

EduFocal Limited

**Consolidated Financial Statements
31 December 2022**

EduFocal Limited

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31 December 2022

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INDEPENDENT AUDITORS' REPORT

To the Members of
EduFocal Limited

Report on the audit of the consolidated and stand-alone financial statements

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of Edufocal Limited (the Company) and its subsidiary ('the Group') and the stand-alone financial position of the Company as at 31 December 2022, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with the requirements of the Jamaican Companies Act.

What we have audited

EduFocal Limited's consolidated and stand-alone financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the company statement of financial position as at 31 December 2022;
- the company statement of comprehensive income for the year then ended;
- the company statement of changes in equity for the year then ended;
- the company statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated and stand-alone financial statements section of our report.

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

ADVISORY • ASSURANCE • TAX

PARTNERS: Wayne Strachan; FCA;FCCA;MBA Emile Lafayette; FCA;FCCA;MBA Roxiana Malcolm-Tyrell; FCA;FCCA;MBA

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Baker Tilly Strachan Lafayette trading as BakerTilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our 2022 audit was planned and executed having regard to the fact that the operations of the Group remain largely unchanged from the prior year.

The Group's businesses all operate in the education technology industry. These entities maintain their own accounting records and report to the Group through the completion of consolidation packages.

In establishing the overall group audit strategy and plan, we determined the type of work that was needed to be performed at the components by the group engagement team and component auditors.

INDEPENDENT AUDITORS’ REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand-alone financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and stand-alone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
<p><i>Intangible assets impairment assessment</i> Refer to notes 2(e) and 6 of the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgements and estimates.</p> <p>As at 31 December 2022, the Group had recorded intangible assets of \$130.9 million (2021: \$66.7 million), representing approximately 47% (2021: 29%) of the Group’s total assets.</p> <p>We focused on this area as the annual impairment assessment requires management’s judgement and estimation, particularly in relation to the estimation of future cash flows from the businesses, taking into consideration the key assumption being the revenue growth and discount rate in the Group’s impairment model.</p> <p>We included the impairment of intangible assets as a key audit matter because the carrying value of these key intangible assets will be affected if the Group is unable to generate revenue growth and produce sustainable operating cash flows.</p>	<p>Our audit procedures performed to address this key audit matter included the following procedures, amongst others, over management’s intangible assets impairment assessment:</p> <ul style="list-style-type: none"> • Evaluated management’s future cash flow forecasts, and the process by which they were prepared, including testing the underlying calculations and comparing them to the latest financial forecast. • Assessed the impairment model and determine whether any significant changes to the model was required. • Performed sensitivity analysis around the revenue growth assumptions. <p>Challenged management’s key assumptions for revenue growth and discount rate. To do this, we:</p> <ul style="list-style-type: none"> • compared the key assumptions to externally derived data where possible, including market expectations of investment returns and projected economic growth. • Evaluated the revenue growth and discount rate used in management’s cash flow projections. <p>The results of our procedures indicated that the assumptions used by management for assessing intangible assets impairment are considered reasonable.</p>

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Revenue recognition</i> The Group's revenue recognition policy (Note 2 (n)) does not generally require a high level of judgment, however, due to the contractual terms of certain contracts, there is a significant risk associated with certain components that have directed the focus of our audit effort. These contracts are often customised solutions and meet the definition for revenue recognition over time in accordance with IFRS 15.</p> <p>Revenue recognition is considered a key audit matter in view of the risk that management may override controls to intentionally misstate revenue transactions in order to achieve financial targets, either through adjusting estimates at the period end or recording fictitious transactions in the business.</p>	<p>Our audit procedures to address the key audit matter relating to the revenue from contracts with customers included the following:</p> <ul style="list-style-type: none"> • Selected several contracts on a sample basis, reviewed the terms of these contracts, and assessed the reasonableness of the basis adopted by management in relation to the revenue recognition method. • Examined the supporting documents for the sample of contracts, to assess if revenue was recognised at a point in time upon the fulfillment of the relevant performance obligation. • Obtained third party confirmations for a sample of receivable balances outstanding as at the year end to assist in the assessment of the validity of related revenue. • Performed cut-off tests by examining the supporting documents that management used to recognise the revenue before and after the reporting date, to assess whether the revenue had been recognised in the correct accounting period. <p>Based on our work, we found that the revenue recognition of contracts made by management is adequately supported by available evidence in accordance with IFRS 15 Revenue from Contracts with Customers.</p>

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Expected Credit Loss assessment.</i> The Group recognises expected credit losses (ECL) on financial assets measured at amortized cost. The determination of ECL is highly subjective and requires management to make significant judgement and estimates and the application of forward-looking information.</p> <p>The combination of significant management estimates and judgement increases the risk that management estimates could be materially misstated.</p> <p>See notes 3(a), 4(i), 10 and 12 of the financial statements.</p>	<p>Our audit procedures in response to this matter included:</p> <ul style="list-style-type: none"> ❖ Obtaining an understanding of the model used by management for the calculation of expected credit losses on financial assets. ❖ Testing the completeness and accuracy of the data used in the models to the underlying accounting records. ❖ Review the ECL model, to assess the appropriateness of the Group's impairment methodology, management's assumptions and compliance with the new requirements of IFRS 9, Financial Instruments. ❖ Assessing the appropriateness of the Group's impairment methodology, management assumptions and compliance with the requirement of IFRS 9, Financial Instruments. ❖ Assessing the adequacy of the disclosures of the key assumptions and judgements as well as the details of the transition adjustment for compliance with IFRS 9. ❖ Testing the accuracy of Group's ageing of accounts receivables. ❖ Testing the accuracy of the ECL calculation.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Borrowings</i> Refer to notes 2 (p), 16 and 19 to the financial statements for management’s disclosures of related accounting policies, judgments and estimates relating to borrowings. As at 31 December 2022, long and short-term borrowings inclusive of preference shares, excluding long term lease liabilities and non-interest bearing related party liabilities represented \$229 million (2021 - \$112 million) or 97% (2021 – 60%) of the total equity and debts of the Group.</p> <p>The Parent Company remains highly leveraged as management continues to strategically use debt financing as the principal pillar to implement structured growth projects within the Group.</p> <p>As a Company initiative to reduce its reliance on high interest short-term financing, in March 2022 the company issued shares to the market through an Initial Public Offering (IPO) whereby it raised \$102.8 million. Proceeds from the IPO was used to retire \$75 million of short-term debt.</p> <p>The Parent Company continues to examine its financing options within the context of its debt management strategy and review its choices based on the present market conditions as well as it’s risk profile.</p>	<p>Our audit procedures to address this matter included the following procedures:</p> <ul style="list-style-type: none"> • Reviewed the loan agreements and repayment schedules. We noted that all the loans were being serviced on a timely basis as per the contractual agreements, principally by predetermined monthly deductions from the Group’s various bank accounts. • Confirmed the balances, reviewed the maturity schedule for repayment, tested the interest calculations and determined that the total borrowings represented obligations by the Company and the Group. • Tested the effectiveness of controls over the timely repayment of loans and other credit facilities and noted that they are compliant with the various agreements. <p>We had robust discussions with senior management regarding the growth and expansion strategy using debt as the principal means of growth and expansion and the ultimate strategy to reduce debt capital over the long term. A downside to this strategy is the inherent liquidity risk that the cash generating units acquired, may not perform as expected, resulting in the Company and Group being unable to meet its obligations as they fall due.</p> <p>Management is mindful of this inherent liquidity risk. However, management is confident that their strategic growth and expansion plan will continue to perform based on historical performance and anticipated future positive trends.</p> <p>Management is of the opinion that adequate safeguards are in place as they have implemented the necessary policies and procedures including scenario analysis, alternative payment strategies in the event of cash flow challenges and direct monitoring of the individual borrowings. We evaluated the performance of the borrowing portfolio after the end of the reporting period to determine whether there was a need for any adjustment or whether there were any default or breach of any terms of financial covenants. There were no adverse findings.</p> <p>We also reviewed legal and bank confirmations and correspondences, and we did not identify any negative matters or need for adjustment at the time of approval and signing of the audit report by the Board of Directors.</p>

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and stand-alone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and stand-alone financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

Management is responsible for the preparation of the consolidated and stand-alone financial statements that give a true and fair view in accordance with IFRS and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and stand-alone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and Company's financial reporting process.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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Report on the audit of the consolidated and stand-alone financial statements (continued)

Auditors' responsibilities for the audit of the consolidated and stand-alone financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and stand-alone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 these consolidated and stand-alone financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and stand-alone financial statements, 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 and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and stand-alone financial statements 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 auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Auditors' responsibilities for the audit of the consolidated and stand-alone financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent 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 consolidated and stand-alone financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance 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 with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matters 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
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Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying consolidated and stand-alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

The engagement partner on the audit resulting in this independent auditors' report is Roxiana Malcolm-Tyrell.




Chartered Accountants
Kingston, Jamaica
12 May 2023


Consolidated Statement of Financial Position
As at 31 December 2022

	Note	<u>2022</u>	<u>Restated 2021</u>
		\$	\$
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,729,412	3,691,885
Intangible assets	6	130,948,512	66,725,467
Right-of-use asset	8	3,772,319	4,023,825
Deferred tax assets	9	3,004,807	1,267,438
		<u>140,455,050</u>	<u>75,708,615</u>
Current assets			
Receivables	10	110,932,733	77,312,597
Director's account	11	18,698,180	20,106,531
Due from related parties	12	2,372,969	49,224,543
Cash and cash equivalents	13	3,615,644	4,013,319
		<u>135,619,526</u>	<u>150,656,990</u>
TOTAL ASSETS		<u>276,074,576</u>	<u>226,365,605</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	185,631,690	72,763,569
Preference shares	15	-	-
Foreign exchange reserves		(649,944)	-
(Accumulated deficit)/retained earnings		<u>(177,357,622)</u>	<u>1,452,113</u>
		<u>7,624,124</u>	<u>74,215,682</u>
Non-current liabilities			
Long term loans	16	197,798,580	24,340,758
Lease liability	8	1,350,554	1,481,460
		<u>199,149,134</u>	<u>25,822,218</u>
Current liabilities			
Payables	17	14,661,265	23,047,054
Current portion of long term loans	16	30,948,021	2,200,411
Current portion of lease liability	8	3,029,473	2,642,543
Director's loan	18	20,311,749	-
Short term loans	19	-	85,484,661
Due to related party	12	-	1,500,000
Shareholder's loan	20	-	-
Bank overdraft	21	-	60,307
Taxation payable		350,810	11,392,729
		<u>69,301,318</u>	<u>126,327,705</u>
TOTAL EQUITY AND LIABILITIES		<u>276,074,576</u>	<u>226,365,605</u>

Approved for issue by the Board of Directors on 12 May 2023 and signed on its behalf by:



 Chief Executive Officer
 Gordon Swaby



 Chairman
 Peter Levy

Consolidated Statement of Comprehensive Income
Year ended 31 December 2022

	Note	2022	2021
		\$	\$
Revenue	22	187,436,765	185,151,034
Administrative and operating expenses	23	(183,710,380)	(128,815,712)
Operating profit	24	3,726,385	56,335,322
Other operating income	25	27,343	7,905
Impairment losses on financial assets	26	(153,143,562)	(19,158,946)
(Loss)/profit before finance costs		(149,389,834)	37,184,281
Finance costs, net	28	(28,736,808)	(19,629,755)
(Loss)/profit before taxation		(178,126,642)	17,554,526
Taxation	29	(683,093)	(8,810,141)
(Loss)/profit after taxation, being total comprehensive (loss)/income		(178,809,735)	8,744,385
(Loss)/earnings per ordinary stock unit attributable to shareholders of the company	30	(0.29)	0.05

Consolidated Statement of Changes in Equity
Year ended 31 December 2022

	Number of Shares	Share Capital	Preference Shares	Foreign Exchange Reserves	(Accumulated Deficit)/ Retained Earnings	Total Equity
		\$	\$	\$	\$	\$
Balance at 1 January 2021	10,000,000	10,345,452	-	-	(7,292,272)	3,053,180
Stock split (Note 14)	440,000,000	-	-	-	-	-
Issue of preference shares (Note 15)	-	-	54,999,999	-	-	54,999,999
Preference shares converted to equity (Note 15)	60,506,050	54,999,999	(54,999,999)	-	-	-
Shareholder's loan converted to equity (Note 20)	8,250,825	7,418,118	-	-	-	7,418,118
Total comprehensive income	-	-	-	-	8,744,385	8,744,385
Balance at 31 December 2021	518,756,875	72,763,569	-	-	1,452,113	74,215,682
Issue of ordinary shares (Note 14)	116,446,989	102,868,121	-	-	-	102,868,121
Short term loan converted to equity (Note 19) (e)	13,242,230	10,000,000	-	-	-	10,000,000
Foreign exchange reserves	-	-	-	(649,944)	-	(649,944)
Total comprehensive loss	-	-	-	-	(178,809,735)	(178,809,735)
Balance at 31 December 2022	648,446,094	185,631,690	-	(649,944)	(177,357,622)	7,624,124


Consolidated Statement of Cash Flows
Year ended 31 December 2022

	<u>2022</u>	<u>2021</u>
	\$	\$
CASH RESOURCES WERE PROVIDED BY/(USED IN):		
Operating Activities		
(Loss)/profit before taxation	(178,126,642)	17,554,526
Adjustments for:		
Amortization of intangible assets	22,033,587	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276
Bad debt written off	9,008,325	8,960,325
Depreciation	934,845	656,637
Impairment losses on financial assets	153,143,562	19,158,946
Foreign exchange losses	485,321	1,516,901
Interest income	(572,113)	(578,505)
Interest expense	23,412,371	12,335,022
Lease interest expense	611,229	204,152
Loss on disposal of property, plant and equipment	101,655	-
	<u>33,934,725</u>	<u>71,844,093</u>
Changes in operating assets and liabilities:		
Increase in receivables	(91,502,480)	(71,961,785)
Decrease/(increase) in director's account	1,853,086	(5,274,708)
(Decrease)/increase in payables	(8,487,345)	7,977,833
Cash (used in)/provided by operating activities	(64,202,014)	2,585,433
Interest received	127,378	371
Interest paid	(23,799,289)	(13,108,691)
Tax paid	(13,462,381)	(1,000,000)
Net cash used in operating activities	<u>(101,336,306)</u>	<u>(11,522,887)</u>
Investing Activities		
Purchase of property, plant and equipment	(74,027)	(3,286,494)
Purchase of intangible assets	(86,256,632)	(45,457,917)
Net cash used in investing activities	<u>(86,330,659)</u>	<u>(48,744,411)</u>
Financing Activities		
Lease principal payments	(3,006,284)	(1,445,250)
Long term loans, net	202,592,350	(10,169,815)
Short term loans, net	(75,484,661)	68,523,538
Due to related parties	(58,904,414)	(47,724,543)
Director's loan	20,311,749	-
Shareholder's loan	-	280,530
Proceeds from issue of preference shares	-	54,999,999
Proceeds from issue of ordinary shares	102,868,121	-
Net cash provided by financing activities	<u>188,376,861</u>	<u>64,464,459</u>
Net increase in cash and cash equivalents	709,896	4,197,161
Effect of foreign exchange losses on cash at bank	(1,047,264)	(739,365)
Cash and cash equivalents at beginning of year	<u>3,953,012</u>	<u>495,216</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>3,615,644</u></u>	<u><u>3,953,012</u></u>
Represented by:		
Cash at bank	3,615,644	4,013,319
Bank overdraft	-	(60,307)
	<u>3,615,644</u>	<u>3,953,012</u>


Company Statement of Financial Position
As at 31 December 2022

	Note	2022	Restated 2021
		\$	\$
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,729,412	3,691,885
Intangible assets	6	95,079,986	66,725,467
Investment in subsidiary	7	20,177,790	-
Right- of- use asset	8	3,772,319	4,023,825
Deferred tax assets	9	3,004,807	1,267,438
		<u>124,764,314</u>	<u>75,708,615</u>
Current assets			
Receivables	10	110,932,733	77,312,597
Director's account	11	16,575,116	20,106,531
Due from related parties	12	9,864,495	49,224,543
Cash and cash equivalents	13	1,370,465	4,013,319
		<u>138,742,809</u>	<u>150,656,990</u>
TOTAL ASSETS		<u>263,507,123</u>	<u>226,365,605</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	185,631,690	72,763,569
Preference shares	15	-	-
(Accumulated deficit)/retained earnings		(169,092,265)	1,452,113
		<u>16,539,425</u>	<u>74,215,682</u>
Non-current liabilities			
Long term loans	16	197,798,580	24,340,758
Lease liability	8	1,350,554	1,481,460
		<u>199,149,134</u>	<u>25,822,218</u>
Current liabilities			
Payables	17	13,755,216	23,047,054
Current portion of lease liability	8	3,029,473	2,642,543
Current portion of long term loans	16	30,683,065	2,200,411
Short term loans	19	-	85,484,661
Due to related party	12	-	1,500,000
Shareholder's loan	20	-	-
Bank overdraft	21	-	60,307
Taxation payable		350,810	11,392,729
		<u>47,818,564</u>	<u>126,327,705</u>
TOTAL EQUITY AND LIABILITIES		<u>263,507,123</u>	<u>226,365,605</u>

Approved for issue by the Board of Directors on 12 May 2023 and signed on its behalf by:



 Gordon Swaby Chief Executive Officer



 Peter Levy Chairman

Company Statement of Comprehensive Income
Year ended 31 December 2022

	Note	<u>2022</u>	<u>2021</u>
		\$	\$
Revenue	22	179,044,320	185,151,034
Administrative and operating expenses	23	<u>(167,066,508)</u>	<u>(128,815,712)</u>
Operating profit	24	11,977,812	56,335,322
Other operating income	25	-	7,905
Impairment losses on financial assets	26	<u>(153,143,562)</u>	<u>(19,158,946)</u>
(Loss)/profit before finance costs		(141,165,750)	37,184,281
Finance costs, net	28	<u>(28,695,535)</u>	<u>(19,629,755)</u>
(Loss)/profit before taxation		(169,861,285)	17,554,526
Taxation	29	<u>(683,093)</u>	<u>(8,810,141)</u>
Net (loss)/profit for the year, being total comprehensive (loss)/income		<u><u>(170,544,378)</u></u>	<u><u>8,744,385</u></u>
(Loss)/earnings per ordinary stock unit attributable to shareholders of the company	30	<u><u>(0.27)</u></u>	<u><u>0.05</u></u>

EduFocal Limited

Company Statement of Changes in Equity Year ended 31 December 2022

	Number of shares	Share Capital	Preference Shares	(Accumulated Deficit)/ Retained Earnings	Total
		\$	\$	\$	\$
Balance at 1 January 2021	10,000,000	10,345,452	-	(7,292,272)	3,053,180
Stock split (Note 14)	440,000,000	-	-	-	-
Issue of preference shares (Note 15)	-	-	54,999,999	-	54,999,999
Preference shares conversion (Note 15)	60,506,050	54,999,999	(54,999,999)	-	-
Shareholder's loan converted to ordinary shares (Note 20)	8,250,825	7,418,118	-	-	7,418,118
Total comprehensive income	-	-	-	8,744,385	8,744,385
Balance at 31 December 2021	10,000,000	72,763,569	-	1,452,113	74,215,682
Issue of ordinary shares (Note 14)	116,446,989	102,868,121	-	-	102,868,121
Short term loan converted to ordinary shares (Note 19)	13,242,230	10,000,000	-	-	10,000,000
Total comprehensive loss	-	-	-	(170,544,378)	(170,544,378)
Balance at 31 December 2022	648,446,094	185,631,690	-	(169,092,265)	16,539,425

EduFocal Limited**Company Statement of Cash Flows
Year ended 31 December 2022**

	2022	2021
	\$	\$
CASH RESOURCES WERE PROVIDED BY/(USED IN):		
Operating Activities		
(Loss)/profit before taxation	(169,861,285)	17,554,526
Adjustments for:		
Bad debt	9,008,325	8,960,325
Depreciation	934,845	656,637
Amortization of intangible assets	15,141,123	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276
Impairment losses on financial assets	153,143,562	19,158,946
Foreign exchange losses	498,876	1,516,901
Interest income	(445,537)	(578,505)
Lease interest expense	611,229	204,152
Loss on disposal of plant, property and equipment	101,655	-
Interest expense	23,230,967	12,335,022
	<u>35,266,345</u>	<u>71,844,093</u>
Changes in operating assets and liabilities:		
Increase in receivables	(91,502,480)	(71,961,785)
Decrease/(increase) in director's account	3,976,150	(5,274,708)
(Decrease)/increase in payables	(9,393,393)	7,977,833
Cash (used in)/provided by operating activities	(61,653,378)	2,585,433
Interest received	802	371
Interest paid	(23,617,886)	(13,108,691)
Tax paid	(13,462,381)	(1,000,000)
Net cash used in operating activities	<u>(98,732,843)</u>	<u>(11,522,887)</u>
Investing Activities		
Purchase of property, plant and equipment	(74,027)	(3,286,494)
Purchase of intangible assets	(43,495,642)	(45,457,917)
Investment in subsidiary	(20,177,790)	-
Net cash used in investing activities	<u>(63,747,459)</u>	<u>(48,744,411)</u>
Balance carried forward	<u>(162,480,302)</u>	<u>(60,267,298)</u>

EduFocal Limited**Company Statement of Cash Flows
Year ended 31 December 2022**

	2022	2021
	\$	\$
Cash flows brought forward	<u>(162,480,302)</u>	<u>(60,267,298)</u>
Financing Activities		
Proceeds from issued ordinary shares	102,868,121	-
Proceeds from issued preference shares	-	54,999,999
Lease payments	(3,006,284)	(1,445,250)
Long term loans, net	202,327,394	(10,169,815)
Short term loans, net	(75,484,661)	68,523,538
Due to related parties	(66,409,495)	(47,724,543)
Shareholder's loan	-	280,530
Net cash provided by financing activities	<u>160,295,075</u>	<u>64,464,459</u>
Net (decrease)/increase in cash and cash equivalents	(2,185,227)	4,197,161
Effect of foreign exchange losses on cash at bank	(397,320)	(739,365)
Cash and cash equivalents at beginning of year	<u>3,953,012</u>	<u>495,216</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>1,370,465</u>	<u>3,953,012</u>
Represented by:		
Cash at bank	1,370,465	4,013,319
Bank overdraft	-	(60,307)
	<u>1,370,465</u>	<u>3,953,012</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

1. Identification and Principal Activities

EduFocal Limited is an education technology company incorporated in Jamaica under the Companies Act of Jamaica on the 19 November 2010. The registered office of the company is located at 29 Munroe Road, Kingston 6, Saint Andrew.

On March 15, 2022, the Company was successful in issuing an Initial Public Offer (IPO) on the Junior Market of the Jamaica Stock Exchange of 129,689,219 ordinary shares.

The principal activities of the Group are to provide proprietary learning platforms and e-courses for individuals and organizations.

These financial statements present the results of operations and financial positions of the Company and its subsidiary, which are referred to as “the Group”; the subsidiary is as follows:

Subsidiary	Principal Activity	% Ownership by Company at 31 December 2022	% Ownership by Company at 31 December 2021
EduFocal LLC	Online learning platform	100%	-

On March 21, 2022, EduFocal Limited acquired the website and other intangible assets of an edtech company in the United States of America. These intangible assets were housed in a newly created company, EduFocal LLC, as a wholly-owned subsidiary.

These financial statements are presented in Jamaican dollars, which is the Company’s functional currency.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for all the years presented. Where necessary, prior year comparatives have been restated and reclassified to conform to current year presentation.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and their interpretations adopted by the International Accounting Standards Board and have been prepared under the historical cost convention, as modified by the valuation of certain items. They are also prepared in accordance with the provisions of the Jamaican Companies Act.

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and contingent liabilities at the end of the reporting period and the total comprehensive income during the reporting period. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis and any adjustments that may be necessary would be reflected in the year in which actual results are known. The areas involving a higher degree of judgement in complexity or areas where assumptions or estimates are significant to the financial statements are discussed in note 4.

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards effective in the current year that are relevant to the Group's operations**

The following amendments to standards have been adopted by the Group for the first time which have been issued and are effective for mandatory adoption for the financial year beginning on or after 1 January 2022:

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) (effective for annual periods beginning on or after 1 January 2022) amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37), (effective for annual periods beginning on or after 1 January 2022) specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Annual Improvements to IFRS Standards 2018–2020 are effective for annual reporting periods beginning on or after 1 January 2022. The IASB issued its Annual Improvements to IFRSs 2015-2017 cycle amending a number of standards:

- **IFRS 9 'Financial Instruments' - Fees in the '10 per cent' test for derecognition of financial liabilities.** The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- **IFRS 16 'Leases' - Lease incentives.** The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The amendments did not result in any material effect on the Group's financial statements.

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards that are not yet effective and have not been early adopted by the Group**

At the date of authorisation of these financial statements, certain new accounting standards, amendments and interpretation to existing standards have been issued which are not yet effective, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations. Unless stated otherwise, the impact of the changes is still being assessed by management.

The amendments in Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023) affect only the presentation of liabilities in the statement of financial position - not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards that are not yet effective and have not been early adopted by the Group (continued)**

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8, (effective for annual periods beginning on or after 1 January 2023). The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities, (effective for annual periods beginning on or after 1 January 2023). These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a material impact on the operations of the Group.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiary as at 31 December 2022. A subsidiary is an entity controlled by the company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee, if and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The financial statements of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policy in line with the Group's accounting policy. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated in full on consolidation.

Disposal of subsidiary

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(c) Foreign currency translation**

Foreign currency transactions are accounted for at the exchange rate prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rate prevailing at the date of the statement of financial position, that is, in the case of each currency, the Bank of Jamaica weighted average buying and selling rates at that date. Gains and losses arising from fluctuations in exchange rates are reflected in the statement of comprehensive income.

(d) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis at rates to write off the carrying value of the assets over their expected useful lives. The rates used to write off the cost of assets are as follows:

Furniture and equipment	10%
Computers and accessories	25%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income.

Repair and maintenance expenditure are charged to the statement of comprehensive income during the financial period in which they are incurred.

2. Summary of significant accounting policies (continued)**(e) Intangible assets**

This represents the costs of software and educational content development, which includes costs incurred to bring to use the specific software, as well as certain acquired computer software licences. These intangible assets are identified separately and reported at cost less accumulated amortisation and accumulated impairment losses. The costs of these intangible assets are amortised over their estimated useful life of five years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(f) Fair value of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial assets carried on the statement of financial position include cash and cash equivalents, receivables and directors' accounts. Financial liabilities consist of trade and other payables, long term loans and short term borrowings.

Generally financial instruments are recognized on the statement of financial position when the company becomes a party to the contractual provisions of the instruments. The particular recognition methods adopted are disclosed in the respective accounting policies associated with each item.

The fair values of the financial instruments are discussed in Note 3(e).

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(g) Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. For trade receivables impairment provisions, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

Under the simplified approach within IFRS 9, the impairment provision is assessed using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Prepayments are partial or full settlements of debt or expenses before the contractually obligated due date, this includes advances and deposits.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and bank overdraft.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(i) Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Where applicable, current and deferred taxes are recognized as income tax expense.

- i. Current tax is the expected tax payable on the income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.
- ii. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of offset exists.

(j) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost.

(k) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be determined.

(l) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

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

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(m) Dividends**

Dividends on ordinary shares are recognized in shareholder's equity in the period in which they become legally payable. Interim dividends are due when declared and approved by the directors while shareholders approve final dividends at the Annual General Meeting. Dividends for the year that are declared after the reporting date are disclosed in the subsequent events note.

(n) Revenue recognition

The Group provides online learning to different business segments of society, to include corporate contracts, partnerships with government agencies, schools and individual clients.

Revenue comprises the fair value of the consideration received or receivable, and represents amounts receivable for services supplied, stated net of discounts and General Consumption Tax.

The company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the company; and when specific criteria have been met for each of the entity's activities, as described below:

(i) Sales of services

For sales of services, revenue is recognized on the accrual basis, in the accounting period in which the related services are provided.

(a) Online sales – This relates to paid access to the learning content platform. These are cash sales.

(b) Partnership and business sales – These are contractual arrangements.

(ii) Interest income and interest expense

Interest income and expense is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective interest rate method on the actual purchase price.

(iii) Other operating income

Includes miscellaneous inflows. Income is recognized on the accrual basis.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(o) Net finance costs

Net finance costs comprise interest payable borrowings calculated using the effective interest rate method, interest income on funds invested during the course of routine treasury transactions, lease interest expense and foreign exchange gains and losses recognized in the income statement.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(q) Impairment of non-financial assets

At each statement of financial position date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

(r) Related party transactions

A party is related to the company, if:

- (i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the company (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the company that gives it significant influence over the company; or has joint control over the company;
- (ii) the party is an associate of the company;
- (iii) the party is a joint venture in which the company is a venture;
- (iv) the party is a member of the key management personnel of the company or its parent
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is the company that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the company, or of any company that is a related party of the company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. The company has a related party relationship with its directors and key management personnel, representing certain senior officers of the company.

2. Summary of significant accounting policies (continued)**(s) Right-of-use assets and lease liabilities**

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- (i) Leases of low value assets; and
- (ii) Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- (i) amounts expected to be payable under any residual value guarantee;
- (ii) the exercise price of any purchase option granted in favour of the company if it is reasonable certain to assess that option;
- (iii) any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

To determine the incremental borrowing rate, the company:

- (i) since it does not have recent third-party financing, uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, and
- (ii) makes adjustments specific to the lease, e.g. term, currency and security.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- (i) lease payments made at or before commencement of the lease;
- (ii) initial direct costs incurred; and
- (iii) the amount of any provision recognised where the company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Summary of significant accounting policies (continued)

(t) Right-of-use assets and lease liabilities (continued)

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets valued as US\$5,000 or less when new. The group has no short-term leases or leases for low valued assets at this time.)

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

When the group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the stand-alone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

2. Summary of significant accounting policies (continued)**(t) Right-of-use assets and lease liabilities (continued)**

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

For contracts that both convey a right to the group to use an identified asset and require services to be provided to the group by the lessor, the group has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

Audit Committee

The Board of Directors has also established an Audit Committee to assist in managing the Group's risk profile. This Committee oversees how management monitors compliance with the Group's risk management policies and reviews the adequacy of the risk management framework. This committee is also assisted by Internal Audit that reports to the Audit Committee after it undertakes regular and ad hoc reviews of risk management controls and procedures, especially over inventories and receivables.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, due from related parties as well as outstanding receivables from credit sales.

Risk management

Management has established a credit policy under which each new customer is analysed individually for credit worthiness before the Company's standard payment and delivery terms and conditions are offered.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, considering its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by customers is regularly monitored by management.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(a) Credit risk (continued)

Risk management (continued)

Management determines concentrations of credit risk by monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future credit sales are made only with approval.

Security

The Group and the Company do not hold any collateral as security.

Impairment of financial assets

The Group and the Company have two types of financial assets that are subject to the expected credit loss model:

- trade receivables
- due from related parties

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2022 and 31 December 2021 and the corresponding credit losses experienced within these periods. EduFocal Limited does not have a significant history of losses relating to revenues. The management has estimated the loss rate by taking into consideration mostly forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the GDP, inflation and the unemployment rate of the countries in which it sells its services to be the most relevant factors, and will accordingly adjust the expected loss rates based on changes in these factors.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(a) Credit risk (continued)

On that basis, the loss allowance as at 31 December 2022 and 31 December 2021 was determined as follows for trade receivables:

The Group and Company:

31 December 2022	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
	\$	\$	\$	\$	\$
Expected loss rate	0.05%	0.10%	0%	47.64%	40.42%
Gross carrying amount – trade receivables	25,000,000	2,900,000	-	155,873,223	183,773,223
Loss allowance	12,500	2,900	-	74,257,823	74,273,223
31 December 2021	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
	\$	\$	\$	\$	\$
Expected loss rate	1.13%	5.00%	0%	37.94%	25.08%
Gross carrying amount – trade receivables	31,183,223	4,700,000	-	65,398,325	101,281,548
Loss allowance	352,039	235,000	-	24,812,165	25,399,204

The closing loss allowances for trade receivables as at 31 December 2022 and 31 December 2021 reconcile to the opening loss allowances is as follows:

	2022	2021
	\$	\$
Opening Expected Credit Loss balance	25,399,204	6,240,258
Increase in loss allowance recognised in profit or loss during the year	48,874,019	19,158,946
Closing Expected Credit Loss balance	74,273,223	25,399,204

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than 90 days past due.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(a) Credit risk (continued)

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2022 and 31 December 2021 trade receivables with lifetime expected credit losses of the full value of the receivables were as follows:

The Group and Company:

	<u>2022</u>	<u>2021</u>
	\$	\$
Trade receivables with lifetime expected credit losses	<u>74,257,823</u>	<u>-</u>

Other financial assets at amortised cost

Other financial assets at amortised cost include receivables due from related party.

The closing loss allowances for amounts due from related party as at 31 December 2022 reconciled to the opening loss allowances is as follows:

	<u>Related Party Receivables</u>
	<u>2022</u>
	\$
Balance of expected credit loss at beginning of year	-
Increase in loss allowance recognised in profit or loss during the year	104,269,543
Balance of expected credit loss at end of year	<u>104,269,543</u>

Net impairment losses on financial and contract assets recognised in profit or loss

During the period, the following losses were recognised in profit or loss in relation to impaired financial assets:

The Group and Company:

	<u>2022</u>	<u>2021</u>
	\$	\$
Impairment losses		
- movement in loss allowance for amounts due from related party	104,269,543	-
- movement in loss allowance for trade receivables	48,874,019	19,158,946
Net impairment losses on financial and contract assets	<u>153,143,562</u>	<u>19,158,946</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

The company's liquidity management process includes:

- (i) Monitoring future cash flows and liquidity on a daily basis;
- (ii) Maintaining marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining a committed line of credit.

Undiscounted cash flows of financial liabilities

The maturity profile of the group's financial liabilities at year end on contractual undiscounted payments was as follows:

The Group:

	Within 1 month	1 to 3 months	3 to 12 months	1 - 5 Years	Total	Carrying amount
	\$	\$	\$	\$	\$	\$
2022						
Payables	14,661,265	-	-	-	14,661,265	14,661,265
Director's loan	-	-	20,311,749	-	20,311,749	20,311,749
Lease liability	261,612	523,224	2,491,855	1,370,913	4,647,604	4,380,027
Long term loans	1,072,728	12,620,001	38,123,448	253,834,411	305,650,558	228,746,601
	<u>15,995,605</u>	<u>13,143,225</u>	<u>60,927,052</u>	<u>255,205,324</u>	<u>345,271,176</u>	<u>268,099,642</u>
2021						
Payables	23,047,054	-	-	-	23,047,054	23,047,054
Short term loans	-	92,897,655	-	-	92,897,655	85,484,661
Due to related party	-	1,500,000	-	-	1,500,000	1,500,000
Bank overdraft	60,307	-	-	-	60,307	60,307
Lease liability	235,000	470,000	2,213,700	1,508,700	4,427,400	4,124,003
Long term loans	440,987	1,322,963	3,527,901	32,602,153	37,894,004	26,541,169
	<u>23,783,348</u>	<u>96,190,618</u>	<u>5,741,601</u>	<u>34,110,853</u>	<u>159,826,420</u>	<u>140,757,194</u>

Assets available to meet all of the liabilities and to cover financial liabilities include cash at bank and in hand, short term deposits and guarantee from the ultimate parent company.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(b) Liquidity risk (continued)

Undiscounted cash flows of financial liabilities

The maturity profile of the company's financial liabilities at year end on contractual undiscounted payments was as follows:

The Company:

	Within 1 month	1 to 3 months	3 to 12 months	1 - 5 Year	Total	Carrying amount
	\$	\$	\$	\$	\$	\$
2022						
Payables	13,755,216	-	-	-	13,755,216	13,755,216
Lease liability	261,612	523,224	2,491,855	1,406,165	4,682,856	4,380,027
Long term loans	807,772	12,620,001	38,123,448	253,834,411	305,385,632	228,481,645
	14,824,600	13,143,225	40,615,303	255,240,576	323,823,704	246,616,888
2021						
Payables	23,047,054	-	-	-	23,047,054	23,047,054
Short term loans Due to related party	-	92,897,655	-	-	92,897,655	85,484,661
Bank overdraft	60,307	-	-	-	60,307	60,307
Lease liability	235,000	470,000	2,213,700	1,508,700	4,427,400	4,124,003
Long term loans	440,987	1,322,963	3,527,901	32,602,153	37,894,004	26,541,169
	23,783,348	96,190,618	5,741,601	34,110,853	159,826,420	140,757,194

Assets available to meet all of the liabilities and to cover financial liabilities include cash and cash equivalents.

3. Financial risk management (continued)**(c) Market risk**

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in interest rates (see Note 3 (c)(i)) and foreign currency exchange rates (see Note 3 (c)(ii)). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk exposures are measured using sensitivity analysis. There has been no significant change in exposure to market risks or the manner in which it manages and measures the risk.

(i) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group incurs interest on its borrowings disclosed in Notes 16, 19, 20 and 21. These borrowings are at fixed rates and expose the Group to fair value interest rate risk. Interest rate fluctuations are not expected to have a material effect on the net results or stockholders' equity. The Group analyses its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing.

At the reporting date, the Group's financial liabilities subject to interest rates aggregated \$228,746,601 (2021: \$119,504,255). The company contracts financial liability at a fixed interest rate, hence changes in the market interest rate will not affect the cash flow nor the carrying amount of the instruments.

The following table summarizes the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts, categorized by the contractual re-pricing or maturity dates.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Group:

	Within 1 month \$	1 to 3 months \$	3 to 12 months \$	1 – 5 years \$	Non- interest bearing \$	Total \$
2022						
Assets						
Receivables	-	-	-	-	110,932,733	110,932,733
Director's account Due from related parties	-	-	18,698,180	-	-	18,698,180
Cash and cash equivalents	3,615,644	-	-	-	-	3,615,644
Total financial assets	3,615,644	-	18,698,180	-	113,305,702	135,619,526
Liabilities						
Long term loans	432,811	7,482,881	23,032,329	197,798,580	-	228,746,601
Lease liability	231,100	467,305	2,331,068	1,350,534	-	4,380,027
Payables	-	-	-	-	14,661,265	14,661,265
Director's loan	-	-	-	-	20,311,749	20,311,749
Total financial liabilities	663,911	7,950,186	25,363,397	199,149,114	34,973,014	268,099,642
Total interest re- pricing gap	2,951,733	(7,950,186)	(6,665,217)	(199,149,114)	78,332,688	(132,480,116)

The Group has no significant sensitivity to interest rate risk as all borrowings are at fixed rates.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Group:

	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Non- interest bearing	Total
	\$	\$	\$	\$	\$	\$
2021						
Assets						
Receivables	-	-	-	-	77,312,597	77,312,597
Director's account	-	-	-	-	20,106,531	20,106,531
Due from related party	-	-	-	-	49,224,543	49,224,543
Cash and cash equivalents	4,013,319	-	-	-	-	4,013,319
Total financial assets	4,013,319	-	-	-	146,643,671	150,656,990
Liabilities						
Long term loans	440,987	881,975	3,413,113	21,805,094	-	26,541,169
Payables	-	-	-	-	23,047,054	23,047,054
Short term loans	-	85,484,661	-	-	-	85,484,661
Due to related party	-	1,500,000	-	-	-	1,500,000
Lease liability	206,173	416,901	2,019,469	1,481,460	-	4,124,003
Bank overdraft	60,307	-	-	-	-	60,307
Total financial liabilities	707,467	88,283,537	5,432,582	23,291,677	23,047,054	140,757,194
Total interest re- pricing gap	3,305,851	(88,283,537)	(5,432,582)	(23,291,677)	123,596,617	9,899,796

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

At the reporting date, the Company's financial liabilities subject to interest rates aggregated \$228,481,645 (2021: \$119,504,255). The Company contracts financial liability at a fixed interest rate, hence changes in the market interest rate will not affect the cash flow nor the carrying amount of the instruments.

The following table summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorized by the contractual re-pricing or maturity dates.

The Company:

	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Non- interest bearing	Total
	\$	\$	\$	\$	\$	\$
2022						
Assets						
Receivables	-	-	-	-	110,932,733	110,932,733
Director's account	-	-	16,575,116	-	-	16,575,116
Due from related parties	-	-	-	-	9,864,495	9,864,495
Cash and cash equivalents	1,370,465	-	-	-	-	1,370,465
Total financial assets	1,370,465	-	16,575,116	-	120,797,228	138,742,809
Liabilities						
Long term loans	167,855	7,482,881	23,032,329	197,798,580	-	228,481,645
Lease liability	231,100	467,305	2,331,068	1,350,554	-	4,380,027
Payables	-	-	-	-	13,755,216	13,755,216
Total financial liabilities	398,955	7,950,186	25,363,397	199,149,134	13,755,216	246,616,888
Total interest re-pricing gap	971,510	(7,950,186)	(8,788,281)	(199,149,134)	107,042,012	(107,874,079)

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Company:

	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Non-interest bearing	Total
	\$	\$	\$	\$	\$	\$
2021						
Assets						
Receivables	-	-	-	-	77,312,597	77,312,597
Director's account	-	-	-	-	20,106,531	20,106,531
Due from related party	-	-	-	-	49,224,543	49,224,543
Cash and cash equivalents	4,013,319	-	-	-	-	4,013,319
Total financial assets	4,013,319	-	-	-	146,643,671	150,656,990
Liabilities						
Long term loans	440,987	881,975	3,413,113	21,810,217	-	26,546,292
Payables	-	-	-	-	23,047,054	23,047,054
Short term loans	-	85,484,661	-	-	-	85,484,661
Due to related party	-	1,500,000	-	-	-	1,500,000
Lease liability	206,173	416,901	2,019,469	1,481,460	-	4,124,003
Bank overdraft	60,307	-	-	-	-	60,307
Total financial liabilities	707,467	88,283,537	5,432,582	23,291,677	23,047,054	140,762,317
Total interest re- pricing gap	3,305,851	(88,283,537)	(5,432,582)	(23,291,677)	123,596,617	9,894,673

The Group has no significant sensitivity to interest rate risk as all borrowings are at fixed rates.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign exchange risk arising from exposure primarily to the US dollar. The group is primarily exposed to such risks arising from foreign currency translation in relation to cash at bank, related party, loans and payables.

The Statement of Financial Position for the Group as at 31 December 2022 includes net foreign (liabilities)/assets of (\$17,597,338) (2021: \$3,099,682) in respect of such transactions arising in the ordinary course of business.

The Statement of Financial Position for the Company as at 31 December 2022 includes net foreign assets of \$6,763,241 (2021: \$3,099,682) in respect of such transactions arising in the ordinary course of business.

The following tables demonstrates the sensitivity to fluctuations in the exchange rates of the currencies held by the group and company before tax, with all other variables held constant.

The Group:

	2022	2022	2021	2021
	\$	\$	\$	\$
	Effect on Profit and loss and equity			
	Revaluation	Devaluation	Revaluation	Devaluation
	1%	4%	2%	8%
Currency:				
USD	175,973	(703,894)	(61,994)	247,974

The Company:

	2022	2022	2021	2021
	\$	\$	\$	\$
	Effect on Profit and loss and equity			
	Revaluation	Devaluation	Revaluation	Devaluation
	1%	4%	2%	8%
Currency:				
USD	270,530	(67,632)	(61,994)	247,974

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(d) Capital management

The Group defines capital as equity and total borrowings. The Group manages its capital of \$237 million, to support and be responsive to opportunities for its current growth strategy and expansion plans and to maintain its normal operations and remain compliant with various covenants and restrictive rules and regulations of the industry and the financial environment in which it operates.

Capital Management Strategies

The Group's objectives when managing capital are to enhance the Group's financial performance to provide specific hurdle returns for its shareholders while maintaining an optimal capital structure, to contain the cost of capital, as well as meeting externally imposed capital requirements.

The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Group monitors capital based on the gearing ratio. This ratio is calculated as total borrowings divided by capital as defined above. Total borrowings are calculated as current and non-current borrowings, as shown in the consolidated statement of financial position. Capital is calculated as total shareholder's equity, as shown in the statement of financial position plus total borrowings.

The management of the Group remains deliberate in the way it funds its growth projects and given the present economic environment and the general uptick in the cost of capital in the market; management continues to adjust major debts to optimize operating performance, and specifically to scale the business effectively.

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Total borrowings (excluding lease liability and non-interest-bearing related party liabilities)	228,746,601	112,025,830	228,481,645	112,025,830
Equity and total borrowing	236,721,535	186,241,512	245,371,880	186,241,512
Gearing ratio	97%	60%	93%	60%

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

3. Financial risk management (continued)**(e) Fair value estimates**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognized stock exchange) exists as it is the best evidence of the fair value of a financial instrument.

The amount included in the financial statements for cash and bank balances, receivables, directors' current account, due from related companies, short term loans and payables reflect their approximate fair values because of the short-term maturity of these instruments.

The fair values of long-term loans approximate amortised costs.

The fair values of directors' account and due to related companies could not be reasonably assessed as there are no set repayment terms.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

4. Critical accounting estimates and judgements in applying accounting policies

The Group and Company makes estimates, assumptions and judgements that affect the reported amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements. Amounts and disclosures based on these estimates assumptions and judgements may be different from actual outcomes, and these differences may be reported in the financial statements of the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated.

(i) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group and Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's and Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the Credit risk note.

(ii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain in the ordinary course of business. In cases of such uncertainty, the Group and Company recognises liabilities for possible additional taxes based on its judgement. Where, on the basis of a subsequent determination, the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

(iii) Depreciable assets

Estimates of the useful life and the residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The Group and Company applies a variety of methods in an effort to arrive at these estimates from which actual results may vary. Actual variations in estimated useful lives and residual values are reflected in profit or loss through impairment or adjusted depreciation provisions.

(iv) Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination, involve the utilization of valuation techniques. These intangibles may be market related, consumer related, contract based or technology based.

EduFocal Limited**Notes to the Financial Statements
31 December 2022****5. Property, plant and equipment****The Group and The Company:**

	Furniture & equipment	Computers & accessories	Total
	\$	\$	\$
At Cost-			
1 January 2021	959,349	670,259	1,629,608
Additions	1,010,665	2,275,829	3,286,494
31 December 2021	1,970,014	2,946,088	4,916,102
Additions	74,027	-	74,027
Disposals	(45,109)	(74,750)	(119,859)
31 December 2022	1,998,932	2,871,338	4,870,270
Depreciation-			
1 January 2021	344,926	222,654	567,580
Charge for the year	152,952	503,685	656,637
31 December 2021	497,878	726,339	1,224,217
Charge for the year	217,445	717,400	934,845
Relieved on disposals	(2,631)	(15,573)	(18,204)
31 December 2022	712,692	1,428,166	2,140,858
Net book value-			
31 December 2022	1,286,240	1,443,172	2,729,412
31 December 2021	1,472,136	2,219,749	3,691,885

EduFocal Limited

Notes to the Financial Statements 31 December 2022

6. Intangible assets

Intangible assets comprise computer software and intellectual property purchased and developed by the Group. Intellectual property is amortized over eight years. Amortization of the computer software is calculated based on an estimated useful live of five years.

The Group:

	Intellectual Property	Software	Work-in- progress	Total
	\$	\$	\$	\$
Cost-				
1 January 2021	14,255,981	19,620,227	-	33,876,208
Additions	22,769,587	22,688,330	-	45,457,917
31 December 2021	37,025,568	42,308,557	-	79,334,125
Additions	21,464,578	45,521,852	19,270,202	86,256,632
31 December 2022	58,490,146	87,830,409	19,270,202	165,590,757
Amortization-				
1 January 2021	-	1,913,845	-	1,913,845
Charge for the year	3,372,736	7,322,077	-	10,694,813
31 December 2021	3,372,736	9,235,922	-	12,608,658
Charge for the year	6,124,353	15,909,234	-	22,033,587
31 December 2022	9,497,089	25,145,156	-	34,642,245
Net book value-				
31 December 2022	48,993,057	62,685,253	19,270,202	130,948,512
31 December 2021	33,652,832	33,072,635	-	66,725,467

During the year, the Group purchased all of the Clever School Teacher online learning platform and content for a sum of \$42 million. These intangible assets are managed by the subsidiary, EduFocal LLC.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

6. Intangible assets (continued)

The Group determines whether the intangible assets are impaired at least on an annual basis or when events or changes in circumstances indicate the carrying value maybe impaired. This requires an estimation of the recoverable amount of the cash generating unit (CUG) to which intangible asset is allocated. The recoverable amount is determined by reference to the value in use. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CUG and also to choose an appropriate discount rate in order to calculate the present value of those future cash flows. The cash flow projections are based on financial budgets approved by management covering a five-year period.

The Company:

	Intellectual Property	Software	Work-in- progress	Total
	\$	\$	\$	\$
Cost-				
1 January 2021	14,255,981	19,620,227	-	33,876,208
Additions	22,769,587	22,688,330	-	45,457,917
31 December 2021	37,025,568	42,308,557	-	79,334,125
Additions	19,353,983	5,353,671	18,787,988	43,495,642
31 December 2022	56,379,551	47,662,228	18,787,988	122,829,767
Amortization-				
1 January 2021	-	1,913,845	-	1,913,845
Charge for the year	3,372,736	7,322,077	-	10,694,813
31 December 2021	3,372,736	9,235,922	-	12,608,658
Charge for the year	6,016,611	9,124,512	-	15,141,123
31 December 2022	9,389,347	18,360,434	-	27,749,781
Net book value-				
31 December 2022	46,990,204	29,301,794	18,787,988	95,079,986
31 December 2021	33,652,832	33,072,635	-	66,725,467

EduFocal Limited

Notes to the Financial Statements 31 December 2022

7. Investment in subsidiary

	<u>The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
EduFocal LLC	20,177,790	-

On March 21, 2022, EduFocal Limited acquired the website and other intangible assets of an edtech company in the United States of America. These intangible assets are included in the financial statements of the wholly owned subsidiary, EduFocal LLC.

8. Right-of-use asset and related lease liability

(i) Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to leases: -

Right-of-use asset

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
Balance as at beginning of year	4,023,825	-
Additions	-	5,365,101
Re-measurement	2,651,079	-
Amortization	(2,902,585)	(1,341,276)
Balance as at end of year	<u>3,772,319</u>	<u>4,023,825</u>

Lease liability

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
Balance as at beginning of year	4,124,003	-
Additions	-	5,365,101
Re-measurement	2,651,079	-
Interest expense	611,229	204,152
Payments	(3,006,284)	(1,445,250)
Balance as at end of year	<u>4,380,027</u>	<u>4,124,003</u>

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
Current	3,029,473	2,642,543
Non-current	<u>1,350,554</u>	<u>1,481,460</u>
Balance as at end of year	<u>4,380,027</u>	<u>4,124,003</u>

EduFocal Limited**Notes to the Financial Statements
31 December 2022****8. Right-of-use asset and related lease liability (continued)****(i) Amounts recognized in the statement of comprehensive income**

The statement of profit or loss shows the following amounts relating to leases:

	The Group and The Company	
	2022	2021
	\$	\$
Amortization of right-of-use asset (included in administrative expenses)	2,902,585	1,341,276
Interest expense (included in finance costs)	611,229	204,152

(ii) Amounts recognized in the statement of cash flows

	The Group and The Company	
	2022	2021
	\$	\$
Total cash outflows for leases	3,006,284	1,445,250

EduFocal Limited

Notes to the Financial Statements 31 December 2022

9. Deferred income taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using the applicable tax rate. Assets and liabilities recognised on the statement of financial position are as follows:

	The Group and The Company	
	2022	2021
	\$	\$
Deferred income tax assets	<u>3,004,807</u>	<u>1,267,438</u>

The movement on the net deferred income tax balance is as follows:

	The Group and The Company	
	2022	2021
	\$	\$
Net assets at the beginning of year	1,267,438	353,160
Deferred tax credited to profit and loss (Note 29)	<u>1,737,369</u>	<u>914,278</u>
Net assets at the end of year	<u>3,004,807</u>	<u>1,267,438</u>

Deferred income tax assets and liabilities are attributable to the following items:

	The Group and The Company	
	2022	2021
	\$	\$
Deferred tax assets:		
Property, plant and equipment	(162,471)	(209,483)
Intangible assets	2,925,159	999,157
Right-of-use asset, net of lease obligation	151,927	25,045
Interest payable	90,192	258,335
Unrealised foreign exchange gains	<u>-</u>	<u>194,384</u>
Net deferred tax assets at end of year	<u>3,400,807</u>	<u>1,267,438</u>

EduFocal Limited**Notes to the Financial Statements
31 December 2022****9. Deferred income taxes (continued)**

The amounts shown in the statement of financial position include the following:

	The Group and The Company	
	2022	2021
	\$	\$
Deferred tax assets to be recovered:		
- less than 12 months	-	-
- after more than 12 months	3,004,807	1,267,438
	<u>3,004,807</u>	<u>1,267,438</u>

10. Receivables

	The Group and The Company	
	2022	2021
	\$	\$
Trade receivables	183,773,223	101,281,548
Less: Expected credit loss provision	<u>(74,273,223)</u>	<u>(25,399,204)</u>
	109,500,000	75,882,344
Prepaid expenses	906,500	438,066
Other receivables	<u>526,233</u>	<u>992,187</u>
	<u>110,932,733</u>	<u>77,312,597</u>

Movement of expected credit loss provision is as follows:

	The Group and The Company	
	2022	2021
	\$	\$
Balance at beginning of year	25,399,204	6,240,258
Provision during the year	<u>48,874,019</u>	<u>19,158,946</u>
Balance at end of year	<u>74,273,223</u>	<u>25,399,204</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

11. Director's account

Director's account represents amounts due from a director. This loan attracts interest of 5% per annum with principal and interest repayable quarterly. The loan is to be repaid by June 2023.

12. Due from/(to) related parties

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Due from related parties:				
Due from EduFocal Business Limited	106,199,543	49,224,543	106,199,543	49,224,543
Less: Expected credit loss provision	(104,269,543)	-	(104,269,543)	-
	1,930,000	49,224,543	1,930,000	49,224,543
Due from EduFocal Academy	442,969	-	442,969	-
Due from EduFocal LLC	-	-	7,491,526	-
	2,372,969	49,224,543	9,864,495	49,224,543
Due to related party:				
Andre Swaby	-	(1,500,000)	-	(1,500,000)
	2,372,969	47,724,543	9,864,495	47,724,543

These parties are related by common shareholders and directors. The balances are unsecured, interest free and has no fixed repayment terms and conditions.

13. Cash and cash equivalents

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cash at bank	3,615,644	4,013,319	1,370,465	4,013,319
	3,615,644	4,013,319	1,370,465	4,013,319

Cash at bank substantially comprise savings and operating accounts at licensed commercial banks in Jamaica and the United States of America. The rate of interest earned on the Group's foreign currency savings accounts ranges from 0.0% to 0.03% (2021: 0.0% to 0.75%).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

14. Share capital

	<u>2022</u>	<u>2021</u>
Authorised	No. of shares	No. of shares
Opening authorised ordinary shares of no par value	Unlimited	18,373,000
Closing authorised ordinary shares of no par value	Unlimited	Unlimited
Issued and fully paid		
Opening issued and fully paid ordinary shares	518,756,875	10,000,000
Sub-division of shares (a)	-	440,000,000
Preference shares converted to ordinary shares (Note 15) (b)	-	60,506,050
Shareholder's loan converted to ordinary shares (Note 20) (b)	-	8,250,825
Initial Public Offer issued during the year (c)	116,446,989	-
Short term loan converted to ordinary shares (Note 19) (c)	13,242,230	-
Closing issued and fully paid ordinary shares	<u>648,446,094</u>	<u>518,756,875</u>
	<u>2022</u>	<u>2021</u>
Ordinary shares of no par value	\$	\$
Balance at beginning of year	72,763,569	10,345,452
Preference shares converted to ordinary shares (Note 15) (b)	-	54,999,999
Shareholder's loan converted to ordinary shares (Note 20) (b)	-	7,418,118
Initial Public Offer issued during the year (c)	102,868,121	-
Short term loan converted to ordinary shares (Note 19 (e)) (c)	10,000,000	-
Balance at end of year	<u>185,631,690</u>	<u>72,763,569</u>

- (a) On September 1, 2021, the Company held an Extraordinary General Meeting which resulted in the Board of Directors passing a resolution to sub-divide each of the existing ordinary shares into 45 ordinary shares. Accordingly, the number of issued ordinary shares increased to 450,000,000.
- (b) On September 1, 2021, the Company held an Extraordinary General Meeting which resulted in the Board of Directors passing a resolution to convert the preference shares (Note 15) and shareholder's loan (Note 20) into ordinary shares.
- (c) On February 9, 2022, the Company held an Extraordinary General Meeting which resulted in the Board of Directors passing a resolution for the issue of shares through an initial public offer thereby approving the issue of up to 129,689,219 ordinary shares. The additional shares were listed on the Junior Market of the Jamaica Stock Exchange on March 15, 2022.

116,446,989 ordinary shares were issued to the general public and key strategic partners, while 13,242,230 was issued through a short-term loan lender exercising a conversion option (Note 19 (e)).

EduFocal Limited**Notes to the Financial Statements
31 December 2022****15. Preference shares**

	<u>2022</u>	<u>2021</u>
	\$	\$
Authorized:-		
Redeemable cumulative convertible preference shares, par value	-	55,000,000
	<u>2022</u>	<u>2021</u>
	\$	\$
Issued and fully paid:-		
Opening balance	-	-
Issued during the year	-	54,999,999
Converted to Ordinary shares (Note 14 (c))	-	(54,999,999)
Redeemable cumulative convertible preference shares, par value	-	-

On May 13, 2021, the directors passed a resolution authorising the issue of up to Fifty-Five Million Dollars (\$55,000,000.00) redeemable cumulative convertible preference shares.

In June 2021 and July 2021 the company issued preference shares valued at \$29,991,999 and \$25,008,000, respectively, which has a maturity date of twelve (12) months after the issued date. Redemption shall be at the company's option and if done before the maturity date, there is an early redemption premium of 10%.

The terms of the preference shares issued includes the mandatory conversion of all outstanding preference shares to ordinary shares once the company provides a written notice that it intends to offer its ordinary shares to the public by way of an Initial Public Offer (IPO) prior to the maturity date. In the event of an IPO, the face value of the preference shares shall be converted to ordinary shares at a discounted price of 10% of the IPO price.

On September 1, 2021, the preference shares were converted to 60,506,050 ordinary shares (Note 14 (b)).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

16. Long term loans

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Celtic Bank (a)	264,956	-	-	-
JMMB Bank (Jamaica) Limited (b)	23,126,833	25,252,744	23,126,833	25,252,744
National Commercial Bank Jamaica Limited (c)	-	540,739	-	540,739
Mayberry Investments Limited (d)	192,857,142	-	192,857,142	-
Jardim Maxwell (e)	12,136,902	-	12,136,902	-
	<u>228,385,833</u>	<u>25,793,483</u>	<u>228,120,877</u>	<u>25,793,483</u>
Interest payable	<u>360,768</u>	<u>747,686</u>	<u>360,768</u>	<u>747,686</u>
	<u>228,746,601</u>	<u>26,541,169</u>	<u>228,481,645</u>	<u>26,541,169</u>
Less: Current portion	<u>(30,948,021)</u>	<u>(2,200,411)</u>	<u>(30,683,065)</u>	<u>(2,200,411)</u>
	<u>197,798,580</u>	<u>24,340,758</u>	<u>197,798,580</u>	<u>24,340,758</u>

- (a) This loan, amounting to US\$9,600, was received in April 2022. The loan is a factoring agreement and was guaranteed by Stripe Incorporation. The loan attracts interest at the rate of 19.90% per month and is repayable in nineteen (19) equal monthly instalments.
- (b) This loan, amounting to \$27,500,000, was received in August 2020, attracts interest at the rate of 9% per annum and is repayable in one hundred and twenty (120) monthly instalments of \$348,358.38. The loan represents a non-revolving demand loan and is secured by personal guarantees and assets of Gordon, Lloyd and Olivene Swaby, including a Second Legal Guarantor's Mortgage over commercial property, located in Christiana Manchester, registered at Volume 1450 Folio 447 in the names of Lloyd and Olivene Swaby.
- (c) This loan, amounted to \$5,000,000, was received in June 2016 and attracted interest at the rate of 10% per annum. The loan was secured by promissory note and a Mortgage over commercial property, located in Christiana Manchester, registered at Volume 1450 Folio 447 in the names of Lloyd and Olivene Swaby. The loan was repaid during the year.
- (d) This loan, amounting to \$200,000,000, was received in September 2022 and attracts interest at the rate of 9.5% per annum for two (2) years and will be variable annually thereafter. The loan is repayable in twenty-seven (27) quarterly instalments of \$7,142,858. The loan is secured by a promissory note.
- (e) This loan, amounting to US\$100,000, was received in August 2022 and attracts interest at the rate of 9% per annum, which is payable in sixty (60) monthly instalments. The principal, which is unsecured, is repayable on the maturity date.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

17. Payables

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Trade payables	1,140,824	696,318	1,140,824	696,318
Accruals	7,578,020	4,291,784	6,671,971	4,291,784
Statutory liabilities	4,381,640	16,166,310	4,381,640	16,166,310
Other payables	1,560,781	1,892,642	1,560,781	1,892,642
	<u>14,661,265</u>	<u>23,047,054</u>	<u>13,755,216</u>	<u>23,047,054</u>

18. Director's loan

Director's loan represents amounts advanced by a director. The loan is unsecured, interest free and has no fixed repayment terms.

19. Short term loans

		The Group and The Company	
		2022	2021
		\$	\$
Carbyne Capital Investment Limited	(a)	-	3,120,000
Dolla Financial Services Limited	(b)	-	8,595,000
Dolla Financial Services Limited	(c)	-	8,457,775
Mayberry Investments Limited	(d)	-	15,311,886
Roots Financial Group Limited	(e)	-	50,000,000
		<u>-</u>	<u>85,484,661</u>

- (a) This loan, amounted to \$3,120,000 and was received in January 2021. The loan was a factor financing agreement and was guaranteed by Ministry of Education, Youth and Information Contract GOJ-66-2020/2021. The loan attracted interest at the rate of 10% per month. The loan was repaid during the year.
- (b) This loan, amounted to \$9,550,000, was received in October 2021 and attracted interest at the rate of 5% per month. The loan was repaid during the year.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

19. Short term loans (continued)

- (c) This loan, amounted to \$8,457,775, was received in December 2021 and attracted interest at the rate of 5% per month. The loan was repaid during the year.
- (d) This loan, amounted to US\$100,000, was received in December 2021 and attracted interest at 3% compounded monthly. The loan was repaid during the year.
- (e) This loan, amounted to \$50,000,000, was received in March 2021 and attracted interest of 8.5% per annum. During the year \$40,000,000 was repaid and the balance of \$10,000,000 was converted to 13,242,230 ordinary shares (Note 14 (c)) in keeping with the loan agreement.

20. Shareholder's loan

This represents amount due to a shareholder of the company. This loan, amounting to US\$50,000, was received in September 2020. The balance was unsecured, attracted interest at the rate of 5% per month and was repayable in six (6) months.

In March 2021, the terms of the loan were changed, where it was agreed to convert the principal and interest in the event of an Initial Public Offer (IPO) of its shares by the company. The amount outstanding would be converted to ordinary shares at a discounted price of 10% of the IPO price.

On September 1, 2021, as per agreement the shareholder loan was converted to 8,250,825 ordinary shares (Note 14 (b)).

21. Bank overdraft

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
First Global Bank Limited	-	60,307

22. Revenue

Revenue comprises income from online, educational services to companies, schools and individuals and is stated net of discounts, allowances, and General Consumption Tax.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

23. Expenses by nature

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Advertising and promotion	4,274,452	2,647,228	4,062,111	2,647,228
Amortization of intangible assets	22,033,587	10,694,813	15,141,123	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276	2,902,585	1,341,276
Audit fee	2,681,843	967,000	1,990,047	967,000
Bad debt written off	9,008,325	8,960,325	9,008,325	8,960,325
Bank charges	622,631	847,827	599,548	847,827
Consulting fees	29,575,275	14,974,773	29,575,275	14,974,773
Content labour	9,443,155	7,986,240	8,807,015	7,986,240
Depreciation	934,845	656,637	934,845	656,637
Director's emoluments	750,000	-	750,000	-
Donation	327,500	-	327,500	-
Dues and subscriptions	6,703,306	8,247,780	6,302,689	8,247,780
GCT expense	2,713,040	1,093,206	2,636,878	1,093,206
Insurance expense	229,201	311,263	229,201	311,263
Legal and professional fees	10,921,837	5,872,880	5,192,175	5,872,880
Office rental	-	1,190,419	-	1,190,419
Other expenses	3,361,788	1,072,548	2,855,435	1,072,548
Penalties and interest	7,448,608	-	7,448,608	-
Repairs and maintenance	7,500	42,583	7,500	42,583
Staff costs (Note 27)	63,707,996	56,697,374	63,707,996	56,697,374
Travel and entertainment	3,061,962	3,484,810	1,586,708	3,484,810
Utilities	3,000,944	1,726,730	3,000,944	1,726,730
	183,710,380	128,815,712	167,066,508	128,815,712
Impairment losses on financial assets (Note 26)	153,143,562	19,158,946	153,143,562	19,158,946
Finance costs, net (Note 28)	28,736,808	19,629,755	28,695,535	19,629,755
	365,590,750	167,604,413	348,905,605	167,604,413

EduFocal Limited**Notes to the Financial Statements
31 December 2022****24. Operating profit**

In arriving at the operating (loss)/profit for the period, the following have been charged: -

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Auditors' remuneration- current	1,991,796	967,000	1,300,000	967,000
Auditors' remuneration- prior year	690,047	-	690,047	-
Amortization of intangible asset	22,033,587	10,694,813	15,141,123	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276	2,902,585	1,341,276
Expected credit loss	153,143,562	19,158,946	153,143,562	19,158,946
Depreciation	934,845	656,637	934,845	656,637
Directors' emoluments:				
- Fee	750,000	-	750,000	-
- Management remuneration (included in staff costs)	1,854,000	3,403,100	1,854,000	3,403,100
Staff costs (Note 27)	<u>63,707,996</u>	<u>56,697,374</u>	<u>63,707,996</u>	<u>56,697,374</u>

25. Other operating income

Other operating income comprises the following:

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Other income	<u>27,343</u>	<u>7,905</u>	<u>-</u>	<u>7,905</u>

26. Impairment losses on financial assets

This amount represents the expected credit loss provision on trade receivables (Note 10) and due from related party (Note 12).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

27. Staff costs

	The Group and The Company	
	2022	2021
	<u>\$</u>	<u>\$</u>
Wages and salaries	51,536,325	46,879,388
Statutory contribution	9,267,137	7,175,353
Other staff related costs	<u>2,904,534</u>	<u>2,642,633</u>
	<u><u>63,707,996</u></u>	<u><u>56,697,374</u></u>

28. Finance costs, net

	The Group		The Company	
	2022	2021	2022	2021
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Loans interest expense	23,412,371	12,335,022	23,230,967	12,335,022
Lease interest expense	611,229	204,152	611,229	204,152
Financing fees	4,800,000	6,152,185	4,800,000	6,152,185
Foreign exchange losses	485,321	1,516,901	498,876	1,516,901
Interest income	<u>(572,113)</u>	<u>(578,505)</u>	<u>(445,537)</u>	<u>(578,505)</u>
	<u><u>28,736,808</u></u>	<u><u>19,629,755</u></u>	<u><u>28,695,535</u></u>	<u><u>19,629,755</u></u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

29. Taxation

- (a) Taxation is computed on the operating (loss)/profit for the period adjusted for taxation purposes and comprises income tax at the applicable rate:-

	The Group and The Company	
	2022	2021
	\$	\$
Income tax – current year	1,754,047	9,724,419
Income tax – prior year	2,069,652	-
Remission of income tax	(1,403,237)	-
Deferred income taxes (Note 9)	(1,737,369)	(914,278)
	<u>683,093</u>	<u>8,810,141</u>

Income tax is calculated at the rate 25% (2021:25%).

- (b) The taxation charged in the statement of comprehensive income differs from the theoretical amount that would arise using the applicable tax rate, as follows:

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
(Loss)/profit before taxation	(178,126,642)	17,554,526	(169,861,285)	17,554,526
Tax calculated at the appropriate rate	(44,531,611)	4,388,631	(42,465,321)	4,388,631
Adjusted for the effects of:-				
Income taxed at a different rate	2,066,339	-	-	-
Expense not allowed for tax purposes	42,507,412	4,789,737	42,507,412	4,789,737
Corporate Tax Credit	-	(375,000)	-	(375,000)
Adjustment for prior year	2,069,652	-	2,069,652	-
Remission of income tax	(1,403,237)	-	(1,403,237)	-
Other charges and allowances	(25,413)	6,773	(25,413)	6,773
	<u>683,093</u>	<u>8,810,141</u>	<u>683,093</u>	<u>8,810,141</u>

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

29. Taxation (continued)**Remission of income tax**

By notice dated 13 August 2009, the Minister of Finance and the Public Service, issued and gazette the Income Tax (Jamaica Stock Exchange Junior Market) (Remission) Notice, 2009. The Notice effectively granted a remission of income tax to eligible companies that were admitted to the Junior Market of the Jamaica Stock Exchange (JSE) if certain conditions were achieved after the date of initial admission.

Effective 15 March 2022, the Company's shares were listed on the Junior Market of the JSE. The Company is entitled to a remission of income taxes for ten years in the following proportion:

Years 1 – 5 (15 March 2022 – 14 March 2027) – 100%

Years 6 - 10 (15 March 2027 – 14 March 2032) – 50%

The Company's 100% remission of income taxes expires 14 March 2027, and as a consequence the Company's taxable profit will be subject to 50% tax remission until 14 March 2032.

The Company will continue to benefit from the tax remission provided the following conditions are met:

- the Company remains listed for at least 15 years and is not suspended from the JSE for any breaches of its rules
- the Subscribed Participating Voting Share Capital of the Company does not exceed J\$500 million
- the Company has at least 50 Participating Voting Shareholders.

The financial statements have been prepared on the basis that the Company will have the full benefit of the tax remissions.

EduFocal Limited**Notes to the Financial Statements
31 December 2022****30. (Loss)/earnings per stock unit**

Basic (loss)/profit per stock unit (“EPS”) is computed by dividing the (loss)/profit attributable to stockholders of the Group by the weighted average number of ordinary stock units in issue during the year.

	<u>The Group</u>		<u>The Company</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	\$	\$	\$	\$
Net (loss)/profit attributable to Stockholders of the Company	<u>(178,809,735)</u>	<u>8,744,385</u>	<u>(170,544,378)</u>	<u>8,744,385</u>
Weighted average number of ordinary stocks units	<u>622,508,250</u>	<u>180,050,243</u>	<u>622,508,250</u>	<u>180,050,243</u>
(Loss)/earnings per stock unit	<u>(0.29)</u>	<u>0.05</u>	<u>(0.27)</u>	<u>0.05</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

31. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transactions and balances are recognised and disclosed below for the following:

- (a) Enterprises over which a substantial interest in the voting power is owned by key management personnel, including directors and officers and close members of families or;
- (b) Enterprises over which such a person, in (a) above, is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the Group.

As at the statement of financial position date the following balances were outstanding: -

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Director's account	18,698,180	20,106,531	16,575,116	20,106,531
Due from related parties	2,372,969	49,224,543	9,864,495	49,224,543
Due to related party	-	(1,500,000)	-	(1,500,000)
Director's loan	(20,311,749)	-	-	-
	<u>759,400</u>	<u>67,831,074</u>	<u>26,439,611</u>	<u>67,831,074</u>

The following was (credited)/charged to the statement of comprehensive income:

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Sales to EduFocal Business Limited	(59,975,000)	(49,224,543)	(59,975,000)	(49,224,543)
Interest income	(444,735)	(578,135)	(444,735)	(578,135)
Interest expense	365,890	677,539	365,890	677,539
Director's emoluments	750,000	-	750,000	-
Director's remuneration	<u>1,854,000</u>	<u>3,403,100</u>	<u>1,854,000</u>	<u>3,403,100</u>

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

32. Restatement of prior year balances

Restatement of the prior year share capital relates to the conversion of preference shares and shareholder's loan that were not reclassified in 2021. Also, the interest payable on the shareholder's loan was reclassified from long term loans.

Below are the reconciliations of the Statement of Financial Position and Statement of Comprehensive Income at December 31, 2021.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

32. Restatement of prior year balances (continued)

(a) Statement of financial position as at December 31, 2021: -

	As previously stated	Effect of restatement	As Restated
	\$	\$	\$
ASSETS			
Non-current assets			
Property, plant and equipment	3,691,885	-	3,691,885
Intangible assets	66,725,467	-	66,725,467
Right- of- use asset	4,023,825	-	4,023,825
Deferred tax assets	1,267,438	-	1,267,438
	75,708,615	-	75,708,615
Current assets			
Receivables	77,312,597	-	77,312,597
Director's account	20,106,531	-	20,106,531
Due from related parties	49,224,543	-	49,224,543
Cash and cash equivalents	4,013,319	-	4,013,319
	150,656,990	-	150,656,990
TOTAL ASSETS	226,365,605	-	226,365,605
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	(a) 10,345,452	62,418,117	72,763,569
Preference shares	(b) 54,999,999	(54,999,999)	-
Retained earnings	1,452,113	-	1,452,113
	66,797,564	7,418,118	74,215,682
Non-current liabilities			
Long term loans	24,340,758	-	24,340,758
Lease liability	1,481,460	-	1,481,460
	25,822,218	-	25,822,218
Current liabilities			
Payables	23,047,054	-	23,047,054
Current portion of lease liability	2,642,543	-	2,642,543
Current portion of long term	(c) 2,205,534	(5,123)	2,200,411
Short term loans	85,484,661	-	85,484,661
Due to related party	1,500,000	-	1,500,000
Shareholder's loan	(d) 7,412,995	(7,412,995)	-
Bank overdraft	60,307	-	60,307
Taxation payable	11,392,729	-	11,392,729
	133,745,823	(7,418,118)	126,327,705
TOTAL EQUITY AND LIABILITIES	226,365,605	-	226,365,605

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

32. Restatement of prior year balances (continued)

Effect of restatement on Statement of Financial Position is broken down as follows:

	<u>\$</u>
(a) Recording increase in share capital due to conversion of preference shares and shareholder's loan	62,418,117
(b) Reclassification of preference shares converted to share capital	(54,999,999)
(c) Reclassification of interest payable on shareholder's loan included in long term loans	(5,123)
(d) Reclassification of shareholder's loan converted to share capital	<u>(7,412,995)</u>
	<u><u>-</u></u>

EduFocal Limited

**Consolidated Financial Statements
31 December 2022**

EduFocal Limited

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31 December 2022

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INDEPENDENT AUDITORS' REPORT

To the Members of
EduFocal Limited

Report on the audit of the consolidated and stand-alone financial statements

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of Edufocal Limited (the Company) and its subsidiary ('the Group') and the stand-alone financial position of the Company as at 31 December 2022, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with the requirements of the Jamaican Companies Act.

What we have audited

EduFocal Limited's consolidated and stand-alone financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the company statement of financial position as at 31 December 2022;
- the company statement of comprehensive income for the year then ended;
- the company statement of changes in equity for the year then ended;
- the company statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated and stand-alone financial statements section of our report.

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

ADVISORY • ASSURANCE • TAX

PARTNERS: Wayne Strachan; FCA;FCCA;MBA Emile Lafayette; FCA;FCCA;MBA Roxiana Malcolm-Tyrell; FCA;FCCA;MBA

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Baker Tilly Strachan Lafayette trading as BakerTilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our 2022 audit was planned and executed having regard to the fact that the operations of the Group remain largely unchanged from the prior year.

The Group's businesses all operate in the education technology industry. These entities maintain their own accounting records and report to the Group through the completion of consolidation packages.

In establishing the overall group audit strategy and plan, we determined the type of work that was needed to be performed at the components by the group engagement team and component auditors.

INDEPENDENT AUDITORS’ REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand-alone financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and stand-alone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
<p><i>Intangible assets impairment assessment</i> Refer to notes 2(e) and 6 of the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgements and estimates.</p> <p>As at 31 December 2022, the Group had recorded intangible assets of \$130.9 million (2021: \$66.7 million), representing approximately 47% (2021: 29%) of the Group’s total assets.</p> <p>We focused on this area as the annual impairment assessment requires management’s judgement and estimation, particularly in relation to the estimation of future cash flows from the businesses, taking into consideration the key assumption being the revenue growth and discount rate in the Group’s impairment model.</p> <p>We included the impairment of intangible assets as a key audit matter because the carrying value of these key intangible assets will be affected if the Group is unable to generate revenue growth and produce sustainable operating cash flows.</p>	<p>Our audit procedures performed to address this key audit matter included the following procedures, amongst others, over management’s intangible assets impairment assessment:</p> <ul style="list-style-type: none"> • Evaluated management’s future cash flow forecasts, and the process by which they were prepared, including testing the underlying calculations and comparing them to the latest financial forecast. • Assessed the impairment model and determine whether any significant changes to the model was required. • Performed sensitivity analysis around the revenue growth assumptions. <p>Challenged management’s key assumptions for revenue growth and discount rate. To do this, we:</p> <ul style="list-style-type: none"> • compared the key assumptions to externally derived data where possible, including market expectations of investment returns and projected economic growth. • Evaluated the revenue growth and discount rate used in management’s cash flow projections. <p>The results of our procedures indicated that the assumptions used by management for assessing intangible assets impairment are considered reasonable.</p>

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Revenue recognition</i> The Group's revenue recognition policy (Note 2 (n)) does not generally require a high level of judgment, however, due to the contractual terms of certain contracts, there is a significant risk associated with certain components that have directed the focus of our audit effort. These contracts are often customised solutions and meet the definition for revenue recognition over time in accordance with IFRS 15.</p> <p>Revenue recognition is considered a key audit matter in view of the risk that management may override controls to intentionally misstate revenue transactions in order to achieve financial targets, either through adjusting estimates at the period end or recording fictitious transactions in the business.</p>	<p>Our audit procedures to address the key audit matter relating to the revenue from contracts with customers included the following:</p> <ul style="list-style-type: none"> • Selected several contracts on a sample basis, reviewed the terms of these contracts, and assessed the reasonableness of the basis adopted by management in relation to the revenue recognition method. • Examined the supporting documents for the sample of contracts, to assess if revenue was recognised at a point in time upon the fulfillment of the relevant performance obligation. • Obtained third party confirmations for a sample of receivable balances outstanding as at the year end to assist in the assessment of the validity of related revenue. • Performed cut-off tests by examining the supporting documents that management used to recognise the revenue before and after the reporting date, to assess whether the revenue had been recognised in the correct accounting period. <p>Based on our work, we found that the revenue recognition of contracts made by management is adequately supported by available evidence in accordance with IFRS 15 Revenue from Contracts with Customers.</p>

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Expected Credit Loss assessment.</i> The Group recognises expected credit losses (ECL) on financial assets measured at amortized cost. The determination of ECL is highly subjective and requires management to make significant judgement and estimates and the application of forward-looking information.</p> <p>The combination of significant management estimates and judgement increases the risk that management estimates could be materially misstated.</p> <p>See notes 3(a), 4(i), 10 and 12 of the financial statements.</p>	<p>Our audit procedures in response to this matter included:</p> <ul style="list-style-type: none"> ❖ Obtaining an understanding of the model used by management for the calculation of expected credit losses on financial assets. ❖ Testing the completeness and accuracy of the data used in the models to the underlying accounting records. ❖ Review the ECL model, to assess the appropriateness of the Group's impairment methodology, management's assumptions and compliance with the new requirements of IFRS 9, Financial Instruments. ❖ Assessing the appropriateness of the Group's impairment methodology, management assumptions and compliance with the requirement of IFRS 9, Financial Instruments. ❖ Assessing the adequacy of the disclosures of the key assumptions and judgements as well as the details of the transition adjustment for compliance with IFRS 9. ❖ Testing the accuracy of Group's ageing of accounts receivables. ❖ Testing the accuracy of the ECL calculation.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><i>Borrowings</i> Refer to notes 2 (p), 16 and 19 to the financial statements for management’s disclosures of related accounting policies, judgments and estimates relating to borrowings. As at 31 December 2022, long and short-term borrowings inclusive of preference shares, excluding long term lease liabilities and non-interest bearing related party liabilities represented \$229 million (2021 - \$112 million) or 97% (2021 – 60%) of the total equity and debts of the Group.</p> <p>The Parent Company remains highly leveraged as management continues to strategically use debt financing as the principal pillar to implement structured growth projects within the Group.</p> <p>As a Company initiative to reduce its reliance on high interest short-term financing, in March 2022 the company issued shares to the market through an Initial Public Offering (IPO) whereby it raised \$102.8 million. Proceeds from the IPO was used to retire \$75 million of short-term debt.</p> <p>The Parent Company continues to examine its financing options within the context of its debt management strategy and review its choices based on the present market conditions as well as it’s risk profile.</p>	<p>Our audit procedures to address this matter included the following procedures:</p> <ul style="list-style-type: none"> • Reviewed the loan agreements and repayment schedules. We noted that all the loans were being serviced on a timely basis as per the contractual agreements, principally by predetermined monthly deductions from the Group’s various bank accounts. • Confirmed the balances, reviewed the maturity schedule for repayment, tested the interest calculations and determined that the total borrowings represented obligations by the Company and the Group. • Tested the effectiveness of controls over the timely repayment of loans and other credit facilities and noted that they are compliant with the various agreements. <p>We had robust discussions with senior management regarding the growth and expansion strategy using debt as the principal means of growth and expansion and the ultimate strategy to reduce debt capital over the long term. A downside to this strategy is the inherent liquidity risk that the cash generating units acquired, may not perform as expected, resulting in the Company and Group being unable to meet its obligations as they fall due.</p> <p>Management is mindful of this inherent liquidity risk. However, management is confident that their strategic growth and expansion plan will continue to perform based on historical performance and anticipated future positive trends.</p> <p>Management is of the opinion that adequate safeguards are in place as they have implemented the necessary policies and procedures including scenario analysis, alternative payment strategies in the event of cash flow challenges and direct monitoring of the individual borrowings. We evaluated the performance of the borrowing portfolio after the end of the reporting period to determine whether there was a need for any adjustment or whether there were any default or breach of any terms of financial covenants. There were no adverse findings.</p> <p>We also reviewed legal and bank confirmations and correspondences, and we did not identify any negative matters or need for adjustment at the time of approval and signing of the audit report by the Board of Directors.</p>

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and stand-alone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and stand-alone financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

Management is responsible for the preparation of the consolidated and stand-alone financial statements that give a true and fair view in accordance with IFRS and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and stand-alone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and Company's financial reporting process.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Auditors' responsibilities for the audit of the consolidated and stand-alone financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and stand-alone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 these consolidated and stand-alone financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and stand-alone financial statements, 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 and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and stand-alone financial statements 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 auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on the audit of the consolidated and stand-alone financial statements (continued)

Auditors' responsibilities for the audit of the consolidated and stand-alone financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent 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 consolidated and stand-alone financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance 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 with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matters 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
EduFocal Limited
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Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying consolidated and stand-alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

The engagement partner on the audit resulting in this independent auditors' report is Roxiana Malcolm-Tyrell.





Chartered Accountants
Kingston, Jamaica
12 May 2023

Consolidated Statement of Financial Position
As at 31 December 2022

	Note	<u>2022</u>	<u>Restated</u>
		\$	\$
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,729,412	3,691,885
Intangible assets	6	130,948,512	66,725,467
Right-of-use asset	8	3,772,319	4,023,825
Deferred tax assets	9	3,004,807	1,267,438
		<u>140,455,050</u>	<u>75,708,615</u>
Current assets			
Receivables	10	110,932,733	77,312,597
Director's account	11	18,698,180	20,106,531
Due from related parties	12	2,372,969	49,224,543
Cash and cash equivalents	13	3,615,644	4,013,319
		<u>135,619,526</u>	<u>150,656,990</u>
TOTAL ASSETS		<u>276,074,576</u>	<u>226,365,605</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	185,631,690	72,763,569
Preference shares	15	-	-
Foreign exchange reserves		(649,944)	-
(Accumulated deficit)/retained earnings		<u>(177,357,622)</u>	<u>1,452,113</u>
		<u>7,624,124</u>	<u>74,215,682</u>
Non-current liabilities			
Long term loans	16	197,798,580	24,340,758
Lease liability	8	1,350,554	1,481,460
		<u>199,149,134</u>	<u>25,822,218</u>
Current liabilities			
Payables	17	14,661,265	23,047,054
Current portion of long term loans	16	30,948,021	2,200,411
Current portion of lease liability	8	3,029,473	2,642,543
Director's loan	18	20,311,749	-
Short term loans	19	-	85,484,661
Due to related party	12	-	1,500,000
Shareholder's loan	20	-	-
Bank overdraft	21	-	60,307
Taxation payable		350,810	11,392,729
		<u>69,301,318</u>	<u>126,327,705</u>
TOTAL EQUITY AND LIABILITIES		<u>276,074,576</u>	<u>226,365,605</u>

Approved for issue by the Board of Directors on 12 May 2023 and signed on its behalf by:


 Chief Executive Officer
 Gordon Swaby


 Chairman
 Peter Levy

Consolidated Statement of Comprehensive Income
Year ended 31 December 2022

	Note	<u>2022</u>	<u>2021</u>
		\$	\$
Revenue	22	187,436,765	185,151,034
Administrative and operating expenses	23	<u>(183,710,380)</u>	<u>(128,815,712)</u>
Operating profit	24	3,726,385	56,335,322
Other operating income	25	27,343	7,905
Impairment losses on financial assets	26	<u>(153,143,562)</u>	<u>(19,158,946)</u>
(Loss)/profit before finance costs		(149,389,834)	37,184,281
Finance costs, net	28	<u>(28,736,808)</u>	<u>(19,629,755)</u>
(Loss)/profit before taxation		(178,126,642)	17,554,526
Taxation	29	<u>(683,093)</u>	<u>(8,810,141)</u>
(Loss)/profit after taxation, being total comprehensive (loss)/income		<u>(178,809,735)</u>	<u>8,744,385</u>
(Loss)/earnings per ordinary stock unit attributable to shareholders of the company	30	<u>(0.29)</u>	<u>0.05</u>

Consolidated Statement of Changes in Equity
Year ended 31 December 2022

	Number of Shares	Share Capital	Preference Shares	Foreign Exchange Reserves	(Accumulated Deficit)/ Retained Earnings	Total Equity
		\$	\$	\$	\$	\$
Balance at 1 January 2021	10,000,000	10,345,452	-	-	(7,292,272)	3,053,180
Stock split (Note 14)	440,000,000	-	-	-	-	-
Issue of preference shares (Note 15)	-	-	54,999,999	-	-	54,999,999
Preference shares converted to equity (Note 15)	60,506,050	54,999,999	(54,999,999)	-	-	-
Shareholder's loan converted to equity (Note 20)	8,250,825	7,418,118	-	-	-	7,418,118
Total comprehensive income	-	-	-	-	8,744,385	8,744,385
Balance at 31 December 2021	518,756,875	72,763,569	-	-	1,452,113	74,215,682
Issue of ordinary shares (Note 14)	116,446,989	102,868,121	-	-	-	102,868,121
Short term loan converted to equity (Note 19) (e)	13,242,230	10,000,000	-	-	-	10,000,000
Foreign exchange reserves	-	-	-	(649,944)	-	(649,944)
Total comprehensive loss	-	-	-	-	(178,809,735)	(178,809,735)
Balance at 31 December 2022	648,446,094	185,631,690	-	(649,944)	(177,357,622)	7,624,124


Consolidated Statement of Cash Flows
Year ended 31 December 2022

	<u>2022</u>	<u>2021</u>
	\$	\$
CASH RESOURCES WERE PROVIDED BY/(USED IN):		
Operating Activities		
(Loss)/profit before taxation	(178,126,642)	17,554,526
Adjustments for:		
Amortization of intangible assets	22,033,587	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276
Bad debt written off	9,008,325	8,960,325
Depreciation	934,845	656,637
Impairment losses on financial assets	153,143,562	19,158,946
Foreign exchange losses	485,321	1,516,901
Interest income	(572,113)	(578,505)
Interest expense	23,412,371	12,335,022
Lease interest expense	611,229	204,152
Loss on disposal of property, plant and equipment	101,655	-
	<u>33,934,725</u>	<u>71,844,093</u>
Changes in operating assets and liabilities:		
Increase in receivables	(91,502,480)	(71,961,785)
Decrease/(increase) in director's account	1,853,086	(5,274,708)
(Decrease)/increase in payables	(8,487,345)	7,977,833
Cash (used in)/provided by operating activities	(64,202,014)	2,585,433
Interest received	127,378	371
Interest paid	(23,799,289)	(13,108,691)
Tax paid	(13,462,381)	(1,000,000)
Net cash used in operating activities	<u>(101,336,306)</u>	<u>(11,522,887)</u>
Investing Activities		
Purchase of property, plant and equipment	(74,027)	(3,286,494)
Purchase of intangible assets	(86,256,632)	(45,457,917)
Net cash used in investing activities	<u>(86,330,659)</u>	<u>(48,744,411)</u>
Financing Activities		
Lease principal payments	(3,006,284)	(1,445,250)
Long term loans, net	202,592,350	(10,169,815)
Short term loans, net	(75,484,661)	68,523,538
Due to related parties	(58,904,414)	(47,724,543)
Director's loan	20,311,749	-
Shareholder's loan	-	280,530
Proceeds from issue of preference shares	-	54,999,999
Proceeds from issue of ordinary shares	102,868,121	-
Net cash provided by financing activities	<u>188,376,861</u>	<u>64,464,459</u>
Net increase in cash and cash equivalents	709,896	4,197,161
Effect of foreign exchange losses on cash at bank	(1,047,264)	(739,365)
Cash and cash equivalents at beginning of year	<u>3,953,012</u>	<u>495,216</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>3,615,644</u></u>	<u><u>3,953,012</u></u>
Represented by:		
Cash at bank	3,615,644	4,013,319
Bank overdraft	-	(60,307)
	<u>3,615,644</u>	<u>3,953,012</u>


Company Statement of Financial Position
As at 31 December 2022

	Note	2022	Restated 2021
		\$	\$
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,729,412	3,691,885
Intangible assets	6	95,079,986	66,725,467
Investment in subsidiary	7	20,177,790	-
Right- of- use asset	8	3,772,319	4,023,825
Deferred tax assets	9	3,004,807	1,267,438
		<u>124,764,314</u>	<u>75,708,615</u>
Current assets			
Receivables	10	110,932,733	77,312,597
Director's account	11	16,575,116	20,106,531
Due from related parties	12	9,864,495	49,224,543
Cash and cash equivalents	13	1,370,465	4,013,319
		<u>138,742,809</u>	<u>150,656,990</u>
TOTAL ASSETS		<u>263,507,123</u>	<u>226,365,605</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	185,631,690	72,763,569
Preference shares	15	-	-
(Accumulated deficit)/retained earnings		(169,092,265)	1,452,113
		<u>16,539,425</u>	<u>74,215,682</u>
Non-current liabilities			
Long term loans	16	197,798,580	24,340,758
Lease liability	8	1,350,554	1,481,460
		<u>199,149,134</u>	<u>25,822,218</u>
Current liabilities			
Payables	17	13,755,216	23,047,054
Current portion of lease liability	8	3,029,473	2,642,543
Current portion of long term loans	16	30,683,065	2,200,411
Short term loans	19	-	85,484,661
Due to related party	12	-	1,500,000
Shareholder's loan	20	-	-
Bank overdraft	21	-	60,307
Taxation payable		350,810	11,392,729
		<u>47,818,564</u>	<u>126,327,705</u>
TOTAL EQUITY AND LIABILITIES		<u>263,507,123</u>	<u>226,365,605</u>

Approved for issue by the Board of Directors on 12 May 2023 and signed on its behalf by:



 Gordon Swaby Chief Executive Officer



 Peter Levy Chairman

Company Statement of Comprehensive Income
Year ended 31 December 2022

	Note	<u>2022</u>	<u>2021</u>
		\$	\$
Revenue	22	179,044,320	185,151,034
Administrative and operating expenses	23	<u>(167,066,508)</u>	<u>(128,815,712)</u>
Operating profit	24	11,977,812	56,335,322
Other operating income	25	-	7,905
Impairment losses on financial assets	26	<u>(153,143,562)</u>	<u>(19,158,946)</u>
(Loss)/profit before finance costs		(141,165,750)	37,184,281
Finance costs, net	28	<u>(28,695,535)</u>	<u>(19,629,755)</u>
(Loss)/profit before taxation		(169,861,285)	17,554,526
Taxation	29	<u>(683,093)</u>	<u>(8,810,141)</u>
Net (loss)/profit for the year, being total comprehensive (loss)/income		<u><u>(170,544,378)</u></u>	<u><u>8,744,385</u></u>
(Loss)/earnings per ordinary stock unit attributable to shareholders of the company	30	<u><u>(0.27)</u></u>	<u><u>0.05</u></u>

EduFocal Limited

Company Statement of Changes in Equity Year ended 31 December 2022

	Number of shares	Share Capital	Preference Shares	(Accumulated Deficit)/ Retained Earnings	Total
		\$	\$	\$	\$
Balance at 1 January 2021	10,000,000	10,345,452	-	(7,292,272)	3,053,180
Stock split (Note 14)	440,000,000	-	-	-	-
Issue of preference shares (Note 15)	-	-	54,999,999	-	54,999,999
Preference shares conversion (Note 15)	60,506,050	54,999,999	(54,999,999)	-	-
Shareholder's loan converted to ordinary shares (Note 20)	8,250,825	7,418,118	-	-	7,418,118
Total comprehensive income	-	-	-	8,744,385	8,744,385
Balance at 31 December 2021	10,000,000	72,763,569	-	1,452,113	74,215,682
Issue of ordinary shares (Note 14)	116,446,989	102,868,121	-	-	102,868,121
Short term loan converted to ordinary shares (Note 19)	13,242,230	10,000,000	-	-	10,000,000
Total comprehensive loss	-	-	-	(170,544,378)	(170,544,378)
Balance at 31 December 2022	648,446,094	185,631,690	-	(169,092,265)	16,539,425

EduFocal Limited**Company Statement of Cash Flows
Year ended 31 December 2022**

	<u>2022</u>	<u>2021</u>
	\$	\$
CASH RESOURCES WERE PROVIDED BY/(USED IN):		
Operating Activities		
(Loss)/profit before taxation	(169,861,285)	17,554,526
Adjustments for:		
Bad debt	9,008,325	8,960,325
Depreciation	934,845	656,637
Amortization of intangible assets	15,141,123	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276
Impairment losses on financial assets	153,143,562	19,158,946
Foreign exchange losses	498,876	1,516,901
Interest income	(445,537)	(578,505)
Lease interest expense	611,229	204,152
Loss on disposal of plant, property and equipment	101,655	-
Interest expense	23,230,967	12,335,022
	<u>35,266,345</u>	<u>71,844,093</u>
Changes in operating assets and liabilities:		
Increase in receivables	(91,502,480)	(71,961,785)
Decrease/(increase) in director's account	3,976,150	(5,274,708)
(Decrease)/increase in payables	(9,393,393)	7,977,833
Cash (used in)/provided by operating activities	(61,653,378)	2,585,433
Interest received	802	371
Interest paid	(23,617,886)	(13,108,691)
Tax paid	(13,462,381)	(1,000,000)
Net cash used in operating activities	<u>(98,732,843)</u>	<u>(11,522,887)</u>
Investing Activities		
Purchase of property, plant and equipment	(74,027)	(3,286,494)
Purchase of intangible assets	(43,495,642)	(45,457,917)
Investment in subsidiary	(20,177,790)	-
Net cash used in investing activities	<u>(63,747,459)</u>	<u>(48,744,411)</u>
Balance carried forward	<u>(162,480,302)</u>	<u>(60,267,298)</u>

EduFocal Limited**Company Statement of Cash Flows
Year ended 31 December 2022**

	2022	2021
	\$	\$
Cash flows brought forward	<u>(162,480,302)</u>	<u>(60,267,298)</u>
Financing Activities		
Proceeds from issued ordinary shares	102,868,121	-
Proceeds from issued preference shares	-	54,999,999
Lease payments	(3,006,284)	(1,445,250)
Long term loans, net	202,327,394	(10,169,815)
Short term loans, net	(75,484,661)	68,523,538
Due to related parties	(66,409,495)	(47,724,543)
Shareholder's loan	-	280,530
Net cash provided by financing activities	<u>160,295,075</u>	<u>64,464,459</u>
Net (decrease)/increase in cash and cash equivalents	(2,185,227)	4,197,161
Effect of foreign exchange losses on cash at bank	(397,320)	(739,365)
Cash and cash equivalents at beginning of year	<u>3,953,012</u>	<u>495,216</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>1,370,465</u>	<u>3,953,012</u>
Represented by:		
Cash at bank	1,370,465	4,013,319
Bank overdraft	-	(60,307)
	<u>1,370,465</u>	<u>3,953,012</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

1. Identification and Principal Activities

EduFocal Limited is an education technology company incorporated in Jamaica under the Companies Act of Jamaica on the 19 November 2010. The registered office of the company is located at 29 Munroe Road, Kingston 6, Saint Andrew.

On March 15, 2022, the Company was successful in issuing an Initial Public Offer (IPO) on the Junior Market of the Jamaica Stock Exchange of 129,689,219 ordinary shares.

The principal activities of the Group are to provide proprietary learning platforms and e-courses for individuals and organizations.

These financial statements present the results of operations and financial positions of the Company and its subsidiary, which are referred to as “the Group”; the subsidiary is as follows:

Subsidiary	Principal Activity	% Ownership by Company at 31 December 2022	% Ownership by Company at 31 December 2021
EduFocal LLC	Online learning platform	100%	-

On March 21, 2022, EduFocal Limited acquired the website and other intangible assets of an edtech company in the United States of America. These intangible assets were housed in a newly created company, EduFocal LLC, as a wholly-owned subsidiary.

These financial statements are presented in Jamaican dollars, which is the Company’s functional currency.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for all the years presented. Where necessary, prior year comparatives have been restated and reclassified to conform to current year presentation.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and their interpretations adopted by the International Accounting Standards Board and have been prepared under the historical cost convention, as modified by the valuation of certain items. They are also prepared in accordance with the provisions of the Jamaican Companies Act.

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and contingent liabilities at the end of the reporting period and the total comprehensive income during the reporting period. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis and any adjustments that may be necessary would be reflected in the year in which actual results are known. The areas involving a higher degree of judgement in complexity or areas where assumptions or estimates are significant to the financial statements are discussed in note 4.

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards effective in the current year that are relevant to the Group's operations**

The following amendments to standards have been adopted by the Group for the first time which have been issued and are effective for mandatory adoption for the financial year beginning on or after 1 January 2022:

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) (effective for annual periods beginning on or after 1 January 2022) amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37), (effective for annual periods beginning on or after 1 January 2022) specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Annual Improvements to IFRS Standards 2018–2020 are effective for annual reporting periods beginning on or after 1 January 2022. The IASB issued its Annual Improvements to IFRSs 2015-2017 cycle amending a number of standards:

- **IFRS 9 'Financial Instruments' - Fees in the '10 per cent' test for derecognition of financial liabilities.** The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- **IFRS 16 'Leases' - Lease incentives.** The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The amendments did not result in any material effect on the Group's financial statements.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards and amendments to published standards that are not yet effective and have not been early adopted by the Group

At the date of authorisation of these financial statements, certain new accounting standards, amendments and interpretation to existing standards have been issued which are not yet effective, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations. Unless stated otherwise, the impact of the changes is still being assessed by management.

The amendments in Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023) affect only the presentation of liabilities in the statement of financial position - not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards that are not yet effective and have not been early adopted by the Group (continued)**

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8, (effective for annual periods beginning on or after 1 January 2023). The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities, (effective for annual periods beginning on or after 1 January 2023). These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a material impact on the operations of the Group.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiary as at 31 December 2022. A subsidiary is an entity controlled by the company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee, if and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The financial statements of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policy in line with the Group's accounting policy. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated in full on consolidation.

Disposal of subsidiary

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(c) Foreign currency translation**

Foreign currency transactions are accounted for at the exchange rate prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rate prevailing at the date of the statement of financial position, that is, in the case of each currency, the Bank of Jamaica weighted average buying and selling rates at that date. Gains and losses arising from fluctuations in exchange rates are reflected in the statement of comprehensive income.

(d) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis at rates to write off the carrying value of the assets over their expected useful lives. The rates used to write off the cost of assets are as follows:

Furniture and equipment	10%
Computers and accessories	25%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income.

Repair and maintenance expenditure are charged to the statement of comprehensive income during the financial period in which they are incurred.

2. Summary of significant accounting policies (continued)**(e) Intangible assets**

This represents the costs of software and educational content development, which includes costs incurred to bring to use the specific software, as well as certain acquired computer software licences. These intangible assets are identified separately and reported at cost less accumulated amortisation and accumulated impairment losses. The costs of these intangible assets are amortised over their estimated useful life of five years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(f) Fair value of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial assets carried on the statement of financial position include cash and cash equivalents, receivables and directors' accounts. Financial liabilities consist of trade and other payables, long term loans and short term borrowings.

Generally financial instruments are recognized on the statement of financial position when the company becomes a party to the contractual provisions of the instruments. The particular recognition methods adopted are disclosed in the respective accounting policies associated with each item.

The fair values of the financial instruments are discussed in Note 3(e).

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(g) Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. For trade receivables impairment provisions, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

Under the simplified approach within IFRS 9, the impairment provision is assessed using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Prepayments are partial or full settlements of debt or expenses before the contractually obligated due date, this includes advances and deposits.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and bank overdraft.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(i) Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Where applicable, current and deferred taxes are recognized as income tax expense.

- i. Current tax is the expected tax payable on the income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.
- ii. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of offset exists.

(j) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost.

(k) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be determined.

(l) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

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

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

2. Summary of significant accounting policies (continued)**(m) Dividends**

Dividends on ordinary shares are recognized in shareholder's equity in the period in which they become legally payable. Interim dividends are due when declared and approved by the directors while shareholders approve final dividends at the Annual General Meeting. Dividends for the year that are declared after the reporting date are disclosed in the subsequent events note.

(n) Revenue recognition

The Group provides online learning to different business segments of society, to include corporate contracts, partnerships with government agencies, schools and individual clients.

Revenue comprises the fair value of the consideration received or receivable, and represents amounts receivable for services supplied, stated net of discounts and General Consumption Tax.

The company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the company; and when specific criteria have been met for each of the entity's activities, as described below:

(i) Sales of services

For sales of services, revenue is recognized on the accrual basis, in the accounting period in which the related services are provided.

- (a) Online sales – This relates to paid access to the learning content platform. These are cash sales.
- (b) Partnership and business sales – These are contractual arrangements.

(ii) Interest income and interest expense

Interest income and expense is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective interest rate method on the actual purchase price.

(iii) Other operating income

Includes miscellaneous inflows. Income is recognized on the accrual basis.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(o) Net finance costs

Net finance costs comprise interest payable borrowings calculated using the effective interest rate method, interest income on funds invested during the course of routine treasury transactions, lease interest expense and foreign exchange gains and losses recognized in the income statement.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

2. Summary of significant accounting policies (continued)

(q) Impairment of non-financial assets

At each statement of financial position date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

(r) Related party transactions

A party is related to the company, if:

- (i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the company (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the company that gives it significant influence over the company; or has joint control over the company;
- (ii) the party is an associate of the company;
- (iii) the party is a joint venture in which the company is a venture;
- (iv) the party is a member of the key management personnel of the company or its parent
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is the company that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the company, or of any company that is a related party of the company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. The company has a related party relationship with its directors and key management personnel, representing certain senior officers of the company.

2. Summary of significant accounting policies (continued)**(s) Right-of-use assets and lease liabilities**

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- (i) Leases of low value assets; and
- (ii) Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- (i) amounts expected to be payable under any residual value guarantee;
- (ii) the exercise price of any purchase option granted in favour of the company if it is reasonable certain to assess that option;
- (iii) any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

To determine the incremental borrowing rate, the company:

- (i) since it does not have recent third-party financing, uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, and
- (ii) makes adjustments specific to the lease, e.g. term, currency and security.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- (i) lease payments made at or before commencement of the lease;
- (ii) initial direct costs incurred; and
- (iii) the amount of any provision recognised where the company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Summary of significant accounting policies (continued)

(t) Right-of-use assets and lease liabilities (continued)

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets valued as US\$5,000 or less when new. The group has no short-term leases or leases for low valued assets at this time.)

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

When the group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the stand-alone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

2. Summary of significant accounting policies (continued)**(t) Right-of-use assets and lease liabilities (continued)**

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

For contracts that both convey a right to the group to use an identified asset and require services to be provided to the group by the lessor, the group has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

Audit Committee

The Board of Directors has also established an Audit Committee to assist in managing the Group's risk profile. This Committee oversees how management monitors compliance with the Group's risk management policies and reviews the adequacy of the risk management framework. This committee is also assisted by Internal Audit that reports to the Audit Committee after it undertakes regular and ad hoc reviews of risk management controls and procedures, especially over inventories and receivables.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, due from related parties as well as outstanding receivables from credit sales.

Risk management

Management has established a credit policy under which each new customer is analysed individually for credit worthiness before the Company's standard payment and delivery terms and conditions are offered.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, considering its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by customers is regularly monitored by management.

3. Financial risk management (continued)**(a) Credit risk (continued)****Risk management (continued)**

Management determines concentrations of credit risk by monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future credit sales are made only with approval.

Security

The Group and the Company do not hold any collateral as security.

Impairment of financial assets

The Group and the Company have two types of financial assets that are subject to the expected credit loss model:

- trade receivables
- due from related parties

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2022 and 31 December 2021 and the corresponding credit losses experienced within these periods. EduFocal Limited does not have a significant history of losses relating to revenues. The management has estimated the loss rate by taking into consideration mostly forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the GDP, inflation and the unemployment rate of the countries in which it sells its services to be the most relevant factors, and will accordingly adjust the expected loss rates based on changes in these factors.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(a) Credit risk (continued)

On that basis, the loss allowance as at 31 December 2022 and 31 December 2021 was determined as follows for trade receivables:

The Group and Company:

31 December 2022	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
	\$	\$	\$	\$	\$
Expected loss rate	0.05%	0.10%	0%	47.64%	40.42%
Gross carrying amount – trade receivables	25,000,000	2,900,000	-	155,873,223	183,773,223
Loss allowance	12,500	2,900	-	74,257,823	74,273,223
31 December 2021	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
	\$	\$	\$	\$	\$
Expected loss rate	1.13%	5.00%	0%	37.94%	25.08%
Gross carrying amount – trade receivables	31,183,223	4,700,000	-	65,398,325	101,281,548
Loss allowance	352,039	235,000	-	24,812,165	25,399,204

The closing loss allowances for trade receivables as at 31 December 2022 and 31 December 2021 reconcile to the opening loss allowances is as follows:

	2022	2021
	\$	\$
Opening Expected Credit Loss balance	25,399,204	6,240,258
Increase in loss allowance recognised in profit or loss during the year	48,874,019	19,158,946
Closing Expected Credit Loss balance	74,273,223	25,399,204

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than 90 days past due.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(a) Credit risk (continued)

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2022 and 31 December 2021 trade receivables with lifetime expected credit losses of the full value of the receivables were as follows:

The Group and Company:

	<u>2022</u>	<u>2021</u>
	\$	\$
Trade receivables with lifetime expected credit losses	<u>74,257,823</u>	<u>-</u>

Other financial assets at amortised cost

Other financial assets at amortised cost include receivables due from related party.

The closing loss allowances for amounts due from related party as at 31 December 2022 reconciled to the opening loss allowances is as follows:

	<u>Related Party Receivables</u>
	<u>2022</u>
	\$
Balance of expected credit loss at beginning of year	-
Increase in loss allowance recognised in profit or loss during the year	104,269,543
Balance of expected credit loss at end of year	<u>104,269,543</u>

Net impairment losses on financial and contract assets recognised in profit or loss

During the period, the following losses were recognised in profit or loss in relation to impaired financial assets:

The Group and Company:

	<u>2022</u>	<u>2021</u>
	\$	\$
Impairment losses		
- movement in loss allowance for amounts due from related party	104,269,543	-
- movement in loss allowance for trade receivables	<u>48,874,019</u>	<u>19,158,946</u>
Net impairment losses on financial and contract assets	<u>153,143,562</u>	<u>19,158,946</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

The company's liquidity management process includes:

- (i) Monitoring future cash flows and liquidity on a daily basis;
- (ii) Maintaining marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining a committed line of credit.

Undiscounted cash flows of financial liabilities

The maturity profile of the group's financial liabilities at year end on contractual undiscounted payments was as follows:

The Group:

	Within 1 month	1 to 3 months	3 to 12 months	1 - 5 Years	Total	Carrying amount
	\$	\$	\$	\$	\$	\$
2022						
Payables	14,661,265	-	-	-	14,661,265	14,661,265
Director's loan	-	-	20,311,749	-	20,311,749	20,311,749
Lease liability	261,612	523,224	2,491,855	1,370,913	4,647,604	4,380,027
Long term loans	1,072,728	12,620,001	38,123,448	253,834,411	305,650,558	228,746,601
	<u>15,995,605</u>	<u>13,143,225</u>	<u>60,927,052</u>	<u>255,205,324</u>	<u>345,271,176</u>	<u>268,099,642</u>
2021						
Payables	23,047,054	-	-	-	23,047,054	23,047,054
Short term loans	-	92,897,655	-	-	92,897,655	85,484,661
Due to related party	-	1,500,000	-	-	1,500,000	1,500,000
Bank overdraft	60,307	-	-	-	60,307	60,307
Lease liability	235,000	470,000	2,213,700	1,508,700	4,427,400	4,124,003
Long term loans	440,987	1,322,963	3,527,901	32,602,153	37,894,004	26,541,169
	<u>23,783,348</u>	<u>96,190,618</u>	<u>5,741,601</u>	<u>34,110,853</u>	<u>159,826,420</u>	<u>140,757,194</u>

Assets available to meet all of the liabilities and to cover financial liabilities include cash at bank and in hand, short term deposits and guarantee from the ultimate parent company.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(b) Liquidity risk (continued)

Undiscounted cash flows of financial liabilities

The maturity profile of the company's financial liabilities at year end on contractual undiscounted payments was as follows:

The Company:

	Within 1 month	1 to 3 months	3 to 12 months	1 - 5 Year	Total	Carrying amount
	\$	\$	\$	\$	\$	\$
2022						
Payables	13,755,216	-	-	-	13,755,216	13,755,216
Lease liability	261,612	523,224	2,491,855	1,406,165	4,682,856	4,380,027
Long term loans	807,772	12,620,001	38,123,448	253,834,411	305,385,632	228,481,645
	14,824,600	13,143,225	40,615,303	255,240,576	323,823,704	246,616,888
2021						
Payables	23,047,054	-	-	-	23,047,054	23,047,054
Short term loans	-	92,897,655	-	-	92,897,655	85,484,661
Due to related party	-	1,500,000	-	-	1,500,000	1,500,000
Bank overdraft	60,307	-	-	-	60,307	60,307
Lease liability	235,000	470,000	2,213,700	1,508,700	4,427,400	4,124,003
Long term loans	440,987	1,322,963	3,527,901	32,602,153	37,894,004	26,541,169
	23,783,348	96,190,618	5,741,601	34,110,853	159,826,420	140,757,194

Assets available to meet all of the liabilities and to cover financial liabilities include cash and cash equivalents.

3. Financial risk management (continued)**(c) Market risk**

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in interest rates (see Note 3 (c)(i)) and foreign currency exchange rates (see Note 3 (c)(ii)). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk exposures are measured using sensitivity analysis. There has been no significant change in exposure to market risks or the manner in which it manages and measures the risk.

(i) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group incurs interest on its borrowings disclosed in Notes 16, 19, 20 and 21. These borrowings are at fixed rates and expose the Group to fair value interest rate risk. Interest rate fluctuations are not expected to have a material effect on the net results or stockholders' equity. The Group analyses its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing.

At the reporting date, the Group's financial liabilities subject to interest rates aggregated \$228,746,601 (2021: \$119,504,255). The company contracts financial liability at a fixed interest rate, hence changes in the market interest rate will not affect the cash flow nor the carrying amount of the instruments.

The following table summarizes the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts, categorized by the contractual re-pricing or maturity dates.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Group:

	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Non- interest bearing	Total
	\$	\$	\$	\$	\$	\$
2022						
Assets						
Receivables	-	-	-	-	110,932,733	110,932,733
Director's account Due from related parties	-	-	18,698,180	-	-	18,698,180
Cash and cash equivalents	3,615,644	-	-	-	-	3,615,644
Total financial assets	3,615,644	-	18,698,180	-	113,305,702	135,619,526
Liabilities						
Long term loans	432,811	7,482,881	23,032,329	197,798,580	-	228,746,601
Lease liability	231,100	467,305	2,331,068	1,350,534	-	4,380,027
Payables	-	-	-	-	14,661,265	14,661,265
Director's loan	-	-	-	-	20,311,749	20,311,749
Total financial liabilities	663,911	7,950,186	25,363,397	199,149,114	34,973,014	268,099,642
Total interest re- pricing gap	2,951,733	(7,950,186)	(6,665,217)	(199,149,114)	78,332,688	(132,480,116)

The Group has no significant sensitivity to interest rate risk as all borrowings are at fixed rates.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Group:

	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Non- interest bearing	Total
	\$	\$	\$	\$	\$	\$
2021						
Assets						
Receivables	-	-	-	-	77,312,597	77,312,597
Director's account	-	-	-	-	20,106,531	20,106,531
Due from related party	-	-	-	-	49,224,543	49,224,543
Cash and cash equivalents	4,013,319	-	-	-	-	4,013,319
Total financial assets	4,013,319	-	-	-	146,643,671	150,656,990
Liabilities						
Long term loans	440,987	881,975	3,413,113	21,805,094	-	26,541,169
Payables	-	-	-	-	23,047,054	23,047,054
Short term loans	-	85,484,661	-	-	-	85,484,661
Due to related party	-	1,500,000	-	-	-	1,500,000
Lease liability	206,173	416,901	2,019,469	1,481,460	-	4,124,003
Bank overdraft	60,307	-	-	-	-	60,307
Total financial liabilities	707,467	88,283,537	5,432,582	23,291,677	23,047,054	140,757,194
Total interest re- pricing gap	3,305,851	(88,283,537)	(5,432,582)	(23,291,677)	123,596,617	9,899,796

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

At the reporting date, the Company's financial liabilities subject to interest rates aggregated \$228,481,645 (2021: \$119,504,255). The Company contracts financial liability at a fixed interest rate, hence changes in the market interest rate will not affect the cash flow nor the carrying amount of the instruments.

The following table summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorized by the contractual re-pricing or maturity dates.

The Company:

	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Non- interest bearing	Total
	\$	\$	\$	\$	\$	\$
2022						
Assets						
Receivables	-	-	-	-	110,932,733	110,932,733
Director's account	-	-	16,575,116	-	-	16,575,116
Due from related parties	-	-	-	-	9,864,495	9,864,495
Cash and cash equivalents	1,370,465	-	-	-	-	1,370,465
Total financial assets	1,370,465	-	16,575,116	-	120,797,228	138,742,809
Liabilities						
Long term loans	167,855	7,482,881	23,032,329	197,798,580	-	228,481,645
Lease liability	231,100	467,305	2,331,068	1,350,554	-	4,380,027
Payables	-	-	-	-	13,755,216	13,755,216
Total financial liabilities	398,955	7,950,186	25,363,397	199,149,134	13,755,216	246,616,888
Total interest re-pricing gap	971,510	(7,950,186)	(8,788,281)	(199,149,134)	107,042,012	(107,874,079)

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Company:

	Within 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Non-interest bearing	Total
	\$	\$	\$	\$	\$	\$
2021						
Assets						
Receivables	-	-	-	-	77,312,597	77,312,597
Director's account	-	-	-	-	20,106,531	20,106,531
Due from related party	-	-	-	-	49,224,543	49,224,543
Cash and cash equivalents	4,013,319	-	-	-	-	4,013,319
Total financial assets	4,013,319	-	-	-	146,643,671	150,656,990
Liabilities						
Long term loans	440,987	881,975	3,413,113	21,810,217	-	26,546,292
Payables	-	-	-	-	23,047,054	23,047,054
Short term loans	-	85,484,661	-	-	-	85,484,661
Due to related party	-	1,500,000	-	-	-	1,500,000
Lease liability	206,173	416,901	2,019,469	1,481,460	-	4,124,003
Bank overdraft	60,307	-	-	-	-	60,307
Total financial liabilities	707,467	88,283,537	5,432,582	23,291,677	23,047,054	140,762,317
Total interest re- pricing gap	3,305,851	(88,283,537)	(5,432,582)	(23,291,677)	123,596,617	9,894,673

The Group has no significant sensitivity to interest rate risk as all borrowings are at fixed rates.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign exchange risk arising from exposure primarily to the US dollar. The group is primarily exposed to such risks arising from foreign currency translation in relation to cash at bank, related party, loans and payables.

The Statement of Financial Position for the Group as at 31 December 2022 includes net foreign (liabilities)/assets of (\$17,597,338) (2021: \$3,099,682) in respect of such transactions arising in the ordinary course of business.

The Statement of Financial Position for the Company as at 31 December 2022 includes net foreign assets of \$6,763,241 (2021: \$3,099,682) in respect of such transactions arising in the ordinary course of business.

The following tables demonstrates the sensitivity to fluctuations in the exchange rates of the currencies held by the group and company before tax, with all other variables held constant.

The Group:

	2022	2022	2021	2021
	\$	\$	\$	\$
	Effect on Profit and loss and equity			
	Revaluation	Devaluation	Revaluation	Devaluation
	1%	4%	2%	8%
Currency:				
USD	175,973	(703,894)	(61,994)	247,974

The Company:

	2022	2022	2021	2021
	\$	\$	\$	\$
	Effect on Profit and loss and equity			
	Revaluation	Devaluation	Revaluation	Devaluation
	1%	4%	2%	8%
Currency:				
USD	270,530	(67,632)	(61,994)	247,974

EduFocal Limited

Notes to the Financial Statements 31 December 2022

3. Financial risk management (continued)

(d) Capital management

The Group defines capital as equity and total borrowings. The Group manages its capital of \$237 million, to support and be responsive to opportunities for its current growth strategy and expansion plans and to maintain its normal operations and remain compliant with various covenants and restrictive rules and regulations of the industry and the financial environment in which it operates.

Capital Management Strategies

The Group's objectives when managing capital are to enhance the Group's financial performance to provide specific hurdle returns for its shareholders while maintaining an optimal capital structure, to contain the cost of capital, as well as meeting externally imposed capital requirements.

The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Group monitors capital based on the gearing ratio. This ratio is calculated as total borrowings divided by capital as defined above. Total borrowings are calculated as current and non-current borrowings, as shown in the consolidated statement of financial position. Capital is calculated as total shareholder's equity, as shown in the statement of financial position plus total borrowings.

The management of the Group remains deliberate in the way it funds its growth projects and given the present economic environment and the general uptick in the cost of capital in the market; management continues to adjust major debts to optimize operating performance, and specifically to scale the business effectively.

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Total borrowings (excluding lease liability and non-interest-bearing related party liabilities)	228,746,601	112,025,830	228,481,645	112,025,830
Equity and total borrowing	236,721,535	186,241,512	245,371,880	186,241,512
Gearing ratio	97%	60%	93%	60%

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

3. Financial risk management (continued)**(e) Fair value estimates**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognized stock exchange) exists as it is the best evidence of the fair value of a financial instrument.

The amount included in the financial statements for cash and bank balances, receivables, directors' current account, due from related companies, short term loans and payables reflect their approximate fair values because of the short-term maturity of these instruments.

The fair values of long-term loans approximate amortised costs.

The fair values of directors' account and due to related companies could not be reasonably assessed as there are no set repayment terms.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

4. Critical accounting estimates and judgements in applying accounting policies

The Group and Company makes estimates, assumptions and judgements that affect the reported amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements. Amounts and disclosures based on these estimates assumptions and judgements may be different from actual outcomes, and these differences may be reported in the financial statements of the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated.

(i) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group and Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's and Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the Credit risk note.

(ii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain in the ordinary course of business. In cases of such uncertainty, the Group and Company recognises liabilities for possible additional taxes based on its judgement. Where, on the basis of a subsequent determination, the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

(iii) Depreciable assets

Estimates of the useful life and the residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The Group and Company applies a variety of methods in an effort to arrive at these estimates from which actual results may vary. Actual variations in estimated useful lives and residual values are reflected in profit or loss through impairment or adjusted depreciation provisions.

(iv) Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination, involve the utilization of valuation techniques. These intangibles may be market related, consumer related, contract based or technology based.

EduFocal Limited**Notes to the Financial Statements
31 December 2022****5. Property, plant and equipment****The Group and The Company:**

	Furniture & equipment	Computers & accessories	Total
	\$	\$	\$
At Cost-			
1 January 2021	959,349	670,259	1,629,608
Additions	1,010,665	2,275,829	3,286,494
31 December 2021	1,970,014	2,946,088	4,916,102
Additions	74,027	-	74,027
Disposals	(45,109)	(74,750)	(119,859)
31 December 2022	1,998,932	2,871,338	4,870,270
Depreciation-			
1 January 2021	344,926	222,654	567,580
Charge for the year	152,952	503,685	656,637
31 December 2021	497,878	726,339	1,224,217
Charge for the year	217,445	717,400	934,845
Relieved on disposals	(2,631)	(15,573)	(18,204)
31 December 2022	712,692	1,428,166	2,140,858
Net book value-			
31 December 2022	1,286,240	1,443,172	2,729,412
31 December 2021	1,472,136	2,219,749	3,691,885

EduFocal Limited

Notes to the Financial Statements 31 December 2022

6. Intangible assets

Intangible assets comprise computer software and intellectual property purchased and developed by the Group. Intellectual property is amortized over eight years. Amortization of the computer software is calculated based on an estimated useful live of five years.

The Group:

	Intellectual Property	Software	Work-in- progress	Total
	\$	\$	\$	\$
Cost-				
1 January 2021	14,255,981	19,620,227	-	33,876,208
Additions	22,769,587	22,688,330	-	45,457,917
31 December 2021	37,025,568	42,308,557	-	79,334,125
Additions	21,464,578	45,521,852	19,270,202	86,256,632
31 December 2022	58,490,146	87,830,409	19,270,202	165,590,757
Amortization-				
1 January 2021	-	1,913,845	-	1,913,845
Charge for the year	3,372,736	7,322,077	-	10,694,813
31 December 2021	3,372,736	9,235,922	-	12,608,658
Charge for the year	6,124,353	15,909,234	-	22,033,587
31 December 2022	9,497,089	25,145,156	-	34,642,245
Net book value-				
31 December 2022	48,993,057	62,685,253	19,270,202	130,948,512
31 December 2021	33,652,832	33,072,635	-	66,725,467

During the year, the Group purchased all of the Clever School Teacher online learning platform and content for a sum of \$42 million. These intangible assets are managed by the subsidiary, EduFocal LLC.

EduFocal Limited**Notes to the Financial Statements
31 December 2022****6. Intangible assets (continued)**

The Group determines whether the intangible assets are impaired at least on an annual basis or when events or changes in circumstances indicate the carrying value maybe impaired. This requires an estimation of the recoverable amount of the cash generating unit (CUG) to which intangible asset is allocated. The recoverable amount is determined by reference to the value in use. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CUG and also to choose an appropriate discount rate in order to calculate the present value of those future cash flows. The cash flow projections are based on financial budgets approved by management covering a five-year period.

The Company:

	Intellectual Property	Software	Work-in- progress	Total
	\$	\$	\$	\$
Cost-				
1 January 2021	14,255,981	19,620,227	-	33,876,208
Additions	22,769,587	22,688,330	-	45,457,917
31 December 2021	37,025,568	42,308,557	-	79,334,125
Additions	19,353,983	5,353,671	18,787,988	43,495,642
31 December 2022	56,379,551	47,662,228	18,787,988	122,829,767
Amortization-				
1 January 2021	-	1,913,845	-	1,913,845
Charge for the year	3,372,736	7,322,077	-	10,694,813
31 December 2021	3,372,736	9,235,922	-	12,608,658
Charge for the year	6,016,611	9,124,512	-	15,141,123
31 December 2022	9,389,347	18,360,434	-	27,749,781
Net book value-				
31 December 2022	46,990,204	29,301,794	18,787,988	95,079,986
31 December 2021	33,652,832	33,072,635	-	66,725,467

EduFocal Limited

Notes to the Financial Statements 31 December 2022

7. Investment in subsidiary

	<u>The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
EduFocal LLC	20,177,790	-

On March 21, 2022, EduFocal Limited acquired the website and other intangible assets of an edtech company in the United States of America. These intangible assets are included in the financial statements of the wholly owned subsidiary, EduFocal LLC.

8. Right-of-use asset and related lease liability

(i) Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to leases: -

Right-of-use asset

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
Balance as at beginning of year	4,023,825	-
Additions	-	5,365,101
Re-measurement	2,651,079	-
Amortization	(2,902,585)	(1,341,276)
Balance as at end of year	<u>3,772,319</u>	<u>4,023,825</u>

Lease liability

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
Balance as at beginning of year	4,124,003	-
Additions	-	5,365,101
Re-measurement	2,651,079	-
Interest expense	611,229	204,152
Payments	(3,006,284)	(1,445,250)
Balance as at end of year	<u>4,380,027</u>	<u>4,124,003</u>

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
Current	3,029,473	2,642,543
Non-current	<u>1,350,554</u>	<u>1,481,460</u>
Balance as at end of year	<u>4,380,027</u>	<u>4,124,003</u>

EduFocal Limited**Notes to the Financial Statements
31 December 2022****8. Right-of-use asset and related lease liability (continued)****(i) Amounts recognized in the statement of comprehensive income**

The statement of profit or loss shows the following amounts relating to leases:

	The Group and The Company	
	2022	2021
	\$	\$
Amortization of right-of-use asset (included in administrative expenses)	2,902,585	1,341,276
Interest expense (included in finance costs)	611,229	204,152

(ii) Amounts recognized in the statement of cash flows

	The Group and The Company	
	2022	2021
	\$	\$
Total cash outflows for leases	3,006,284	1,445,250

EduFocal Limited

Notes to the Financial Statements 31 December 2022

9. Deferred income taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using the applicable tax rate. Assets and liabilities recognised on the statement of financial position are as follows:

	The Group and The Company	
	2022	2021
	\$	\$
Deferred income tax assets	<u>3,004,807</u>	<u>1,267,438</u>

The movement on the net deferred income tax balance is as follows:

	The Group and The Company	
	2022	2021
	\$	\$
Net assets at the beginning of year	1,267,438	353,160
Deferred tax credited to profit and loss (Note 29)	<u>1,737,369</u>	<u>914,278</u>
Net assets at the end of year	<u>3,004,807</u>	<u>1,267,438</u>

Deferred income tax assets and liabilities are attributable to the following items:

	The Group and The Company	
	2022	2021
	\$	\$
Deferred tax assets:		
Property, plant and equipment	(162,471)	(209,483)
Intangible assets	2,925,159	999,157
Right-of-use asset, net of lease obligation	151,927	25,045
Interest payable	90,192	258,335
Unrealised foreign exchange gains	<u>-</u>	<u>194,384</u>
Net deferred tax assets at end of year	<u>3,400,807</u>	<u>1,267,438</u>

EduFocal Limited**Notes to the Financial Statements
31 December 2022****9. Deferred income taxes (continued)**

The amounts shown in the statement of financial position include the following:

	The Group and The Company	
	2022	2021
	\$	\$
Deferred tax assets to be recovered:		
- less than 12 months	-	-
- after more than 12 months	3,004,807	1,267,438
	<u>3,004,807</u>	<u>1,267,438</u>

10. Receivables

	The Group and The Company	
	2022	2021
	\$	\$
Trade receivables	183,773,223	101,281,548
Less: Expected credit loss provision	<u>(74,273,223)</u>	<u>(25,399,204)</u>
	109,500,000	75,882,344
Prepaid expenses	906,500	438,066
Other receivables	<u>526,233</u>	<u>992,187</u>
	<u>110,932,733</u>	<u>77,312,597</u>

Movement of expected credit loss provision is as follows:

	The Group and The Company	
	2022	2021
	\$	\$
Balance at beginning of year	25,399,204	6,240,258
Provision during the year	<u>48,874,019</u>	<u>19,158,946</u>
Balance at end of year	<u>74,273,223</u>	<u>25,399,204</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

11. Director's account

Director's account represents amounts due from a director. This loan attracts interest of 5% per annum with principal and interest repayable quarterly. The loan is to be repaid by June 2023.

12. Due from/(to) related parties

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Due from related parties:				
Due from EduFocal Business Limited	106,199,543	49,224,543	106,199,543	49,224,543
Less: Expected credit loss provision	(104,269,543)	-	(104,269,543)	-
	1,930,000	49,224,543	1,930,000	49,224,543
Due from EduFocal Academy	442,969	-	442,969	-
Due from EduFocal LLC	-	-	7,491,526	-
	2,372,969	49,224,543	9,864,495	49,224,543
Due to related party:				
Andre Swaby	-	(1,500,000)	-	(1,500,000)
	2,372,969	47,724,543	9,864,495	47,724,543

These parties are related by common shareholders and directors. The balances are unsecured, interest free and has no fixed repayment terms and conditions.

13. Cash and cash equivalents

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cash at bank	3,615,644	4,013,319	1,370,465	4,013,319
	3,615,644	4,013,319	1,370,465	4,013,319

Cash at bank substantially comprise savings and operating accounts at licensed commercial banks in Jamaica and the United States of America. The rate of interest earned on the Group's foreign currency savings accounts ranges from 0.0% to 0.03% (2021: 0.0% to 0.75%).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

14. Share capital

	<u>2022</u>	<u>2021</u>
Authorised	No. of shares	No. of shares
Opening authorised ordinary shares of no par value	Unlimited	18,373,000
Closing authorised ordinary shares of no par value	Unlimited	Unlimited
Issued and fully paid		
Opening issued and fully paid ordinary shares	518,756,875	10,000,000
Sub-division of shares (a)	-	440,000,000
Preference shares converted to ordinary shares (Note 15) (b)	-	60,506,050
Shareholder's loan converted to ordinary shares (Note 20) (b)	-	8,250,825
Initial Public Offer issued during the year (c)	116,446,989	-
Short term loan converted to ordinary shares (Note 19) (c)	13,242,230	-
Closing issued and fully paid ordinary shares	<u>648,446,094</u>	<u>518,756,875</u>
	<u>2022</u>	<u>2021</u>
Ordinary shares of no par value	\$	\$
Balance at beginning of year	72,763,569	10,345,452
Preference shares converted to ordinary shares (Note 15) (b)	-	54,999,999
Shareholder's loan converted to ordinary shares (Note 20) (b)	-	7,418,118
Initial Public Offer issued during the year (c)	102,868,121	-
Short term loan converted to ordinary shares (Note 19 (e)) (c)	10,000,000	-
Balance at end of year	<u>185,631,690</u>	<u>72,763,569</u>

(a) On September 1, 2021, the Company held an Extraordinary General Meeting which resulted in the Board of Directors passing a resolution to sub-divide each of the existing ordinary shares into 45 ordinary shares. Accordingly, the number of issued ordinary shares increased to 450,000,000.

(b) On September 1, 2021, the Company held an Extraordinary General Meeting which resulted in the Board of Directors passing a resolution to convert the preference shares (Note 15) and shareholder's loan (Note 20) into ordinary shares.

(c) On February 9, 2022, the Company held an Extraordinary General Meeting which resulted in the Board of Directors passing a resolution for the issue of shares through an initial public offer thereby approving the issue of up to 129,689,219 ordinary shares. The additional shares were listed on the Junior Market of the Jamaica Stock Exchange on March 15, 2022.

116,446,989 ordinary shares were issued to the general public and key strategic partners, while 13,242,230 was issued through a short-term loan lender exercising a conversion option (Note 19 (e)).

EduFocal Limited**Notes to the Financial Statements
31 December 2022****15. Preference shares**

	<u>2022</u>	<u>2021</u>
	\$	\$
Authorized:-		
Redeemable cumulative convertible preference shares, par value	-	55,000,000
	<u>2022</u>	<u>2021</u>
	\$	\$
Issued and fully paid:-		
Opening balance	-	-
Issued during the year	-	54,999,999
Converted to Ordinary shares (Note 14 (c))	-	(54,999,999)
Redeemable cumulative convertible preference shares, par value	-	-

On May 13, 2021, the directors passed a resolution authorising the issue of up to Fifty-Five Million Dollars (\$55,000,000.00) redeemable cumulative convertible preference shares.

In June 2021 and July 2021 the company issued preference shares valued at \$29,991,999 and \$25,008,000, respectively, which has a maturity date of twelve (12) months after the issued date. Redemption shall be at the company's option and if done before the maturity date, there is an early redemption premium of 10%.

The terms of the preference shares issued includes the mandatory conversion of all outstanding preference shares to ordinary shares once the company provides a written notice that it intends to offer its ordinary shares to the public by way of an Initial Public Offer (IPO) prior to the maturity date. In the event of an IPO, the face value of the preference shares shall be converted to ordinary shares at a discounted price of 10% of the IPO price.

On September 1, 2021, the preference shares were converted to 60,506,050 ordinary shares (Note 14 (b)).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

16. Long term loans

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Celtic Bank (a)	264,956	-	-	-
JMMB Bank (Jamaica) Limited (b)	23,126,833	25,252,744	23,126,833	25,252,744
National Commercial Bank Jamaica Limited (c)	-	540,739	-	540,739
Mayberry Investments Limited (d)	192,857,142	-	192,857,142	-
Jardim Maxwell (e)	12,136,902	-	12,136,902	-
	<u>228,385,833</u>	<u>25,793,483</u>	<u>228,120,877</u>	<u>25,793,483</u>
Interest payable	<u>360,768</u>	<u>747,686</u>	<u>360,768</u>	<u>747,686</u>
	<u>228,746,601</u>	<u>26,541,169</u>	<u>228,481,645</u>	<u>26,541,169</u>
Less: Current portion	<u>(30,948,021)</u>	<u>(2,200,411)</u>	<u>(30,683,065)</u>	<u>(2,200,411)</u>
	<u>197,798,580</u>	<u>24,340,758</u>	<u>197,798,580</u>	<u>24,340,758</u>

- (a) This loan, amounting to US\$9,600, was received in April 2022. The loan is a factoring agreement and was guaranteed by Stripe Incorporation. The loan attracts interest at the rate of 19.90% per month and is repayable in nineteen (19) equal monthly instalments.
- (b) This loan, amounting to \$27,500,000, was received in August 2020, attracts interest at the rate of 9% per annum and is repayable in one hundred and twenty (120) monthly instalments of \$348,358.38. The loan represents a non-revolving demand loan and is secured by personal guarantees and assets of Gordon, Lloyd and Olivene Swaby, including a Second Legal Guarantor's Mortgage over commercial property, located in Christiana Manchester, registered at Volume 1450 Folio 447 in the names of Lloyd and Olivene Swaby.
- (c) This loan, amounted to \$5,000,000, was received in June 2016 and attracted interest at the rate of 10% per annum. The loan was secured by promissory note and a Mortgage over commercial property, located in Christiana Manchester, registered at Volume 1450 Folio 447 in the names of Lloyd and Olivene Swaby. The loan was repaid during the year.
- (d) This loan, amounting to \$200,000,000, was received in September 2022 and attracts interest at the rate of 9.5% per annum for two (2) years and will be variable annually thereafter. The loan is repayable in twenty-seven (27) quarterly instalments of \$7,142,858. The loan is secured by a promissory note.
- (e) This loan, amounting to US\$100,000, was received in August 2022 and attracts interest at the rate of 9% per annum, which is payable in sixty (60) monthly instalments. The principal, which is unsecured, is repayable on the maturity date.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

17. Payables

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Trade payables	1,140,824	696,318	1,140,824	696,318
Accruals	7,578,020	4,291,784	6,671,971	4,291,784
Statutory liabilities	4,381,640	16,166,310	4,381,640	16,166,310
Other payables	1,560,781	1,892,642	1,560,781	1,892,642
	<u>14,661,265</u>	<u>23,047,054</u>	<u>13,755,216</u>	<u>23,047,054</u>

18. Director's loan

Director's loan represents amounts advanced by a director. The loan is unsecured, interest free and has no fixed repayment terms.

19. Short term loans

		The Group and The Company	
		2022	2021
		\$	\$
Carbyne Capital Investment Limited	(a)	-	3,120,000
Dolla Financial Services Limited	(b)	-	8,595,000
Dolla Financial Services Limited	(c)	-	8,457,775
Mayberry Investments Limited	(d)	-	15,311,886
Roots Financial Group Limited	(e)	-	50,000,000
		<u>-</u>	<u>85,484,661</u>

- (a) This loan, amounted to \$3,120,000 and was received in January 2021. The loan was a factor financing agreement and was guaranteed by Ministry of Education, Youth and Information Contract GOJ-66-2020/2021. The loan attracted interest at the rate of 10% per month. The loan was repaid during the year.
- (b) This loan, amounted to \$9,550,000, was received in October 2021 and attracted interest at the rate of 5% per month. The loan was repaid during the year.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

19. Short term loans (continued)

- (c) This loan, amounted to \$8,457,775, was received in December 2021 and attracted interest at the rate of 5% per month. The loan was repaid during the year.
- (d) This loan, amounted to US\$100,000, was received in December 2021 and attracted interest at 3% compounded monthly. The loan was repaid during the year.
- (e) This loan, amounted to \$50,000,000, was received in March 2021 and attracted interest of 8.5% per annum. During the year \$40,000,000 was repaid and the balance of \$10,000,000 was converted to 13,242,230 ordinary shares (Note 14 (c)) in keeping with the loan agreement.

20. Shareholder's loan

This represents amount due to a shareholder of the company. This loan, amounting to US\$50,000, was received in September 2020. The balance was unsecured, attracted interest at the rate of 5% per month and was repayable in six (6) months.

In March 2021, the terms of the loan were changed, where it was agreed to convert the principal and interest in the event of an Initial Public Offer (IPO) of its shares by the company. The amount outstanding would be converted to ordinary shares at a discounted price of 10% of the IPO price.

On September 1, 2021, as per agreement the shareholder loan was converted to 8,250,825 ordinary shares (Note 14 (b)).

21. Bank overdraft

	<u>The Group and The Company</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
First Global Bank Limited	-	60,307

22. Revenue

Revenue comprises income from online, educational services to companies, schools and individuals and is stated net of discounts, allowances, and General Consumption Tax.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

23. Expenses by nature

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Advertising and promotion	4,274,452	2,647,228	4,062,111	2,647,228
Amortization of intangible assets	22,033,587	10,694,813	15,141,123	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276	2,902,585	1,341,276
Audit fee	2,681,843	967,000	1,990,047	967,000
Bad debt written off	9,008,325	8,960,325	9,008,325	8,960,325
Bank charges	622,631	847,827	599,548	847,827
Consulting fees	29,575,275	14,974,773	29,575,275	14,974,773
Content labour	9,443,155	7,986,240	8,807,015	7,986,240
Depreciation	934,845	656,637	934,845	656,637
Director's emoluments	750,000	-	750,000	-
Donation	327,500	-	327,500	-
Dues and subscriptions	6,703,306	8,247,780	6,302,689	8,247,780
GCT expense	2,713,040	1,093,206	2,636,878	1,093,206
Insurance expense	229,201	311,263	229,201	311,263
Legal and professional fees	10,921,837	5,872,880	5,192,175	5,872,880
Office rental	-	1,190,419	-	1,190,419
Other expenses	3,361,788	1,072,548	2,855,435	1,072,548
Penalties and interest	7,448,608	-	7,448,608	-
Repairs and maintenance	7,500	42,583	7,500	42,583
Staff costs (Note 27)	63,707,996	56,697,374	63,707,996	56,697,374
Travel and entertainment	3,061,962	3,484,810	1,586,708	3,484,810
Utilities	3,000,944	1,726,730	3,000,944	1,726,730
	183,710,380	128,815,712	167,066,508	128,815,712
Impairment losses on financial assets (Note 26)	153,143,562	19,158,946	153,143,562	19,158,946
Finance costs, net (Note 28)	28,736,808	19,629,755	28,695,535	19,629,755
	365,590,750	167,604,413	348,905,605	167,604,413

EduFocal Limited**Notes to the Financial Statements
31 December 2022****24. Operating profit**

In arriving at the operating (loss)/profit for the period, the following have been charged: -

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Auditors' remuneration- current	1,991,796	967,000	1,300,000	967,000
Auditors' remuneration- prior year	690,047	-	690,047	-
Amortization of intangible asset	22,033,587	10,694,813	15,141,123	10,694,813
Amortization of right-of-use asset	2,902,585	1,341,276	2,902,585	1,341,276
Expected credit loss	153,143,562	19,158,946	153,143,562	19,158,946
Depreciation	934,845	656,637	934,845	656,637
Directors' emoluments:				
- Fee	750,000	-	750,000	-
- Management remuneration (included in staff costs)	1,854,000	3,403,100	1,854,000	3,403,100
Staff costs (Note 27)	<u>63,707,996</u>	<u>56,697,374</u>	<u>63,707,996</u>	<u>56,697,374</u>

25. Other operating income

Other operating income comprises the following:

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Other income	<u>27,343</u>	<u>7,905</u>	<u>-</u>	<u>7,905</u>

26. Impairment losses on financial assets

This amount represents the expected credit loss provision on trade receivables (Note 10) and due from related party (Note 12).

EduFocal Limited

Notes to the Financial Statements 31 December 2022

27. Staff costs

	The Group and The Company	
	2022	2021
	<u>\$</u>	<u>\$</u>
Wages and salaries	51,536,325	46,879,388
Statutory contribution	9,267,137	7,175,353
Other staff related costs	<u>2,904,534</u>	<u>2,642,633</u>
	<u><u>63,707,996</u></u>	<u><u>56,697,374</u></u>

28. Finance costs, net

	The Group		The Company	
	2022	2021	2022	2021
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Loans interest expense	23,412,371	12,335,022	23,230,967	12,335,022
Lease interest expense	611,229	204,152	611,229	204,152
Financing fees	4,800,000	6,152,185	4,800,000	6,152,185
Foreign exchange losses	485,321	1,516,901	498,876	1,516,901
Interest income	<u>(572,113)</u>	<u>(578,505)</u>	<u>(445,537)</u>	<u>(578,505)</u>
	<u><u>28,736,808</u></u>	<u><u>19,629,755</u></u>	<u><u>28,695,535</u></u>	<u><u>19,629,755</u></u>

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Notes to the Financial Statements 31 December 2022

29. Taxation

- (a) Taxation is computed on the operating (loss)/profit for the period adjusted for taxation purposes and comprises income tax at the applicable rate:-

	The Group and The Company	
	2022	2021
	\$	\$
Income tax – current year	1,754,047	9,724,419
Income tax – prior year	2,069,652	-
Remission of income tax	(1,403,237)	-
Deferred income taxes (Note 9)	(1,737,369)	(914,278)
	<u>683,093</u>	<u>8,810,141</u>

Income tax is calculated at the rate 25% (2021:25%).

- (b) The taxation charged in the statement of comprehensive income differs from the theoretical amount that would arise using the applicable tax rate, as follows:

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
(Loss)/profit before taxation	(178,126,642)	17,554,526	(169,861,285)	17,554,526
Tax calculated at the appropriate rate	(44,531,611)	4,388,631	(42,465,321)	4,388,631
Adjusted for the effects of:-				
Income taxed at a different rate	2,066,339	-	-	-
Expense not allowed for tax purposes	42,507,412	4,789,737	42,507,412	4,789,737
Corporate Tax Credit	-	(375,000)	-	(375,000)
Adjustment for prior year	2,069,652	-	2,069,652	-
Remission of income tax	(1,403,237)	-	(1,403,237)	-
Other charges and allowances	(25,413)	6,773	(25,413)	6,773
	<u>683,093</u>	<u>8,810,141</u>	<u>683,093</u>	<u>8,810,141</u>

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

29. Taxation (continued)**Remission of income tax**

By notice dated 13 August 2009, the Minister of Finance and the Public Service, issued and gazette the Income Tax (Jamaica Stock Exchange Junior Market) (Remission) Notice, 2009. The Notice effectively granted a remission of income tax to eligible companies that were admitted to the Junior Market of the Jamaica Stock Exchange (JSE) if certain conditions were achieved after the date of initial admission.

Effective 15 March 2022, the Company's shares were listed on the Junior Market of the JSE. The Company is entitled to a remission of income taxes for ten years in the following proportion:

Years 1 – 5 (15 March 2022 – 14 March 2027) – 100%

Years 6 - 10 (15 March 2027 – 14 March 2032) – 50%

The Company's 100% remission of income taxes expires 14 March 2027, and as a consequence the Company's taxable profit will be subject to 50% tax remission until 14 March 2032.

The Company will continue to benefit from the tax remission provided the following conditions are met:

- the Company remains listed for at least 15 years and is not suspended from the JSE for any breaches of its rules
- the Subscribed Participating Voting Share Capital of the Company does not exceed J\$500 million
- the Company has at least 50 Participating Voting Shareholders.

The financial statements have been prepared on the basis that the Company will have the full benefit of the tax remissions.

EduFocal Limited**Notes to the Financial Statements
31 December 2022****30. (Loss)/earnings per stock unit**

Basic (loss)/profit per stock unit (“EPS”) is computed by dividing the (loss)/profit attributable to stockholders of the Group by the weighted average number of ordinary stock units in issue during the year.

	<u>The Group</u>		<u>The Company</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	\$	\$	\$	\$
Net (loss)/profit attributable to Stockholders of the Company	<u>(178,809,735)</u>	<u>8,744,385</u>	<u>(170,544,378)</u>	<u>8,744,385</u>
Weighted average number of ordinary stocks units	<u>622,508,250</u>	<u>180,050,243</u>	<u>622,508,250</u>	<u>180,050,243</u>
(Loss)/earnings per stock unit	<u>(0.29)</u>	<u>0.05</u>	<u>(0.27)</u>	<u>0.05</u>

EduFocal Limited

Notes to the Financial Statements 31 December 2022

31. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transactions and balances are recognised and disclosed below for the following:

- (a) Enterprises over which a substantial interest in the voting power is owned by key management personnel, including directors and officers and close members of families or;
- (b) Enterprises over which such a person, in (a) above, is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the Group.

As at the statement of financial position date the following balances were outstanding: -

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Director's account	18,698,180	20,106,531	16,575,116	20,106,531
Due from related parties	2,372,969	49,224,543	9,864,495	49,224,543
Due to related party	-	(1,500,000)	-	(1,500,000)
Director's loan	(20,311,749)	-	-	-
	759,400	67,831,074	26,439,611	67,831,074

The following was (credited)/charged to the statement of comprehensive income:

	The Group		The Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Sales to EduFocal Business Limited	(59,975,000)	(49,224,543)	(59,975,000)	(49,224,543)
Interest income	(444,735)	(578,135)	(444,735)	(578,135)
Interest expense	365,890	677,539	365,890	677,539
Director's emoluments	750,000	-	750,000	-
Director's remuneration	1,854,000	3,403,100	1,854,000	3,403,100

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

32. Restatement of prior year balances

Restatement of the prior year share capital relates to the conversion of preference shares and shareholder's loan that were not reclassified in 2021. Also, the interest payable on the shareholder's loan was reclassified from long term loans.

Below are the reconciliations of the Statement of Financial Position and Statement of Comprehensive Income at December 31, 2021.

EduFocal Limited

Notes to the Financial Statements 31 December 2022

32. Restatement of prior year balances (continued)

(a) Statement of financial position as at December 31, 2021: -

	As previously stated	Effect of restatement	As Restated
	\$	\$	\$
ASSETS			
Non-current assets			
Property, plant and equipment	3,691,885	-	3,691,885
Intangible assets	66,725,467	-	66,725,467
Right- of- use asset	4,023,825	-	4,023,825
Deferred tax assets	1,267,438	-	1,267,438
	75,708,615	-	75,708,615
Current assets			
Receivables	77,312,597	-	77,312,597
Director's account	20,106,531	-	20,106,531
Due from related parties	49,224,543	-	49,224,543
Cash and cash equivalents	4,013,319	-	4,013,319
	150,656,990	-	150,656,990
TOTAL ASSETS	226,365,605	-	226,365,605
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	(a) 10,345,452	62,418,117	72,763,569
Preference shares	(b) 54,999,999	(54,999,999)	-
Retained earnings	1,452,113	-	1,452,113
	66,797,564	7,418,118	74,215,682
Non-current liabilities			
Long term loans	24,340,758	-	24,340,758
Lease liability	1,481,460	-	1,481,460
	25,822,218	-	25,822,218
Current liabilities			
Payables	23,047,054		23,047,054
Current portion of lease liability	2,642,543		2,642,543
Current portion of long term	(c) 2,205,534	(5,123)	2,200,411
Short term loans	85,484,661		85,484,661
Due to related party	1,500,000		1,500,000
Shareholder's loan	(d) 7,412,995	(7,412,995)	-
Bank overdraft	60,307		60,307
Taxation payable	11,392,729		11,392,729
	133,745,823	(7,418,118)	126,327,705
TOTAL EQUITY AND LIABILITIES	226,365,605	-	226,365,605

EduFocal Limited**Notes to the Financial Statements
31 December 2022**

32. Restatement of prior year balances (continued)

Effect of restatement on Statement of Financial Position is broken down as follows:

	<u>\$</u>
(a) Recording increase in share capital due to conversion of preference shares and shareholder's loan	62,418,117
(b) Reclassification of preference shares converted to share capital	(54,999,999)
(c) Reclassification of interest payable on shareholder's loan included in long term loans	(5,123)
(d) Reclassification of shareholder's loan converted to share capital	<u>(7,412,995)</u>
	<u><u>-</u></u>