
	<hr/>
<b>Operating profit</b>	<b>13,305</b>
Finance costs	(1,073)
Impairment of assets	(12,500)
Restructuring costs	(1,079)
	<hr/>
<b>Loss before income tax benefit</b>	<b>(1,347)</b>
Income tax benefit	478
	<hr/>
<b>Loss after income tax benefit</b>	<b>(869)</b>
Other comprehensive income for the year, net of tax	-
	<hr/>
<b>Total comprehensive income for the year</b>	<b>(869)</b>
	<hr/> <hr/>
	<b>2017 \$'000</b>
Retained profits at the beginning of the financial year	13,509
Loss after income tax benefit	(869)
	<hr/>
Retained profits at the end of the financial year	<b>12,640</b>
	<hr/> <hr/>

**3P Learning Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 35. Deed of cross guarantee (continued)**

	<b>2017</b>
	<b>\$'000</b>
<b>Statement of financial position</b>	
<b>Current assets</b>	
Cash and cash equivalents	1,227
Trade and other receivables	4,691
Other	12
	<u>5,930</u>
<b>Non-current assets</b>	
Investments accounted for using the equity method	46,624
Other financial assets	16,899
Plant and equipment	635
Intangibles	11,965
Deferred tax	5,551
	<u>81,674</u>
<b>Total assets</b>	<u>87,604</u>
<b>Current liabilities</b>	
Trade and other payables	3,529
Income tax	247
Provisions	1,319
Deferred revenue	20,412
Finance lease payable	10
	<u>25,517</u>
<b>Non-current liabilities</b>	
Borrowings	9,500
Provisions	268
Deferred revenue	119
Finance lease payable	30
	<u>9,917</u>
<b>Total liabilities</b>	<u>35,434</u>
<b>Net assets</b>	<u>52,170</u>
<b>Equity</b>	
Issued capital	34,092
Reserves	5,438
Retained profits	12,640
	<u>52,170</u>
<b>Total equity</b>	<u>52,170</u>

**Note 36. Reconciliation of profit/(loss) after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax (expense)/benefit for the year	(7,261)	3,650
Adjustments for:		
Depreciation and amortisation	6,474	5,064
Share of profit - associates	(703)	(480)
Share-based payments	477	142
Foreign exchange differences	813	349
Interest received - non cash	-	(108)
Net loss on disposal of plant and equipment	57	74
Other revenue -non cash	-	(615)
Finance cost - non-cash	83	-
Impairment of assets	15,285	-
Net loss on disposal of investments	134	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	1,291	762
Increase in income tax refund due	(1,433)	(48)
Decrease/(increase) in deferred tax assets	(1,904)	1,719
Decrease/(increase) in other operating assets	(244)	106
Increase/(decrease) in trade and other payables	666	(1,964)
Increase in derivative liabilities	-	398
Decrease in provision for income tax	-	(1,997)
Decrease in employee benefits	(258)	(177)
Increase/(decrease) in other provisions	92	(437)
Increase in other operating liabilities	1,166	5,215
Net cash from operating activities	<u>14,735</u>	<u>11,653</u>

**Note 37. Non-cash investing and financing activities**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Shares issued under employee share plan	141	250
Shares issued under dividend reinvestment plan	-	24
Shares issued in relation to investment in associates	-	8,564
	<u>141</u>	<u>8,838</u>

**Note 38. Share-based payments**

The share-based payment expense for the year was \$477,000 (2016: \$142,000).

An equity incentive plan has been established by the Group, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant performance rights and options over ordinary shares in the Company ('awards') to certain key management personnel and employees of the Group. The awards are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

**3P Learning Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 38. Share-based payments (continued)**

Set out below are summaries of options/awards granted during the year:

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted*	Exercised	Expired/forfeited/other	Balance at the end of the year
02/09/2016	02/09/2020	\$1.26	-	3,432,258	-	(1,097,733)	2,334,525
21/11/2016	02/09/2020	\$1.26	-	2,015,419	-	-	2,015,419
			-	5,447,677	-	(1,097,733)	4,349,944

\* 2,015,419 options were granted to the CEO on 2 September 2016, subject to shareholder approval at the 2016 Annual General Meeting. These Options were subsequently issued on 21 November 2016 (which is the grant date for accounting purposes). Further information is available in the Remuneration Report.

Outstanding options/awards vested and exercisable as at 30 June 2017: Nil.

The weighted average share price during the financial year was \$0.9986. The weighted average remaining contractual life of options/awards outstanding at the end of the financial year was 3.18 years.

Set out below are summaries of performance rights granted under the plan:

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted*	Exercised	Expired/forfeited/other	Balance at the end of the year
21/11/2016	02/09/2020	\$0.00	-	500,000	-	-	500,000
			-	500,000	-	-	500,000

\* 500,000 performance rights were granted to the CEO on 1 June 2016, subject to shareholder approval at the 2016 Annual General Meeting. These performance rights were subsequently issued on 21 November 2016 (which is the grant date for accounting purposes).

Performance rights vested and exercisable as at 30 June 2017 Nil (2016: Nil). The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2.46 years (2016: 3.46 years).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility*	Dividend yield	Risk-free interest rate	Fair value at grant date
02/09/2016	02/09/2020	\$0.92	\$1.26	55.00%	-	1.51%	\$0.247
21/11/2016	02/09/2020	\$1.12	\$1.26	55.00%	-	1.82%	\$0.395

\* The expected volatility is 55% for the first two years and 35% for the years thereafter.

*Retention and reward bonus*

On 19 February 2016, it was determined that 300,000 ordinary shares are to be issued to Mr. Jonathan Kenny as a Retention and Reward bonus in acknowledgement of his increased responsibilities and ongoing contributions to the Group. The first issue of 100,000 shares was made on 15 September 2016, and subsequent tranches of 100,000 shares will be issued in September 2017 and 2018, subject to continued employment at that time. The shares are issued at nil consideration.

**Note 39. Earnings per share**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax	(7,261)	3,650
Non-controlling interest	155	(18)
Profit/(loss) after income tax attributable to the owners of 3P Learning Limited	<u>(7,106)</u>	<u>3,632</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	139,113,348	136,650,228
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	-	117,213
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>139,113,348</u>	<u>136,767,441</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(5.11)	2.66
Diluted earnings per share	(5.11)	2.66

As the Group is in a loss position in 2017, share based incentive plans did not affect the diluted earnings per share calculation as potential ordinary shares will be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

**Note 40. Events after the reporting period**

No matter or circumstance has arisen since 30 June 2017 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.

**3P Learning Limited**  
**Directors' declaration**  
**30 June 2017**

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 2 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 2017 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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



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Samuel Weiss  
Chairman

24 August 2017  
Sydney

## Independent auditor's report to the shareholders of 3P Learning Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of 3P Learning Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date, and
- b) 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 and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## Valuation of intangible assets

### Why significant

Intangible assets (goodwill and capitalised development costs) represent 18% of the Group's total assets at 30 June 2017.

As disclosed within Note 3 and 15 to the financial report, the assessment of the impairment of goodwill and other intangible assets incorporated significant judgments and estimates, specifically concerning factors such as forecast cashflows, discount rates and terminal growth rates. These estimates and assumptions are impacted by the future performance, market and economic conditions.

This was considered a key audit matter due to the material balance of the intangible assets and the significance of the judgments involved in estimating future cash flows.

### How our audit addressed the key audit matter

In performing our audit procedures, we:

- ▶ Assessed whether the methodology and model used by the Group to test for impairment met the requirements of Australian Accounting Standard - AASB 136 Impairment of Assets
- ▶ Tested the mathematical accuracy of the cash flow models including the consistency of relevant data with the Board approved 2018 budget
- ▶ Considered the historical reliability of the Group's cash flow forecasting process
- ▶ Assessed the external inputs and assumptions within the cash flow forecasting model, specifically the discount rates, terminal growth rates and cash flow assumptions and benchmarked them against market observable data
- ▶ Performed sensitivity analysis on the discount rates, terminal growth rates and EBIT forecasts for the relevant CGU's of the Group
- ▶ Assessed the adequacy of the financial report disclosures contained in Note 15, and
- ▶ Considered whether development projects were still expected to deliver sufficient positive economic benefits to the business upon their completion

As impairment testing relies upon business valuation principles, we involved our valuation specialists who compared the valuation assumptions against external benchmarks.

## Capitalisation of development costs

### Why significant

As disclosed Notes 2 and 15 to the financial statements, the Group capitalises product development costs upon meeting the criteria set out in Australian Accounting Standard - AASB 138 *Intangible Assets*. Capitalised development costs amount to \$9.9 million as at 30 June 2017. As disclosed in Note 2 to the financial report, the Group amortises these development costs over a period of three years.

Due to the magnitude of this balance and the judgments and estimates involved in determining which costs may be capitalised throughout the life of the project and determining the useful life of the asset, this was considered to be a key audit matter.

### How our audit addressed the key audit matter

In performing our audit procedures, we:

- ▶ Tested whether the model used was mathematically accurate
- ▶ Assessed the assumptions used and estimates made in capitalising development costs
- ▶ Assessed whether the useful life of development costs is appropriate
- ▶ Tested on a sample basis, costs capitalised to underlying evidence including employment contracts, payroll reports and invoices from external suppliers to assess the nature and eligibility of development costs for capitalisation as an intangible asset under Australian Accounting Standards, and
- ▶ Considered the adequacy of the financial report disclosures contained in Notes 2 and 15

## Investment in Learnosity Holdings Limited

### Why significant

The Group has an equity investment in Learnosity Holdings Limited (Learnosity). The investment is accounted for using the equity method of accounting as disclosed in note 2 to the financial report.

The investment in Learnosity represents 56% of the Group's total assets at 30 June 2017. The Group's share of the profit of the associate for the year ended 30 June 2017 was \$0.7m.

Due to the magnitude of this balance this was considered to be a key audit matter.

The Director's assessed whether any indicators of impairment existed at 30 June 2017 which may suggest the carrying value of the joint venture is in excess of its recoverable amount.

### How our audit addressed the key audit matter

In performing our audit procedures, we:

- ▶ Considered whether the use of the equity method of accounting is appropriate
- ▶ Recalculated the share of associates profits for the period using the equity method of accounting
- ▶ Assessed whether the share of associates profits for the period was sourced from audited financial information of Learnosity
- ▶ Evaluated the Group's assessment of accounting policies used by Learnosity and whether they are consistent with those of the Group
- ▶ Considered the existence of any indicators of impairment of the carrying value of the investment, and
- ▶ Considered the adequacy of the financial report disclosures contained in Notes 34

### **Information other than the financial report and auditor's report**

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will 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 on the other information obtained prior to the date of this auditor's report, 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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have 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 judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the audit of the Remuneration Report

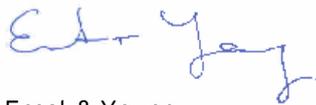
### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 19 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of 3P Learning Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Lisa Nijssen-Smith  
Partner  
Sydney  
24 August 2017

**3P Learning Limited**  
**Shareholder information**  
**30 June 2017**

The shareholder information set out below was applicable as at 4 August 2017.

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	503	-
1,001 to 5,000	802	-
5,001 to 10,000	355	-
10,001 to 100,000	365	-
100,001 and over	33	4
	<u>2,058</u>	<u>4</u>
Holding less than a marketable parcel	<u>-</u>	<u>-</u>

**Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
J P MORGAN NOMINEES AUSTRALIA LIMITED	46,479,027	33.41
NATIONAL NOMINEES LIMITED	27,884,513	20.04
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,570,408	8.32
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	7,578,343	5.45
BNP PARIBAS NOMS PTY LTD	5,781,307	4.16
CITICORP NOMINEES PTY LIMITED	5,417,912	3.89
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	4,101,485	2.95
BNP PARIBAS NOMINEES PTY LTD	4,027,425	2.89
BNP PARIBAS NOMS (NZ) LTD	3,365,963	2.42
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,647,760	1.18
NETWEALTH INVESTMENTS LIMITED	930,196	0.67
MS KATHRYN PIKE	773,594	0.56
BNP PARIBAS NOMINEES PTY LTD	718,685	0.52
MUTUAL APPRECIATION SOCIETY PTY LIMITED	480,903	0.35
ALBURY'S OWN PTY LTD	332,000	0.24
MR KEI YAN CHENG	284,280	0.20
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	274,538	0.20
MR JONATHAN CLAUDE KENNY	248,100	0.18
OTTERPAW PTY LTD	235,000	0.17
ATARUKA PTY LTD	200,000	0.14
	<u>122,331,439</u>	<u>87.94</u>

**3P Learning Limited**  
**Shareholder information**  
**30 June 2017**

*Unquoted equity securities*

	<b>Number on issue</b>	<b>Number of holders</b>
Share options over ordinary shares	4,349,944	4
Performance rights over ordinary shares	500,000	1

**Substantial holders**

Substantial holders in the Company are set out below:

	<b>Ordinary shares % of total shares issued</b>
	<b>Number held</b>
Viburnum Funds Pty Ltd	17,648,479
National Nominees Ltd ACF Australian Ethical Investment Ltd	12,508,023
FIL Limited	11,368,228
Salt Funds Management Limited	9,152,417
Wilson Asset Management Group	8,904,460
Schroder Investment Management Australia Ltd	8,565,155
Milford Asset Management Ltd	6,997,867

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

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.

*Options and performance rights*

Options and performance rights carry no voting rights.

There are no other classes of equity securities.

**Securities subject to voluntary escrow**

<b>Class</b>	<b>Expiry date</b>	<b>Number of shares</b>
Ordinary shares	15/09/2017	100,000

**3P Learning Limited**  
**Corporate directory**  
**30 June 2017**

Directors	Samuel Weiss - Independent Non-Executive Chairman Rebekah O'Flaherty - Chief Executive Officer Roger Amos - Independent Non-Executive Director Claire Hatton - Independent Non-Executive Director
Company secretary	Jonathan Kenny
Registered office and Principal place of business	3P Learning Limited Level 18, 124 Walker Street North Sydney NSW 2060 Head office telephone: 1300 850 331
Share register	The Registrar Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Share registry telephone: 1300 554 474
Auditor	Ernst & Young 200 George Street Sydney NSW 2000
Solicitors	King & Wood Mallesons Level 61 Governor Phillip Tower 1 Farrer Place Sydney NSW 2000
Stock exchange listing	3P Learning Limited shares are listed on the Australian Securities Exchange (ASX code: 3PL)
Website	<a href="http://www.3plearning.com/">http://www.3plearning.com/</a>
Corporate Governance Statement	Corporate governance statement which was approved at the same time as the Financial Statements can be found at <a href="http://www.3plearning.com/investors/governance/">http://www.3plearning.com/investors/governance/</a>



## 3P Learning Ltd

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