

Mach7 Technologies Limited

ABN 26 007 817 192

and Controlled Entities (Mach7 Technologies Group)

Preliminary Final Report For the year ended 30 June 2016

(Previous corresponding period: Year ended 30 June 2015)

Provided to the ASX in accordance with listing rule 4.3A

Melbourne Office

Mach7 Technologies Limited

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Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

30 June 2016
ASX Appendix 4E
Preliminary Final Report

Results for announcement to the market

Current reporting period 1 July 2015 to 30 June 2016
 Previous corresponding period 1 July 2014 to 30 June 2015

		% Change		\$'000
Revenue from continuing operations	increase	1192%	to	1,860
Net loss for the year	increase	111%	to	(14,563)
Net loss for the year attributable to members	increase	111%	to	(14,563)
Dividends				
Interim dividend				–
Final dividend				–

	Current period	Previous Corresponding period
	\$'000	\$'000
Consolidated accumulated losses		
Accumulated losses at the beginning of the financial period	(9,523)	(2,613)
Net loss attributable to equity holders	(14,563)	(6,910)
Accumulated losses at the end of the financial period	(24,086)	(9,523)

Earnings per share (EPS)

Basic EPS	Loss 2.8 cents	Loss 3.6 cents
Diluted EPS	Loss 2.8 cents	Loss 3.6 cents
Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	524,315,820	192,428,473

Net Tangible Asset Backing

Net tangible asset backing per ordinary share	(0.0) cents	0.8 cents
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Comments by directors

Please refer to the "Operating and Financial Review" in the directors' report for a detailed explanation and analysis of the Group's performance for the 12 months ended 30 June 2016.

Audit

This report is based on accounts which have been audited. A copy of the directors' report and audited financial statements, together with the audit report, is attached.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Your directors submit their report for the year ended 30 June 2016.

Directors

The following persons were Directors or Company Secretary of the Company at any time during FY16, or since the end of FY16 up to the date of this report:

Damien Lim	Non-Executive Chairman (appointed on 8 April 2016)
Albert Liong	Managing Director and CEO (appointed on 8 April 2016)
Dr Nigel Finch	Non-Executive Director (8 April 2016 onwards)
	Executive Chairman (21 December 2015 to 8 April 2016)
	Non-Executive Chairman (28 May 2015 to 21 December 2015)
Nobuhiko Ito	Non-Executive Director (appointed on 8 April 2016)
Alister W Spittle	Non-Executive Director (appointed on 15 June 2016)
Ken Poutakidis	Non-Executive Director (appointed on 8 April 2016, resigned on 15 June 2016)
Stephen Hewitt-Dutton	Non-Executive Director (resigned on 8 April 2016)
Frank Pertile	Non-Executive Director (resigned on 8 April 2016)

Directors' qualifications, experience, special responsibilities and period in office are set out in the section of this Report entitled "Board of Directors and Company Secretary" on pages 85–86.

Directors' relevant interest in Mach7 Technologies Limited securities

The directors' interests in the shares and options of Mach7 Technologies Limited were:

Director	Ordinary Shares	Options
	No.	No.
Dr Nigel Finch	3,614,317	2,358,916
Nobuhiko Ito	6,524,188	1,250,000
Damien Lim	80,451,412	1,250,000
Albert Liong	27,046,890	–

Secretary

Ms Alyn Tai

The Secretary's qualifications and experience are set out in the management profiles section of this report entitled "Board of Directors and Company Secretary" on pages 85–86.

Dividends

Mach7 Technologies Limited did not declare or pay any dividends during the financial year (2015: nil).

Principal activities

The two principal activities of the Company are the provision of enterprise imaging data sharing, storage and interoperability for healthcare enterprises and the 3D printing of customised medical products based on data captured by diagnostic imaging tools.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Operating and financial review

The operating and financial review section of the directors' report is outlined in the following sections:

- Financial position
- Review and results of operations

The Directors' comments form an integral part of this Directors' Report.

Financial position

The Company ended the 2016 financial year with a net current liability position (current assets less current liabilities) of \$2.16 million (2015: \$2.57 million net current assets). The decrease in net current assets of \$4.73 million is largely attributed to the net current liabilities acquired in the Mach7 Group acquisition of \$5.28 million. Current assets include cash, cash equivalents and short term cash deposits of \$1.72 million (2015: \$2.75 million), receivables of \$2.07 million (2015: 0.41 million), and prepayments and other current assets of \$0.4 million (2015: nil). Current liabilities include trade and other payables of \$3.60 million (2015: \$0.59 million), and loans of \$2.88 million (2015: nil).

Cash balances decreased by \$1.09 million during the year, primarily as a result of the acquisition of the Mach7 Group which forms part of the consolidated result from 1 April 2016. The Mach7 Group is not yet cash flow positive.

The receivables balance of \$2.07 million (2015: 0.41 million) is comprised of \$1.15 million (2015: \$0.42 million) of trade and other receivables and \$0.92 million (2015: nil) of amounts due to the Company but not yet invoiced. This latter amount represents enterprise imaging software contracts which have been recognised as revenue in accordance with performance under the contract, however have not yet been billed to the customer. This is because the billing cycle is generally based on milestones or time based, which will not always align to when the revenue is recognised. Of the receivables balance, \$0.25 million (2015: \$0.01 million) is past due and collection is being actively pursued.

Trade and other payables includes \$1.41 million (2015: nil) of advances received from Mach7 customers and \$0.96 million (2015: nil) of accrued software support for Mach7 contracts. These amounts have been received from the customer but are yet to be recognised as revenue. All amounts are short term and are therefore expected to be recognised within the next financial year. Refer to note 15 to the financial statements for further details.

Current liabilities also include three loans of \$2.88 million (2015: nil) from the original seed investors in the Mach7 Group. Since balance date, all three loans have been extended with staggered maturity dates throughout the first half of calendar year 2017. Further details of these loans can be found in note 16 to the financial statements.

During the current financial year, the Group acquired intangible assets with a fair value of \$33.11 million by way of acquisition of Mach7 Technologies Pte Ltd and its subsidiaries (Mach7 Group). These fair values are preliminary, and will be finalised by 8 April 2017 (within 12 months of the acquisition date of 8 April 2016). Details of the intangible assets acquired can be found in Note 14 to the financial statements.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Review and results of operations

The Company reported a net loss of \$14.56 million for the 2016 financial year, reflecting an increase in net loss of \$7.65 million in the result from its \$6.91 million loss in 2015. The net loss for the year included goodwill impairment charges of \$8.44 million (2015: \$4.82 million) and depreciation and amortisation expenses of \$1.32 million (2015: \$0.00 million).

Revenue from continuing operations

Total revenue for the year was \$1.86 million, an increase of \$1.72 million from the previous period (2015: \$0.14 million). This increase in revenue was as a result of the acquisition of the Mach7 Group which has been incorporated into the consolidated results since the deemed acquisition date; this being for the three-month period 1 April 2016 to 30 June 2016. The table below presents the pro forma revenue that would have been earned if the acquisition had been effective from 1 July 2015:

Statutory to Pro Forma Revenue Reconciliation (Table 1)

	Mach7 Audited Result	3D Medical & Head Office Audited Result	Consolidated Audited Result	Mach7 (unaudited)*	Consolidated Pro Forma (unaudited)*
	3 months 1 April to 30 June 2016	12 months 1 July to 30 June 2016	12 months 1 July to 30 June 2016	9 months 1 July to 31 March 2016	12 months 1 July to 30 June 2016
	\$	\$	\$	\$	\$
Software licence fees	709,767	–	709,767	2,211,692	2,921,459
Professional service fees	191,996	–	191,996	681,983	873,979
Annual maintenance fees	492,124	–	492,124	994,736	1,486,860
Subscriptions (pay-per-use)	25,540	236,072	261,612	86,973	348,585
3D printed models	–	110,267	110,267	–	110,267
Other licence fees	–	93,089	93,089	–	93,089
Government grants	729	–	729	11,860	12,589
Other	–	–	–	203	203
TOTAL	1,420,156	439,428	1,859,584	3,987,447	5,847,031

* The Mach7 subsidiaries have a balance date of 31 December, and therefore these periods have not been audited.

Operating expenses from continuing operations

Operating expenditure for the year was \$16.42 million, an increase of \$9.37 million over the corresponding period (2015: \$7.05 million). Expenses for the current year include an impairment charge for goodwill of \$8.44 million (2015: \$4.82 million), and depreciation and amortisation expense of \$1.32 million (2015: \$0.00 million). The amortisation expense for 2016 is as a result of the intangible assets acquired as part of the Mach7 acquisition which occurred in April 2016. The increase in operating expenditure is also attributable to the acquisition of the Mach7 Group, which means the consolidated result includes Mach7 Group operations for the three-month period 1 April 2016 to 30 June 2016. The table below presents the pro forma expenses from operations (excluding share-based payments expense, depreciation & amortisation, impairment charges and other expenses) that would have been incurred if the acquisition had been effective from 1 July 2015:

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Statutory to Pro Forma Expense Reconciliation (Table 2)

	Mach7 Audited Result	3D Medical & Head Office Audited Result	Consolidated Audited Result	Mach7 (unaudited)*	Consolidated Pro Forma (unaudited)*
	3 months 1 April to 30 June 2016 \$	12 months 1 July to 30 June 2016 \$	12 months 1 July to 30 June 2016 \$	9 months 1 July to 31 March 2016 \$	12 months 1 July to 31 March 2016 \$
Cost of sales	32,936	439,667	472,603	197,801	670,404
Employee salaries, benefits & staff related expenses	2,087,764	1,243,015	3,330,779	5,032,478	8,363,257
Professional fees and consultancy expenses	1,247,591	189,734	1,437,325	525,818	1,963,143
Marketing expenses	301,130	198,256	499,386	858,804	1,358,190
Travel and related expenses	185,460	164,957	350,417	493,559	843,976
General administration expenses	(79,949)	347,127	267,178	903,696	1,170,874
Sub-total[^]	3,774,932	2,582,756	6,357,688	8,012,156	14,369,844

[^] does not include share-based payments expense, depreciation and amortisation, impairment charges, and other expenses (note 6).

* The Mach7 subsidiaries have a balance date of 31 December, and therefore these periods have not been audited.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

The table below presents the pro forma EBITDA from operations (excluding share-based payments expense) that would have been incurred if the acquisition had been effective from 1 July 2015:

Statutory to Pro Forma EBITDA Reconciliation (Table 3)

	Mach7 Audited Result	3D Medical & Head Office Audited Result	Consolidated Audited Result	Mach7 (unaudited)*	Consolidated Pro Forma (unaudited)*
	3 months 1 April to 30 June 2016 \$	12 months 1 July to 30 June 2016 \$	12 months 1 July to 30 June 2016 \$	9 months 1 July to 31 March 2016 \$	12 months 1 July to 30 June 2016 \$
Pro Forma Revenue (table 1)	1,420,156	439,428	1,859,584	3,987,447	5,847,031
Other Income	–	130,269	130,269	–	130,269
Pro Forma Expenses (table 2)	(3,774,932)	(2,582,756)	(6,357,688)	(8,012,156)	(14,369,844)
Other Expenses	(235,038)	(9,321)	(244,359)	–	(244,359)
EBITDA (Loss)	(2,589,814)	(2,022,380)	(4,612,194)	(4,024,709)	(8,636,903)

* The Mach7 subsidiaries have a balance date of 31 December, and therefore these periods have not been audited.

Cash and cash-flow

The consolidated cash, cash equivalents and short term deposits balances of the Company as at 30 June 2016 were \$1.7 million and have decreased by \$1.0 million since the previous corresponding period (2015: \$2.7 million).

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Directors' Report Year Ended 30 June 2016

Operating cash outflows increased by \$1.60 million from \$1.77 million to \$3.37 million. Of this increase in operating cash outflows, \$1.05 million is attributable to the Mach7 business acquired from 1 April 2016.

Cash outflows from investing activities increased by \$3.87 million from \$0.48 million to \$4.35 million. Of this increase in investing cash outflows, \$3.42 million was provided as loan funding to the Mach7 Group prior to acquisition, \$0.99 million was utilised for acquisition related costs, and \$0.24 million was acquired as part of the acquisition of the Mach7 Group. In addition, the Company received \$0.39 million for the sale and leaseback of a 3D printer.

The Group received \$6.75 million (2015: \$4.43 million), after costs, from the private placement of its shares to institution and sophisticated investors.

Business development

Management are actively pursuing business opportunities on multiple fronts. While the Company continues to build momentum and traction among the top-tier hospital groups, the board and management have devised a strategy to deliver the same leading edge technology and high-quality service to the mid-tier hospitals and radiology reading networks. The Company continues to focus the majority of its resources on the US market as it is the largest in the world, whilst increasing its presence and activity in Australia and elsewhere in the world as the demand continues to grow for Mach7 solutions to address imaging challenges worldwide.

Future Planned Developments

The Company has launched strategic initiatives to productise components of its current technology and turn these into commercially attractive solutions. This will increase its footprint in the existing customer install base and will also create new opportunities that were not available previously. For example, the Mach7 image sharing/exchange solution. Previously this solution was part of Mach7 enterprise imaging platform which is now being marketed and offered as a stand-alone product which is addressing an industry need.

The Company continues to work to achieve specific industry accreditations, including leveraging on the USA based Mach7 operations ISO 13485 existing accreditation for the Australian operations. ISO 13485 is the International Organisation for Standardisation (ISO) standard that represents the requirements for a comprehensive quality management system for the design and manufacture of medical devices. An accreditation audit for the Australian operations is proposed for the next financial year.

Outlook

Mach7 is working diligently to strengthen its sales organisation, expand its product portfolio and increase its footprint in the medical enterprise imaging market. Mach7 has the reputation and brand recognition as the leading solution and technology provider in the industry. In the coming year, the directors and management expect to continue to see momentum in gaining net new contracts over the prior year and upgrades to existing contracts.

Key Business Risks

The Company's operations are subject to a number of risks. The Board, which as a whole performs the function of an Audit and Risk Management Committee, regularly reviews the possible impact of these risks and seek to minimise this impact through a commitment to its corporate governance principles and its various risk management functions. A number of specific risk factors that may impact the future performance of the Company are described below. Shareholders should note that this list is not exhaustive, and only includes risks that could affect the Company's financial prospects, taking into account the nature and business of the Company and its business strategy.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

(a) Commercialisation and new technology risk

The two principal activities of the Company are the provision of enterprise imaging data storage sharing, storage and interoperability for healthcare enterprises and the 3D printing of customised medical products based on data captured by diagnostic imaging tools. There is a risk that the Company will not be able to successfully sell its 3D printed products and/ or its image management platform and therefore be unable to attract sufficient customers to be sufficiently profitable to fund future operations. In addition, commercial success of new technology is subject to inherent uncertainty due to unknown variables such as cost of materials and servicing.

(b) Competition and new technologies

The industry in which the Company is involved is subject to increasing domestic and global competition which is fast-paced and fast-changing. Whilst the Company will undertake all reasonable due diligence in its business decisions and operations, it will have no influence or control over the activities or actions of its competitors, whose activities or actions may positively, or negatively affect the operating and financial performance of its business. For instance, new technologies could overtake the advancements made by 3D printed products. A significant industry-wide fall in hardware and consumables costs could also see the Company's 3D services model come under considerable margin pressure. The image management platform may be superseded by new and cheaper technology creating competitive pressures. In each case, the Company's revenues and profitability could be adversely affected.

(c) Risks associated with the regulatory environment

The Company operates in a highly regulated market both in Australia and internationally. Success can be impacted by changes to the regulatory environment. Mach7 continues to monitor changes and proposed changes to the regulatory environment to which it is exposed.

Risk Management

The Board takes a proactive approach to risk management. The Board, which as a whole performs the function of an Audit and Risk Management Committee, is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

Significant events occurring after balance date

Financing activities

Options

During the year, the Company had announced to the ASX that it received irrevocable and binding commitments for the exercise of 49.8 million options at an exercise price of \$0.05 per option, and that it would raise a total of approximately \$2.5 million from the exercise of those options. The option holders agreed to complete the exercise of their options by 1 April 2016, being 1 business day after the Company received all necessary shareholder approvals in connection with the Company's merger with Mach7 Technologies Pte. Ltd. As at 30 June 2016, the Company had received \$79,514 for the exercise of 1.6 million options.

Since balance date, the Company has received a further \$444,787 (total \$524,301) for the exercise of 8.9 million (total 10.5 million) options. It has lapsed 21.3 million options (exercise total price of \$1,508,717) which expired on 6 August 2016. The Company continues to pursue the monies it is owed for the exercise of 18 million (exercise total price of \$899,425) options which expire 6 February 2017, and possible actions in relation to the expired options.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Loans

Since balance date, the Company has entered into three loan variation agreements which extend the maturity dates of the loans reported at 30 June 2016 to the following:

- US\$500,000 matures 1 January 2017
- US\$500,000 matures 1 April 2017
- US\$500,000 matures 1 June 2017
- US\$500,000 matures 1 July 2017

Refer to note 16 to the financial statements for further information on these loans.

Likely developments

The company's 3D medical printing business is still in the initial start-up stage and therefore is likely to continue to make losses in the foreseeable future. The Mach7 Enterprise Imaging Platform is now being sold in 11 countries and is installed at more than 200 sites. Accordingly, the Directors anticipate the Mach7 software business to commence profitability within the next twelve to eighteen months.

Further information on likely developments in the operations of the Company and the expected results of operations have not been included in this annual financial report as the Directors believe it would be likely to result in unreasonable prejudice to the Company.

Corporate structure

Mach7 Technologies Limited is a company limited by shares listed on the ASX that is incorporated and domiciled in Australia. Mach7 Technologies Limited has prepared a consolidated financial report incorporating its direct 100% owned subsidiary 3D Medical Pty Ltd, Mach7 Technologies UK Limited (incorporated and domiciled in the UK), Mach7 Technologies International Pty Ltd and its indirect 100% owned subsidiaries Mach7 Technologies Pte Ltd (incorporated and domiciled in Singapore), Mach7 Technologies Australia Pty Ltd and Mach7 Technologies Inc. (incorporated and domiciled in the USA).

Environmental regulations and performance

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Share Options

Details of options granted to key management personnel and exercised during the year are set out in the Remuneration Report section.

Insurance and indemnification of Directors and Officers

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

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

Indemnification of auditors

To the extent permitted by law the Company has agreed to indemnify its auditors, RSM Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify RSM Australia during or since the financial year.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director are as follows:

	Board		Committee			
			Audit & Risk		Remuneration & Nomination	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Damien Lim	2	2	–	–	1	1
Albert Liong	2	2	–	–	–	–
Dr Nigel Finch	11	11	–	–	1	1
Nobuhiko Ito	2	2	–	–	–	–
Wayne Spittle	0	0	–	–	–	–
K Poutakidis ¹	2	2	–	–	1	1
S Hewitt–Dutton ²	9	9	–	–	–	–
Frank Pertile ³	9	9	–	–	–	–

¹ Ken Poutakidis 8th April 2016 to 15 June 2016

³ Frank Pertile retired on 8 April 2016

² Stephen Hewitt–Dutton retired on 8 April 2016

There were no formal subcommittees on the board prior to 8 April 2016. The audit and risk committee did not have their initial meetings until after 1 July 2016.

Committee Membership

As at the date of this Report, the Company had an Audit & Risk Committee and a Remuneration & Nomination Committee.

Members acting on the committees of the Board during the year were:

	Audit & Risk Management	Remuneration & Nomination
Damien Lim	–	Member from 6 May 2016; Chairman from 15 June 2016
Albert Liong	–	–
Dr Nigel Finch	Chairman from 6 May 2016	Member from 6 May 2016
Nobuhiko Ito	Member from 6 May 2016	–
Alister W Spittle	Member from 15 June 2016	Member from 15 June 2016
Ken Poutakidis	Member from 6 May till 15 June 2016	Chairman from 6 May till 15 June 2016

There were no formal subcommittees on the board prior to 8 April 2016. The audit and risk committee did not have their initial meetings until after 1 July 2016.

Non–Audit Services

Details of the amounts paid or payable to the auditor for non–audit services provided during the financial year by the auditor are outlined in note 26 to the financial statements.

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

Mach7 Technologies Limited

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The directors are of the opinion that the services as disclosed in note 26 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

Remuneration Report (Audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Details of directors and key management personnel (KMP) during the current year:

Directors	Role	Period covered
Damien Lim*	Non-Executive Chairman	8 April 16 to 30 June 16
Albert Liong**	Managing Director and Global CEO	1 April 16 to 30 June 16
Dr Nigel Finch	Non-Executive Director Non-Executive Chairman Executive Chairman Non-Executive Director Consulting Fees	7 May 15 to 28 May 15 28 May 15 to 21 December 15 21 December 15 to 8 April 16 8 April 16 to 30 June 16 1 May 16 to 30 June 16
Nobuhiko Ito*	Non-Executive Director	8 April 16 to 30 June 16
Alister W Spittle	Non-Executive Director	15 June 16 to 30 June 16
Ken Poutakidis*	Non-Executive Director	8 April 16 to 15 June 16
Frank Pertile	Non-Executive Director	9 Feb. 15 to 8 April 16
Stephen Hewitt-Dutton	Non-Executive Director	1 July 15 to 8 April 16
Executive KMP		
Ravi Krishnan**	Founder and Chief Operating Officer	1 April 16 to 30 June 16
John Eric Rice**	Chief Technology Officer	1 April 16 to 30 June 16
Jenni Pilcher	Global Chief Financial Officer & CEO Australian Operations	1 Feb. 16 to 30 June 16
Max Ghobrial	CEO of 3D Medical Limited	15 October 14 to 18 Dec. 15

*appointments and resignations occurred as a result of the acquisition of the Mach7 Group by 3D Medical Limited which completed on 8 April 2016.

**Deemed acquisition date 31 March 2016 for accounting purposes.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Non-Executive Directors

Name:	Mr D Lim
Title:	Non-Executive Director and Chairman
Term of agreement:	No termination date
Commencement date	Agreement commenced 8 April 2016, appointed Chairman 15 June 2016.
Name:	Mr N Ito
Title:	Non-Executive Director
Term of agreement:	No termination date
Commencement date	Agreement commenced 8 April 2016
Name:	Dr N Finch
Title:	Non-Executive Director
Term of agreement:	No termination date
Commencement date	Agreement commenced 7 May 2015
Name:	Mr A Spittle
Title:	Non-Executive Director
Term of agreement:	No Termination Date
Commencement date	Agreement Commenced 15 June 2016

Executive Directors

Name:	Mr A Liong
Title:	Managing Director and CEO
Term of agreement	No Termination Date. Can be terminated by either party with 3 months' notice.
Commencement date	1 December 2013

Other key management personnel

Name:	Ms J Pilcher
Title:	Global CFO and CEO Australia
Term of agreement:	No termination date. Can be terminated by either party with 3 months' notice.
Commencement date	Agreement commenced 1 February 2016
Name:	Mr R Krishnan
Title:	Chief Operating Officer
Term of agreement:	No termination date. Can be terminated by either party with 3 months' notice.
Commencement date	Agreement commenced 2 July 2012
Name:	Mr J Rice
Title:	Chief Technology Officer
Term of agreement:	No termination date.
Details	Agreement commenced 1 September 2009

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Directors' Report Year Ended 30 June 2016

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward. The Board of Directors ('the **Board**') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board, which as a whole performs the function of a Nomination and Remuneration Committee, is responsible for determining and reviewing remuneration arrangements for the Company's directors and executives. The performance of the Company depends on the quality of its directors and executives. The Company's remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Company. The framework is designed to:

- (a) ensure that coherent remuneration policies and practices are observed which enable the attraction and retention of directors and management who will create value for shareholders.
- (b) Fairly and responsibly reward directors and senior management having regard to the Company's performance, the performance of the senior management and the general pay environment; and
- (c) Comply with all relevant legal and regulatory provisions

In accordance with best practice corporate governance, the structure of Non-Executive Directors and executive remunerations are separate.

Non-executive directors' remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Board, which performs the function of a Nomination and Remuneration Committee. The Board may, from time to time, seek advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with market standards.

Remuneration for Non-Executive Directors (NEDs) may contain any or all of the following:

- Annual fees, reflecting the value of the individual's personal performance, time commitment and responsibilities of the role;
- Equity based remuneration, issues of shares or securities, reflecting the contribution of the Director toward the Company's medium and long term performance objectives;
- Other benefits – superannuation payments

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. Following the adoption of a new Company Constitution on 31 March 2016, the aggregate remuneration for all non-executive directors has now been set at a maximum amount of \$500,000 per annum under clause 50 (a) of the Company's Constitution.

The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Executive remuneration

The Consolidated Entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has six components:

- Annual base salary
- Performance based remuneration, including rewards, bonuses, special payments and other measures available to reward individuals following an outstanding business contribution having regard to clearly specified performance targets.
- Equity based remuneration, reflecting the Company's medium and long term performance objectives.
- Other benefits such as annual leave, sick leave, superannuation payments and long service leave benefits.
- Expense reimbursement for expenses incurred in the course of employment duties
- Termination payments reflecting contractual and legal obligations.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits are reviewed annually by the Board, which performs the function of the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the Company and comparable market remunerations.

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

The short-term incentives (STI) program is designed to align the targets of the business units with the targets of those executives responsible for meeting those targets. STI payments are granted to executives based on specific annual targets and key performance indicators (KPI's) being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management. The most recent STI program was approved by the Board in April 2016.

The long-term incentives (LTI) include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders' value relative to the entire market and the increase compared to the Consolidated Entity's direct competitors. The most recent LTI program was approved by shareholders on 31 March 2016.

Voting and comments made at the company's 2015 Annual General Meeting ('AGM')

At the Company's 2015 AGM, the FY2015 remuneration report was adopted by shareholders on a unanimous show of hands. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Short-Term Incentives (STI)

The STI plan is an annual incentive plan under which Senior Executives are eligible to receive an annual award if they satisfy challenging strategic, operational and individual performance targets. Senior Executives will be entitled to an STI award up to a maximum fixed percentage of their annual fixed remuneration (the maximum amount will differ between individuals, but does not exceed 50% of annual fixed remuneration (Maximum STI entitlement).

Performance Period

The performance period is the calendar year; being the 1st of January in a calendar year to midnight on the 31st of December of that same calendar year.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Performance Conditions

The 2016 award is subject to performance objectives based on short-term non-financial measures

- Investor relations
- Capital raising
- Other role specific targets

Choice of Performance Conditions

Non-financial performance conditions have been selected because the Board believes that there are strategic non-financial measures which in the medium to longer term will support further growth.

Assessment of Performance Conditions

For non-financial and individual targets, the Board assesses the personal performance of the Executive against the non-financial and personal performance of other Executives and makes recommendations to the Remuneration and Nomination Committee in relation to the payment of any STI. The Remuneration and Nomination Committee review these recommendations and endorse the level of the STI to be paid for Board approval.

Delivery of the STI

100% of the STI award will be paid in cash 7 days after the later of 28 February in the next calendar year and 14 days after the receipt of the Company's consolidated audited (or audit reviewed) financial reports for the half year ended 31 December in the performance calendar year. For 2016 the relevant dates are the later of 28 February 2017 and 14 days after the receipt of the Company's consolidated audited (or audit reviewed) financial reports for the half year ended 31 December 2016.

Appropriate STI Incentive

The STI plan is designed to motivate and reward high performance. It puts a significant proportion of Senior Executive's remuneration at-risk against targets linked to the Company's performance objectives, thereby aligning executive's interests with shareholders.

Cessation of Employment

Senior Executives must remain employed with the Company in a full-time or permanent part-time position for the duration of the Performance Period to be eligible to receive the STI Payment. The Board reserves the right to determine the treatment of any award that is granted to an Executive under the STI Plan rules.

STI Outcomes 2016

2016 Performance KPIs for the CFO Global and CEO Australia are outlined in the table below and are to be measured against STI performance measures at 31 December 2016:

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Measure	Weighting	Performance Objective/Target	Result
Capital Management	20%	Develop Capital Management Plan to support Mach7 Group strategy (through to June 2017)	Board to review post 31 December 2016
Capital Management Plan	40%	Execute first capital raising that supports and forms part of Capital Management Plan.	Board to review post 31 December 2016
Investor Relations	20%	Develop & Implement Board-approved Investor Relations Strategy for the Mach7 Group.	Board to review post 31 December 2016
Operational Strategy	20%	Develop operational strategy/plan as approved by the Board for 3DM business and adequately resource to execute that plan (both human and capital resources).	Board to review post 31 December 2016

Long-Term Incentives (LTI)

An incentive plan under which Senior Executives are eligible to receive an award of Performance Rights, Performance Options or Performance Shares that are linked to the achievement of targets related to the Company's medium to long-term performance.

Participation in the LTI is only offered to Senior Executives and Non- Executive Directors who are able to influence generation of shareholder value.

Performance Period

The Performance conditions must be satisfied in order for the Performance Rights to vest. Each Performance Right entitles the holder to acquire a share in the Company for a stated exercise price, subject to meeting specific performance conditions.

The Performance rights do not carry dividends or voting rights prior to vesting.

Cessation of Employment

If a Senior Executive or Non-Executive director ceases to be employed or engaged with the Company as a result of the termination of employment other than as a result of a Qualifying Event, any Rights, Options or Performance Shares held by the participant, whether vested or not, will lapse immediately on the participant ceasing to be employed.

A Qualifying Event means:

- Death;
- Serious injury, disability or illness which prohibits continued employment;
- Retirement or Retrenchment; or
- Such other circumstances which the Board determines to be a Qualifying Event.

Where a participant in the LTI scheme ceases to be employed by the Company as a result of a Qualifying Event, the Board may, in its absolute discretion, make a determination as to whether some or all of those Performance Shares will become vested at the time of the cessation of employment of the participant or another date determined by the Board.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Restrictions on Dealing

A Senior Executive or Non-Executive director in receipt of LTI Performance Rights must not sell, transfer, encumber, hedge or otherwise deal with Performance Rights. A Senior Executive or Non-Executive director in receipt of LTI Performance Rights will be free to deal with the shares allocated on vesting of the Performance Rights, subject to the requirements of the Company's Policy for Dealing in Securities.

In the event of a change of control, the Board has discretion to determine that vesting of some or all of a non-vested Performance Right should be accelerated. Where only some of the Performance Rights are vested, the remainder will immediately lapse.

LTI Performance Rights awarded in FY2016

30 June 2016	Granted (No.)	Grant Date	Fair Value at grant date	Exercise price	Expiry Date	Vesting Date	Vested (No.)	Vested (%)
Total FY2016								
Directors								
N Ito ⁽ⁱ⁾	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
Dr N Finch	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
K Poutakidis ⁽ⁱⁱⁱ⁾	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
D Lim ⁽ⁱⁱ⁾	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
Executives								
J Pilcher ⁽ⁱ⁾	1,000,000	08-Apr-16	\$ 0.0302	\$0.10	08-Apr-20	08-Apr-17	-	-
J Pilcher ⁽ⁱ⁾	1,000,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
Total FY2016	7,000,000							

(i) Commenced employment 1st February 2016

(ii) Appointed 8 April 2016

(iii) Retired 15 June 2016

Amounts of remuneration

Details of the remuneration of key management personnel of the Consolidated Entity are set out in the following tables.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Remuneration of key management personnel

Table 1: Remuneration for the years ended 30 June 2015 and 30 June 2016

	Short term				Post-employment		Long term		Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other	Superannuation Contributions	Retirement Benefits	Incentive plans	Long service leave	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors												
Damien Lim – Chairman (i)												
2016	25,000	–	–	–	–	–	–	–	4,875	–	29,875	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
Albert Liong (ii)												
2016	96,820	–	8,058	–	–	1,087	–	–	–	–	105,966	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
Dr Nigel Finch												
2016	219,224	–	–	–	–	–	–	–	4,875	–	224,099	–
2015	25,067	–	–	–	–	–	–	–	–	–	25,067	–
Nobuhiko Ito (i)												
2016	12,500	–	–	–	–	–	–	–	4,875	–	17,375	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
Alister W Spittle (iii)												
2016	12,500	–	–	–	–	–	–	–	–	–	12,500	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
Ken Poutakidis (iv)												
2016	–	–	–	–	–	–	–	–	4,875	–	4,875	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
Frank Pertile (v)												
2016	35,138	–	–	–	–	–	–	–	–	–	35,138	–
2015	10,179	–	–	–	–	–	–	–	–	–	10,179	–
Matthew Morgan (vi)												
2016	–	–	–	–	–	–	–	–	–	–	–	–
2015	50,000	–	–	–	–	–	–	–	–	–	50,000	–
Simon Jenkins (vii)												
2016	–	–	–	–	–	–	–	–	–	–	–	–
2015	21,964	–	–	–	–	–	–	–	–	–	21,964	–
Peter Christie (viii)												
2016	–	–	–	–	–	–	–	–	–	–	–	–
2015	23,333	–	–	–	–	–	–	–	–	–	23,333	–
Stephen Hewitt-Dutton (ix)												
2016	26,823	–	–	–	–	–	–	–	–	–	26,823	–
2015	36,000	–	–	–	–	–	–	–	–	–	36,000	–
Sub-total Non-Executive Directors												
2016	428,005	–	8,058	–	–	1,087	–	–	19,499	–	456,650	–
2015	166,543	–	–	–	–	–	–	–	–	–	166,543	–

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Table 1: Remuneration for the years ended 30 June 2015 and 30 June 2016 (continued)

	Short term				Post-employment		Long term		Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other	Superannuation Contributions	Retirement Benefits	Incentive plans	Long service leave	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Executive Key Management Personnel												
Jenni Pilcher – Global CFO and CEO, Australia (x)												
2016	125,000	–	–	–	11,875	–	–	–	10,767	–	147,642	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
Max Ghobrial (xi)												
2016	100,386	–	–	–	8,276	–	60,000	–	–	134,451	303,113	20%
2015	96,934	–	–	–	9,200	–	–	–	–	–	106,134	–
Ravi Krishnan (ii)												
2016	71,515	–	–	–	–	3,097	–	–	–	–	74,612	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
John Eric Rice (ii)												
2016	65,936	–	5,622	–	–	1,319	–	–	–	–	72,877	–
2015	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total Executive Key Management Personnel												
2016	362,836	–	5,622	–	20,151	4,416	60,000	–	10,767	134,451	598,244	–
2015	96,934	–	–	–	9,200	–	–	–	–	–	106,134	–

Remuneration covers the following periods:

- (i) New director appointments 8 April 2016 to 30 June 2016
- (ii) 1 April 2016 to 30 June 2016 reflecting period from acquisition of Mach7 to financial year end
- (iii) 15 June 2016 to 30 June 2016
- (iv) 8 April 2016 to 15 June 2016
- (v) 1 July 2015 to date of resignation 8 April 2016

- (vi) Director retired 27 May 2015
- (vii) Director retired 9 February 2015
- (viii) Director retired 9 February 2015
- (ix) 1 July 2014 to 8 April 2016
- (x) 1 February 2016 to 30 June 2016
- (xi) 1 July 2015 to 18 December 2015

The amount included in Table 1 above, in respect of options under the share based payments component of remuneration, represents the amortisation over the expected life of the option of the fair value of the option at the date of grant. The fair value of the cash settled options is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted.

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Table 2 below discloses the number of share options granted to executives during the current and prior financial years. Share options are options over ordinary shares in Mach7 Technologies Limited, do not carry any voting or dividend rights, and only can be exercised once the vesting conditions have been met until their expiry date.

Table 2: Compensation options: Granted and vested during the year

30 June 2016	Granted (No.)	Grant Date	Fair Value at grant date	Exercise price	Expiry Date	Vesting Date	Vested (No.)	Vested (%)
Total FY2016								
Directors								
N Ito	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
Dr N Finch	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
K Poutakidis	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
D Lim	1,250,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
Executives								
J Pilcher	1,000,000	08-Apr-16	\$ 0.0302	\$0.10	08-Apr-20	08-Apr-17	-	-
J Pilcher	1,000,000	08-Apr-16	\$ 0.0343	\$0.10	08-Apr-21	08-Apr-18	-	-
Total FY2016	7,000,000							
30 June 2015								
Total FY2015								
Directors								
F Pertile	17,078,347	06-Feb-15	\$0.0125	\$0.05	06-Aug-16	18-Feb-17	-	-
F Pertile	10,181,298	06-Feb-15	\$0.0144	\$0.05	06-Feb-17	18-Feb-17	-	-
M Morgan	889,574	06-Feb-15	\$0.0125	\$0.05	06-Aug-16	18-Feb-17	-	-
M Morgan	530,322	06-Feb-15	\$0.0144	\$0.05	06-Feb-17	18-Feb-17	-	-
Dr N Finch	711,659	06-Feb-15	\$0.0125	\$0.05	06-Aug-16	06-Aug-16	-	-
Dr N Finch	424,257	06-Feb-15	\$0.0144	\$0.05	06-Feb-17	06-Feb-17	-	-
Total	29,815,457							

Table 3 below provides information on the total value of options granted, exercised and forfeited by KMPs during the current financial year.

Table 3: Options granted as part of remuneration during the year

	Value of options granted during the year	Value of options exercised during the year	Value of options forfeited during the year
	\$	\$	\$
Directors			
N Ito	42,875	-	-
Dr N Finch	42,875	-	-
K Poutakidis	42,875	-	-
D Lim	42,875	-	-
Executives			
J Pilcher	64,500	-	-
Total	236,000	-	-

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Table 4 below provides information on relative proportion of the components of remuneration for KMPs for the both the current and prior financial years.

Table 4: Relative percentages of remuneration and performance awards

	% Fixed		% Short-term Incentive (STI)		% Options /Shares		% STI Awarded	% STI Forfeited
	2016	2015	2016	2015	2016	2015	2016	2015
Directors								
D Lim	84%	–	–	–	16%	–	–	–
A Liong	100%	–	–	–	–	–	–	–
Dr N Finch	98%	100%	–	–	2%	–	–	–
N Ito	72%	–	–	–	28%	–	–	–
A W Spittle	100%	–	–	–	–	–	–	–
K Poutakidis	–	–	–	–	100%	–	–	–
F Pertile	100%	100%	–	–	–	–	–	–
M Morgan	–	100%	–	–	–	–	–	–
S Jenkins	–	100%	–	–	–	–	–	–
P Christie	–	100%	–	–	–	–	–	–
S Hewitt-Dutton	100%	100%	–	–	–	–	–	–
Executives								
J Pilcher	93%	–	–	–	7%	–	–	–
M Ghobrial	56%	100%	–	–	44%	–	–	–
R Krishnan	100%	–	–	–	–	–	–	–
J E Rice	100%	–	–	–	–	–	–	–

Table 5: Option holdings of Key Management Personnel

Options over ordinary shares held in Mach7 Technologies Limited (number) as at 30 June 2016 are as follows:

30-Jun-16	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Forfeited	Balance at End of Period	Vested at 30 June 2016
	01-Jul-15				30-Jun-16	Total
Directors						
F Pertile	27,259,645	–	–	–	27,259,645	–
M Morgan	1,419,896	–	–	–	1,419,896	–
N Ito	–	1,250,000	–	–	1,250,000	–
Dr. N Finch	1,135,916	1,250,000	–	–	2,385,916	–
K Poutakidis	–	1,250,000	–	–	1,250,000	–
D Lim	–	1,250,000	–	–	1,250,000	–
Executives						
J Pilcher	–	2,000,000	–	–	2,000,000	–

Mach7 Technologies Limited

Directors' Report Year Ended 30 June 2016

Table 6: Shareholding of Key Management Personnel

Ordinary shares held in Mach7 Technologies Limited (number) as at 30 June 2016 are as follows:

	Balance 1 July 15	Granted as Remuneration	Issued on exercise of options	Issued on acquisition of Mach7	Other	Balance 30 June 16
Directors						
A Liong	–	–	–	27,046,890	–	27,046,890
N Ito	–	–	–	6,524,188	–	6,524,188
Dr N Finch	1,707,317	–	–	–	1,907,000^	3,614,317
D Lim	–	–	–	80,451,412	–	80,451,412
Executives						
R Krishnan	–	–	–	57,805,614	–	57,805,614
J E Rice	–	–	–	9,133,819	–	9,133,819
M Ghobrial	–	2,134,146	–	–	–	2,134,146

^ Purchased on market

Shares issued on exercise of compensation options

There were no shares issued on exercise of options granted as compensation during the period (2015: Nil).

Other transactions with key management personnel and their related parties

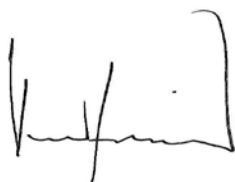
During the year the Company made payments totalling \$25,000 to Saki Partners for Mergers and Acquisitions advice. Non- Executive Director, Dr Nigel Finch is a principal of Saki Partners.

A consulting contract was signed between the Company and Saki Partners on 10 June 2016. Non-Executive Director Dr Nigel Finch is a principal of Saki Partners. The contract is for an annual sum of \$60,000 to cover the following services.

- Management of the Company's media relations in Australia
- Management of the Company's investor relations in Sydney, Australia
- Recruitment and management of the Company's medical advisory committee
- Assisting the Company in obtaining funding from government grants; and
- Identifying and engaging with the Company's potential collaborative partners.

This concludes the remuneration report which has been audited.

Directors Report signed in accordance with a resolution of the directors.



Damien Lim
Chairman
Signed at Singapore on 31 August 2016

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Mach7 Technologies Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

A handwritten signature in blue ink, appearing to be 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to be 'R B Miano'.

R B MIANO
Partner

Melbourne, VIC
Dated: 31 August 2016

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RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Pty Ltd ACN 009 321 377 atf Birdanco Practice Trust ABN 65 319 382 479 trading as RSM

Liability limited by a scheme approved under Professional Standards Legislation

Statement of Financial Position

AS AT 30 JUNE 2016

		CONSOLIDATED	
	Note	2016	2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	1,718,511	2,751,420
Financial assets	10	211,227	–
Trade and other receivables	11	2,066,735	147,408
Prepayments		436,082	267,567
TOTAL CURRENT ASSETS		4,432,555	3,166,395
NON-CURRENT ASSETS			
Plant and equipment	12	799,569	522,563
Intangible assets	13	35,568,869	–
TOTAL NON-CURRENT ASSETS		36,368,438	522,563
TOTAL ASSETS		40,800,993	3,688,958
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	1,231,290	592,270
Deferred revenue	15	2,367,797	–
Interest bearing liabilities	16	2,992,802	–
TOTAL CURRENT LIABILITIES		6,591,889	592,270
NON-CURRENT LIABILITIES			
Finance leases	17	222,817	–
Deferred tax liability	7	10,524,728	–
TOTAL NON-CURRENT LIABILITIES		10,747,545	–
TOTAL LIABILITIES		17,339,434	592,270
NET ASSETS		23,461,559	3,096,688
EQUITY			
Contributed equity	18	45,790,190	11,078,442
Reserves	19	1,757,862	1,541,442
Accumulated losses		(24,086,493)	(9,523,196)
TOTAL EQUITY		23,461,559	3,096,688

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

Statement of Profit and Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

		CONSOLIDATED	
	Note	2016	2015
Revenue from continuing operations			
Revenue from sales	6a	1,859,584	143,878
Cost of sales		(472,603)	(133,889)
Gross Profit		1,386,981	9,989
Other income	6b	130,269	23,203
Employee salaries, benefits & staff related expenses	6d	(3,330,779)	(587,507)
Professional fees and consultancy expenses		(1,437,325)	(878,519)
Marketing expenses		(499,386)	(100,452)
Travel and related expenses		(350,417)	(89,868)
General administration expenses		(267,178)	(453,783)
Other expenses	6c	(244,359)	–
Share based payment expense		(30,267)	–
Impairment charge	6f	(8,438,774)	(4,824,359)
Depreciation and amortisation	6e	(1,317,405)	(7,624)
Finance costs		(164,657)	(887)
Loss from continuing operations before income tax		(14,563,297)	(6,909,809)
Income tax benefit	7	–	–
Loss for the year		(14,563,297)	(6,909,809)
Other comprehensive income		(139,425)	–
Total comprehensive loss for the year, net of tax, attributable to equity holders of the parent		(14,702,722)	(6,909,809)
Earnings per share (cents per share)			
– Basic earnings/(loss) per share (cents)	8	(2.8)	(3.6)
– Diluted earnings/(loss) per share (cents)	8	(2.8)	(3.6)
Dividends per share (cents)		–	–

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

Consolidated	Share Capital	Share Based Payments Reserve	Foreign Exchange Translation Reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
At 1 July 2014	3,151,893	–	–	(2,613,387)	538,506
Loss for the year	–	–	–	(6,909,809)	(6,909,809)
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(6,909,809)	(6,909,809)
Issue of share capital	8,229,207	–	–	–	8,229,207
Capital raising costs	(302,658)	–	–	–	(302,658)
Issue of share options	–	1,541,442	–	–	1,541,442
Total as at 30 June 2015	11,078,442	1,541,442	–	(9,523,196)	3,096,688
Loss for the year	–	–	–	(14,563,297)	(14,563,297)
Other comprehensive income for the year	–	(20)	(139,405)	–	(139,425)
Total comprehensive income for the year	–	(20)	(139,405)	(14,563,297)	(14,702,722)
Capital raising costs	(486,053)	–	–	–	(486,053)
Share based payments	–	30,267	–	–	30,267
Issue of shares pursuant to exercise of options (non-employee)	79,514	–	–	–	79,514
Issue of shares to employee	166,774	325,578	–	–	492,352
Issue of shares in accordance with debt refinancing terms	92,736	–	–	–	92,736
Issue of shares pursuant to capital raisings	6,829,331	–	–	–	6,829,331
Issue of shares on acquisition of business	28,029,446	–	–	–	28,029,446
Total as at 30 June 2016	45,790,190	1,897,267	(139,405)	(24,086,493)	23,461,559

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

		CONSOLIDATED	
	Note	2016	2015
		\$	\$
Cash flows from operating activities			
Receipts from customers		2,688,133	103,088
Payments to suppliers and employees		(5,976,042)	(1,893,244)
Interest received		21,976	23,203
Interest and other costs of finance paid		(99,644)	–
Income Tax paid		(2,929)	–
Net cash provided by / (used in) operating activities	20	(3,368,506)	(1,766,953)
Cash flows from investing activities			
Payment for plant and equipment	12	(479,960)	(508,188)
Payment for other non-current assets		(88,000)	–
Proceeds from sale of equipment		385,000	–
Loans to other entities		(3,422,130)	–
Cash disbursements for business acquisition costs		(986,416)	–
Cash acquired through business acquisitions		236,622	33,176
Net cash flows provided by / (used in) investing activities		(4,354,884)	(475,012)
Cash flows from financing activities			
Proceeds from issues of shares, options etc		6,942,278	4,729,207
Capital raising cost		(193,560)	(302,658)
Net cash flows provided by / (used in) financing activities		6,748,718	4,426,549
Net increase/ (decrease) in cash and cash equivalents		(974,672)	2,184,584
Net foreign exchange difference relating to cash		(58,237)	–
Cash and cash equivalents at beginning of year		2,751,420	566,836
Cash and cash equivalents at end of year	9	1,718,511	2,751,420

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

1. CORPORATE INFORMATION

The financial report of Mach7 Technologies Limited (the “Company” or the “Parent”) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 31 August 2016.

Mach7 Technologies Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange (ASX:M7T).

The nature of the operations and principal activities of Mach7 Technologies Limited and its consolidated entities (the “Group”) are described in the Directors’ Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

For the purposes of preparing financial statements, Mach7 Technologies Limited is a for-profit entity.

The financial report is presented in Australian dollars unless otherwise stated.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the consolidated entity incurred a loss of \$14.6 million and had net cash outflows from operating activities of \$3.4 million for the year ended 30 June 2016. As at 30 June 2016 the consolidated entity had net current liabilities of \$6.6 million.

These factors indicate significant uncertainty as to whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the consolidated entity will be able to continue as a going concern, subject to the achievement of the following objectives:

- the consolidated entity will be successful in securing projected new revenue contracts;
- the consolidated entity manages its operating cash flows effectively within its current finance arrangements; and
- additional financing at commercially acceptable rates is secured as required

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Compliance with IFRS

The financial report complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(i) Changes in accounting policy and disclosures

The group has applied AASB 2014-1 *Amendments to Australian Accounting Standards* for the first time for their annual reporting period commencing 1 July 2015. The adoption of AASB 2014-1 has required additional disclosures in the segment note. Other than that, the adoption of this standard did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New accounting standards and interpretations

(i) Changes in Accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2015. Adoption of these standards did not have any effect on the financial position or performance of the Group. The necessary disclosures have been updated to reflect amended accounting standards.

Reference	Title	Application date of standard	Application date for Group
AASB 2013-9	<i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 <i>Hedge Accounting</i> into AASB 9 <i>Financial Instruments</i>.	1 January 2015	1 July 2015
AASB 2015-3	<i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i> The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	1 July 2015

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Accounting Standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2016. These are outlined in the table below.

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.	1 January 2018	No impact	1 July 2018

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 15	Revenue from Contracts with Customers	AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: 1. Identify the contract(s) 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation AASB 2015–8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014–5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016–3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i> amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.	1 January 2018	The Group will continue to assess the impact on the change in standard, if any	1 July 2018

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 16	Leases	The key features of AASB 16 are as follows: Lessee accounting • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. Lessor accounting • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.	1 January 2019	The Group will amend the future financial reports to comply with AASB 16	1 July 2019

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
		AASB 16 supersedes: a) AASB 117 Leases b) Interpretation 4 Determining c) whether an Arrangement contains a Lease d) SIC-15 Operating Leases — Incentives e) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.			
AASB 1057	Application of Australian Accounting Standards	This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.	1 January 2016	No impact	1 July 2016

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	The subjects of the principal amendments to the Standards are set out below: <i>AASB 7 Financial Instruments: Disclosures:</i> • Servicing contracts – clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is ‘continuing involvement’ for the purposes of applying the disclosure requirements in paragraphs 42E-42H of AASB 7. Applicability of the amendments to AASB 7 to condensed interim financial statements – clarify that the additional disclosure required by the amendments to AASB 7 Disclosure-Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134. <i>AASB 119 Employee Benefits:</i> • Discount rate: regional market issue – clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.	1 January 2016	The Group will amend the future financial reports 2016 to comply with AASB 2015-1	1 July 2016

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	The Group will amend the future financial reports to comply with AASB 2015-2	1 July 2016
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	No impact	1 July 2016

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 <i>Income Taxes</i> (July 2004) and AASB 112 <i>Income Taxes</i> (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	The Group will amend the future financial reports to comply with AASB 2016-1	1 July 2017
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	No impact	1 July 2016

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]	This standard amends to IFRS 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled	1 January 2018	The Group will amend the future financial reports to comply with IFRS 2	1 July 2018

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Mach7 Technologies Limited and its subsidiaries (the Group) as at 30 June each year.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. 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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies.

The financial statements of the subsidiaries are prepared using consistent accounting policies as that of the parent company, Mach7 Technologies Limited. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Investments in subsidiaries held by Mach7 Technologies Limited are accounted for at cost in the parent entity less any impairment charges.

(d) Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors. Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and if applicable
- Nature of the regulatory environment;

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

(f) Foreign currency translation

Functional and presentation currency

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities are denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences arising on settlement or translation of monetary items are taken to the income statement.

Translation of group companies' functional currency to presentation currency

As at the reporting date, the assets and liabilities of Mach7 Technologies Inc. and Mach7 Technologies Pte. Ltd are translated into the presentation currency of Mach7 Technologies Limited at the rate of exchange ruling at the reporting date and its statement of profit or loss comprehensive income is translated at the weighted average exchange rate for the year. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade receivables, which generally have 0–30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable.

(i) Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Available-for-sale financial assets

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

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

(j) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if the recognition criteria are met. All other repairs and maintenance are recognised in profit or loss as incurred.

Asset class	Estimated life	Depreciation method
3D Printer	3 years	Straight line
Computer equipment	2 years	Diminishing value
Leasehold improvements	5 years	Straight line
Furniture	10 years	Diminishing value
Office equipment	5 years	Straight line
Software	2.5 years	Straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(k) Leases

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operation leases. Operating lease payments are recognised as an expense in the statement of profit or loss comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised in the statement of profit or loss and comprehensive income as an integral part of the total lease expense.

Conversely, leases where the lessee retains substantially all the risks and benefits of ownership of the asset are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

(l) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

(m) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are taken to the profit or loss and are not subsequently reversed.

Intangibles

Intangible assets acquired separately are initially measured at cost. Intangible asset acquired in a business combination are initially measured at their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note 4 for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Software development costs

Software development costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project, including:

- (i) Customer Contracts
- (ii) Brand Name
- (iii) Software Intellectual Property

(n) Trade and other payables

Trade payables and other payables are carried at amortised cost due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. These amounts are unsecured and are usually paid within 30 days of recognition.

(o) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expect future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on the applicable corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Share-based payment transactions

The Company provides benefits to employees (including key management personnel) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

Details of the executive and staff incentive plan are set out in the Remuneration Report.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value measured at grant date takes into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

This opinion is formed based on the best available information at balance date.

Equity-settled awards granted by Mach7 Technologies Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised in Mach7 Technologies Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are settled.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

If an equity award is cancelled by forfeiture and the vesting conditions have not been met, any expense not yet recognised (i.e. unamortised) for that award, as at the date of forfeiture, is treated as if it had never been recognised. As a result, the expense recognised (i.e. amortised) on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(q) Contributed equity

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

(r) Revenue recognition

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

Software licence revenue

Software license revenue is recognised when control of the right to compensation for the license can be reliably measured, and when the software has been delivered and is ready for use by the customer.

Revenue generated from pay-per-use contracts are recognised based on the number of images managed by the software at the appropriate contracted rate.

Revenue from the provision of services

Revenue recognition relating to software installation and annual support is determined with reference to the stage of completion of the transaction at reporting date and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Software annual support revenues are recognised evenly over the term of the contract.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Revenue from the sale of goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and cessation of all involvement in those goods.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest revenue

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

(t) Income tax and other taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when:

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

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised, except when:

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- The deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except when:

- The GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(u) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members of the parent and divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit or loss attributable to members of the parent, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current and non-current classifications.

An asset is current when:

- It is expected to be realised or intended to be sold or consumed in the normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realised within twelve months after the reporting period, or
- It is cash or cash equivalents (unless restricted from being exchanged or used to settle a liability for at least 12 months after the end of the current reporting period)

A liability is current when:

- It is expected to be settled within the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the end of the current reporting period

The Group classifies all other liabilities as non-current.

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

(w) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(x) Fair value measurement

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board, through the Audit and Risk Management Committee, reviews and agrees policies for managing each of these risks as summarised below. This includes the setting of limits of concentration risks with any one financial institutions, credit rate limits and future cash flow forecast projections.

Risk Exposure and Responses

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the income earned on the Group's cash and short term deposits of various deposit terms.

At 30 June 2016, the Group's cash and cash equivalents comprised of deposits on call and foreign currency accounts.

The Group's policy to manage its interest rate risk, given its dependence on cash and cash equivalents is to keep maturities short generally using 30-90 bank bills and short term money market facilities. The Group constantly analyses its interest rate exposure with respect to renewal of existing positions, alternative investment opportunities / facilities and whether to consider a mix of fixed and variable instruments.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated as cash flow hedges:

	CONSOLIDATED	
	2016	2015
	\$	\$
Financial assets		
Deposits at call	60,137	-
Cash and cash equivalents	1,658,374	2,751,420
	1,718,511	2,751,420

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposure and Responses (continued)

Sensitivity analysis	Post tax Loss Higher/(Lower)		Equity (excluding accumulated losses) Higher/(Lower)	
	2016	2015	2016	2015
Judgement of reasonably possible movements:	\$	\$	\$	\$
Consolidated				
Interest rate strengthens +0.25% or 25 basis points (2015: +0.25% or 25 basis points)	(4,296)	6,879	–	–
Interest rate weakens –1% or 100 basis points (2015: –1% or 100 basis points)	(1,719)	2,751	–	–

The Group believes that the carrying amount approximates fair value because of their short term to maturity.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on economic forecaster's expectations.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

Foreign currency risk

The Group has transactional currency exposure. Such exposure arises from purchases by the Group in currencies other than the functional currency and through foreign currency receipts in the form of milestone, profit share or expense reimbursements under the Group's various collaborations. Generally, the Group does not use financial instruments to hedge the foreign exchange exposure.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's exposure to foreign currency risk at the reporting date that are not designated in cash flow hedges was as follows:

	CONSOLIDATED	
	2016	2015
	\$	\$
Financial Assets		
Cash and cash equivalents – USD	374,539	–
Cash and cash equivalents – SGD	16,200	–
Cash and cash equivalents – IDR	40,615	–
Total cash and cash equivalents	431,354	–
Accounts Receivable – USD	891,149	–
Accounts Receivable – SGD	17,741	–
Accounts Receivable – GBP	211,347	–
	1,120,237	–
Financial Liabilities		
Trade and other payables – USD	198,280	–
Trade and other payables – GBP	14,485	–
Total Trade and other payables	212,765	–
Loan from Directors/Shareholder – USD	2,876,135	–
Net exposure – USD	(1,808,727)	–
Net exposure – SGD	33,941	–
Net exposure – IDR	40,615	–
Net exposure – GBP	196,862	–
Net exposure	(1,537,309)	–

Based on the financial instruments held at 30 June 2016, had the Australian dollar strengthened/weakened by 10% against the above currencies, with all other variables held constant, the Group's post-tax loss for the year would have been (reduced)/higher by:

Sensitivity analysis	Post tax Loss Higher/(Lower)		Equity (excluding accumulated losses) Higher/(Lower)	
	2016 \$	2015 \$	2016 \$	2015 \$
Consolidated				
AUD strengthens +10% (2015: +10%)	139,735	–	–	–
AUD weakens –10% (2015: –10%)	(170,812)	–	–	–

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposure and Responses (continued)

Management believes the balance date risk exposures are representative of the risk exposure inherent in those financial instruments.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the historical movements and economic forecaster's expectations.
- The reasonably possible movement of 10% was calculated by taking the USD/EUR spot rate as at balance date, moving this spot rate by 10% and then re-converting the USD/EUR into AUD with the "new spot-rate".
- This methodology reflects the translation methodology undertaken by the Group.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, short term deposits, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trades and other receivables.

There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

Liquidity risk

The Group's objective is to maintain a balance between continuity of project research utilising an optimal combination of equity funding, finance and operating lease commitments.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The Group has the following liabilities due after twelve months.

- Finance leases (refer to note 17)

Interest bearing loans are due within 12 months (refer to note 16).

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) *Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

(ii) *Impairment of intangibles with definite useful lives*

The Group assesses impairment of intangibles with definite useful lives at each reporting date by evaluating conditions specific to the Group and to the particular intangibles that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions. The periodic impairment review of intangibles (both with definite and indefinite lives) and goodwill, in the first instance is based upon an assessment of market changes in technology which may have a negative impact on the Groups software technology making it potentially uncompetitive or obsolete.

(iii) *Estimation of useful lives of assets*

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

(iv) *Share-based payment transactions*

The Group measures the cost of equity-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

(v) *Employee benefits provision*

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(vi) Business combinations

As discussed in Note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

5. SEGMENT INFORMATION

The Group is organised into two separate business units for management reporting purposes. The business activities of Mach7 Technologies Limited at the reporting date comprised the Mach7 enterprise imaging platform technology and the 3D Medical printing business.

	Mach7 Enterprise Imaging Platform	3D Medical Printing	Total
Consolidated – 2016	\$	\$	\$
Revenue and other income			
Sales to external customers	1,316,156	543,428	1,859,584
Intersegment sales	79,556	–	79,556
Total sales revenue	1,395,712	543,428	1,939,140
Other revenue	7	130,262	130,269
Intersegment interest revenue	–	58,682	58,682
Total segment revenue	226,482	732,372	2,128,091
Intersegment eliminations	–	–	(138,238)
Total revenue and other income			1,989,852
EBITDA	(1,406,606)	(11,696,637)	(13,103,243)
Depreciation and amortisation			(1,317,405)
Interest revenue			22,008
Finance costs			(164,657)
Profit before income tax expense			(14,563,297)
Income tax expense			–
Profit after income tax expense			(14,563,297)
<i>Material items include:</i>			
Impairment charge	(8,438,774)	–	(8,438,774)
Amortisation of intangible assets	(1,664,091)	–	(1,664,091)
Amortisation of deferred tax liability	498,534	–	498,534

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

5. SEGMENT INFORMATION (continued)

	Mach7 Enterprise Imaging Platform	3D Medical Printing	Total
Consolidated – 2016	\$	\$	\$
Assets			
Segment assets	4,668,881	6,554,922	11,223,803
Intersegment eliminations			(5,920,005)
<i>Unallocated assets:</i>			
Intangible assets			35,082,427
Goodwill			414,768
Total assets			40,800,993
Liabilities			
Segment liabilities	15,001,524	1,624,823	16,626,347
Intersegment eliminations			(9,811,641)
<i>Unallocated liabilities:</i>			
Deferred tax liability			10,524,728
Total liabilities			17,339,434

	Mach7 Enterprise Imaging Platform	3D Medical Printing	Total
Consolidated – 2015	\$	\$	\$
Revenue and other income			
Sales to external customers	–	143,878	143,878
Intersegment sales	–	–	–
Total sales revenue	–	143,878	143,878
Other revenue	–	23,203	23,203
Total revenue and other income	–	167,081	167,081
EBITDA	–	(6,924,501)	(6,924,501)
Depreciation and amortisation			(7,624)
Interest revenue			23,203
Finance costs			(887)
Profit before income tax expense			(6,909,809)
Income tax expense			–
Profit after income tax expense			(6,909,809)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

5. SEGMENT INFORMATION (continued)

	Mach7 Enterprise Imaging Platform	3D Medical Printing	Total
Consolidated – 2015	\$	\$	\$
Assets			
Segment and total assets	–	3,688,958	3,688,958
Liabilities			
Segment and total Liabilities	–	592,270	592,270

Geographic Information

	Sales to external customers		Geographical non-current assets	
	2016	2015	2016	2015
	\$	\$	\$	\$
Australia	543,428	143,878	665,174	522,563
Singapore	97,078	–	9,564	–
United States	1,219,078	–	196,504	–
	1,859,584	143,878	871,242	522,563

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

6. REVENUE, OTHER INCOME AND EXPENSES

	CONSOLIDATED	
	2016	2015
	\$	\$
(a) Revenue		
Software licence fees	709,767	–
Professional service fees	191,996	–
Annual maintenance fees	492,124	–
Subscription (pay-per-use) revenue	261,612	–
3D printed models	110,267	80,554
Other software technology licence fees (reseller agreements)	93,089	63,182
Government grants	729	142
	1,859,584	143,878
(b) Other income		
Rental income (sub-tenancy)	108,261	–
Interest income	22,008	23,203
	130,269	23,203
(c) Other expenses		
Foreign exchange losses	237,907	–
Bad debts expense	6,453	–
	244,359	–
(d) Employee salaries, benefit and staff related expenses		
Salaries and wages	2,184,085	141,979
Defined contribution plan expense (superannuation)	78,936	13,488
Workers compensation costs	3,770	2,309
Annual leave provision	77,624	14,261
Payroll and Fringe Benefit Tax	121,479	–
Other employee benefits expense	426,103	247,356
Directors Fees	438,782	168,114
	3,330,779	587,507
(e) Depreciation and amortisation		
Amortisation of intangible assets	1,664,091	–
Amortisation of deferred tax liability	(498,534)	–
Depreciation of property, plant and equipment	151,848	7,624
	1,317,405	7,624
(f) Impairment charge		
Goodwill impairment charges	8,438,774	4,824,359
	8,438,774	4,824,359

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

7. INCOME TAX

	CONSOLIDATED	
	2016	2015
	\$	\$
(a) Income tax expense		
The major components of income tax expense are:		
Current income tax on profits	-	-
(Increase) / decrease in deferred tax assets	-	-
(Decrease) / increase in deferred tax liabilities	-	-
Income tax expense/(benefit)	-	-
(b) Reconciliation of prima-facie income tax payable to income tax expense / (benefit)		
Profit/(loss) from continuing operations before income tax expense	(14,563,297)	(6,909,809)
Tax at the Australian statutory income tax rate of 30% (2015: 30%)	(4,368,989)	(2,072,943)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment expenses	2,531,632	1,447,308
Tax losses not recognised	1,837,357	625,635
Total	-	-

(c) Unused tax losses

The Group has tax losses of \$34,951,091 arising in Australia, US, India and Singapore that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules. The Group is investigating the potential to utilise prior year tax losses associated with all of its subsidiaries.

(d) Deferred tax liabilities

The Group has recognised a deferred tax liability of \$10,524,728 (2015: nil) as a result of the acquisition of Mach7 Technologies Pte. Ltd during the year in accordance with AASB112 Income Taxes. Refer to Note 28 for further details on this acquisition.

8. EARNINGS PER SHARE

	2016	2015
Loss per share – basic (cents)	2.8c	3.6c
Loss per share – diluted (cents)	2.8c	3.6c

Basic earnings per share is calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

8. EARNINGS PER SHARE (continued)

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2016	2015
	\$	\$
Net loss used in calculating basic and diluted earnings per share	(14,563,297)	(6,909,809)
	Number of Shares	
Weighted average number of ordinary shares used in calculating basic earnings per share	524,315,820	192,428,473
Adjustments for calculation of diluted earnings per share Options	–	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	524,315,820	231,238,955

The options are considered non-dilutive as the Group has incurred a loss from ordinary operations for both the current and prior years. Refer Note 18 for further details on the current outstanding and issued share capital.

9. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2016	2015
	\$	\$
Cash at bank and on hand	1,658,374	2,751,420
Cash on call deposits	60,137	–
	1,718,511	2,751,420

Cash on call deposits are for varying periods of between one day and three months, depending on the immediate cash requirement of the Group, and earn interest at the respective cash on call deposit rates.

10. FINANCIAL ASSETS

	CONSOLIDATED	
	2016	2015
	\$	\$
Restricted cash (bank guarantee)*	211,227	–
	211,227	–

*An amount of USD156,250 held in a separate bank account to guarantee payment to a local distributor for successful supply and implementation of Mach7 enterprise imaging platform software solution, together with one year's annual support. This guarantee expires 31st Dec 2016.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

11. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2016	2015
(a) Balances	\$	\$
Trade receivables ⁽ⁱ⁾	1,506,095	52,768
Less provision for doubtful debts	(360,378)	–
Unbilled receivables ⁽ⁱⁱ⁾	920,912	–
GST receivable	–	51,170
Security deposit	–	43,470
	2,066,735	147,408

(i) Trade receivables typically have 30–45 day payment terms;

(ii) Unbilled receivables represents software license fees which have been recognised as revenue which are yet to be invoiced to the customer in accordance with the payment terms pursuant to the customer contract

(b) Impaired balances

The consolidated entity has recognised a loss of \$360,378 (2015: nil) in profit or loss in respect of impairment of receivables for the year ended 30 June 2016. The ageing of the impaired receivables provided for above are as follows:

	CONSOLIDATED	
	2016	2015
	\$	\$
Up to 3 months	–	–
3 to 6 months	–	–
> 6 months	360,378	–
	360,378	–

(c) Movements

	CONSOLIDATED	
	2016	2015
	\$	\$
Opening balance	–	–
Additional provisions recognised during the year	–	–
Acquired as part of a business combination	360,378	–
	360,378	–

(d) Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$607,349 as at 30 June 2016 (2015: \$6,639). The consolidated entity did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices. The ageing of the past due but not impaired receivables are as follows:

	CONSOLIDATED	
	2016	2015
	\$	\$
Up to 3 months	153,369	6,639
3 to 6 months	375,095	–
> 6 months	78,884	–
	607,349	6,639

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2016	2015
	\$	\$
Leasehold improvements		
At cost	237,351	33,941
Less accumulated depreciation	(86,341)	–
Net carrying amount	151,010	33,941
Plant and equipment		
At cost – plant and equipment	959,092	398,547
Less accumulated depreciation	(384,173)	–
At cost – office equipment	138,146	97,699
Less accumulated depreciation	(64,506)	(7,624)
Net carrying amount	648,559	488,622
Total plant and equipment		
At cost	1,334,589	530,187
Accumulated depreciation and amortisation	(535,020)	(7,624)
Total written down value	799,569	522,563
Reconciliations		
Plant and equipment		
Carrying amount at start of period	735,110	–
Additions at cost (i)	215,297	530,187
Disposals – cost	3,102	–
Disposals – accumulated depreciation	(2,092)	–
Depreciation expense	(151,848)	(7,624)
Carrying amount at period end	799,569	522,563

(i) cash outflows for additions of \$479,960 included payments for fixed asset items purchased in the prior financial year.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

13. INTANGIBLE ASSETS AND GOODWILL

	CONSOLIDATED					
	Patents	Goodwill	Customer Contracts	Brand Names	Software Intellectual Property	TOTAL
	\$	\$	\$	\$	\$	\$
Net Carrying Value Movement						
At 1 July 2015	-	-	-	-	-	-
Additions for the year (net)	1,529,735	8,853,542	8,824,764	2,597,532	24,116,955	45,922,528
Acquired as part of business combination	73,982	-	-	-	-	73,982
Impairment charge	-	(8,438,774)	-	-	-	(8,438,774)
Amortisation expense	(2,308)	-	(707,694)	(92,769)	(861,320)	(1,664,091)
Net carrying amount at 30 June 2016	1,276,633	414,768	8,117,070	2,504,763	23,255,635	35,568,869
Net Carrying Value						
Cost (gross carrying amount) at 1 July 2015	-	-	-	-	-	-
Additions through business combinations	1,529,735	8,853,542	8,824,764	2,597,532	24,116,955	45,922,528
Accumulated amortisation	(253,102)	-	(707,694)	(92,769)	(861,320)	(1,914,885)
Accumulated impairment charge	-	(8,438,774)	-	-	-	(8,438,774)
Net carrying amount at 30 June 2016	1,276,633	414,768	8,117,070	2,504,763	23,255,635	35,568,869
Net Carrying Value Movement						
At 1 July 2014	-	-	-	-	-	-
Amortisation expense	-	-	-	-	-	-
Net carrying amount at 30 June 2015	-	-	-	-	-	-
Net Carrying Value						
Cost (gross carrying amount) at 1 July 2014	-	-	-	-	-	-
Additions through business combinations	-	4,824,359	-	-	-	4,824,359
Impairment of assets	-	(4,824,359)	-	-	-	(4,824,359)
Net carrying amount at 30 June 2015	-	-	-	-	-	-

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

13. INTANGIBLE ASSETS AND GOODWILL (continued)

Impairment Testing

The patents and goodwill arose from the acquisition of Mach7 Technologies Group. The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive. The following key assumptions were used in the discounted cash flow model:

- 18% (2015: 11%) pre-tax discount rate;
- 30% (2015: 10%) per annum projected revenue growth rate for future revenues;
- 6% (2015: 3%) per annum increase in operating cost and overhead.

The discount rate of 18% (FY2015: 11%) pre-tax reflects management's estimate consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements. Based on the above, an impairment charge of \$8,438,774 (2015: \$4,824,359) has been recognised as the carrying amount of goodwill exceeded its recoverable amount. No other assets were deemed to be impaired as at 30 June 2016.

Future value

As per AASB136, an entity is required to assess at the end of each reporting period whether a previously impaired asset is no longer impaired. If there are indicators present which suggest the asset is no longer impaired to the same extent, the entity shall reassess the recoverable amount. Any increase in the recoverable amount (limited to the asset's recoverable amount prior to impairment) is recognised immediately as a gain in the profit and loss, except for goodwill. In the case of goodwill, the asset is permanently impaired.

14. TRADE AND OTHER PAYABLES

		CONSOLIDATED	
	Footnote	2016	2015
		\$	\$
Trade creditors	(i)	340,467	493,574
Accrued expenses	(ii)	442,926	11,397
GST, PAYG and distributor commission payable	(iii)	110,703	–
Employee entitlements	(iv)	337,194	14,261
		1,231,290	592,270

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Accrued expenses comprise interest accruals on external debt, and general operating expenses where costs are incurred but have not yet been invoiced.
- (iii) GST and PAYG are settled quarterly. Distributor commission will become payable at the time the customer pays their invoice, usually within 30–45 days.
- (iv) Employee entitlements includes sales commissions and other employee related costs

Due to the short term nature of the above trade and payables, their carrying value is assumed to approximate their fair value.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

15. DEFERRED REVENUE

	Note	CONSOLIDATED	
		2016	2015
		\$	\$
Software support revenue	(i)	962,064	–
Advances from customers	(ii)	1,405,733	–
		2,367,797	592,270

Terms and conditions relating to the above financial instruments:

- (i) Software support revenue represents annual maintenance contracts where payment has been received by the customer in advance (typically customers are billed annually in advance) and revenue is yet to be recognised (revenue is recognised evenly through-out the year).
- (ii) Advances from customers represent software licence fees (typically amounts are invoiced and received as milestones are achieved) but where the revenue is yet to be recognised.

Due to the short term nature of the above deferred revenue balances, their carrying value is assumed to approximate their fair value.

16. CURRENT INTEREST BEARING LIABILITIES

	Note	CONSOLIDATED	
		2016	2015
		\$	\$
Interest bearing loans (i)	(i)	2,876,135	–
Current portion of finance lease	17	116,667	–
		2,992,802	–

Terms and conditions relating to the above financial instruments:

- (i) Interest bearing loans are denominated in USD (USD2.1 million), are unsecured, and bear a 12% (with the exception of one loan below) per annum interest rate, which is calculated monthly. Interest is payable quarterly in arrears. As at 30 June 2016, the loans had the following maturity dates:
 - a. US\$1,000,000 matures 15 October 2016; Since balance date, this loan has been extended and is repayable (50%) on 1 April 2017 and (50%) on 1 July 2017;
 - b. US\$280,000 matures 26 July 2016. Since balance date, this loan has been extended and is repayable on 1 June 2017;
 - c. US\$220,000 matures 19 September 2016. Since balance date, this loan has been extended and is repayable on 1 June 2017;
 - d. US\$500,000 has passed its maturity date and is in the process of being extended. Since 30 June 2016, this loan was extended to 1 January 2017.
 - e. US\$127,555 has been extended by mutual consent and is not subject to a formal maturity date, and incurs interest at a rate of 10% per annum.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

17. FINANCE LEASES – NON CURRENT

	Note	CONSOLIDATED	
		2016	2015
		\$	\$
Balance as at 1 July		–	–
Proceeds received from sale and lease back of 3D printer	(i)	350,000	–
Lease payments made during the year	(i)	(10,516)	–
Balance as at 30 June		339,484	–
Less current portion	16	(116,667)	–
		222,817	–

- (i) On 12 May 2016, the Company entered into a sale and lease back of its TRUMP 3D Printer. It received \$350,000 as proceeds from the sale. The terms of the lease are as follows:
- Quarterly lease payments of \$35,060 (excl. GST, inclusive of financing charges)
 - Lease term 3 years
 - Implicit finance costs are shown within interest expense in the Statement of Profit and Loss and Other Comprehensive Income.

The Company's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are as follows:

	CONSOLIDATED			
	2016		2015	
	\$		\$	
	Minimum payments	Present Value of payments	Minimum payments	Present Value of payments
	\$	\$	\$	\$
Within one year	140,242	127,557	–	–
After one year but not more than five years	280,484	197,511	–	–
More than five years	–	–	–	–
Total minimum lease payments	420,725	325,068	–	–
Less amounts representing finance charges	(95,657)	–	–	–
Present value of minimum lease payments	325,068	325,068	–	–

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

18. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2016	2015
	\$	\$
(a) Ordinary shares*		
Issued and fully paid (940,135,143)	45,790,190	11,078,442
(b) Performance shares**		
Unlisted (300,000,000)	-	-

*Fully paid ordinary shares carry one vote per share and carry the right to dividends. The ordinary shares issued are subject to the following escrow conditions as at 30 June 2016:

Unrestricted and quoted on ASX	437,953,969
Restricted until 30 November 2016 and quoted on ASX	1,500,000
Restricted until 18 February 2017 and unquoted on ASX	58,748,168
Restricted until 8 April 2017	441,933,006
TOTAL ORDINARY SHARES ON ISSUE	940,135,143

**Four classes of Performance Shares were issued to the vendors of Mach7 Technologies Pte Ltd as part of the Company's merger with Mach7 during the financial year.

Each Performance Share, upon conversion, entitles its holder to receive one ordinary share in the Company. A Performance Share confers on its holder the right to receive notices of meetings, financial reports and accounts of the Company, and the right to attend general meetings of the Company. Performance Shares do not entitle their holders to any dividends.

All four classes of Performance Shares have varying conversion rights (which relate to Company performance milestones), which are more particularly detailed below. Subject to their respective performance milestones being satisfied, each Performance Share will convert into one ordinary share in the Company.

Performance Share conversion hurdles are as follow:

Class of Performance Shares	Conversion hurdle	Total number	Total restricted (to 8 April 2017)
Class A	Where gross revenue for Mach7 Group is equal or in excess of US\$6.0 million for the 2016 calendar year (CY16) and the volume weighted average price (VWAP) of the Company's shares of greater than or equal to A\$0.20 for any 20-day period during CY16. If the above condition is not satisfied in CY16: Where the Mach7 Group's CY17 gross revenue is greater than or equal to US\$6.6 million and a VWAP of the Company's shares of greater than or equal to A\$0.20 for any 20-day period during CY17.	150,000,000	144,283,689

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

18. CONTRIBUTED EQUITY (continued)

Class B	Where gross revenue for Mach7 Group is equal or in excess of US\$6.0 million for the 2016 calendar year (CY16) and the volume weighted average price (VWAP) of the Company's shares of greater than or equal to A\$0.25 for any 20-day period during CY16. If the above condition is not satisfied in CY16: Where the Mach7 Group's CY17 gross revenue is greater than or equal to US\$6.6 million and a VWAP of the Company's shares of greater than or equal to A\$0.25 for any 20-day period during CY17.	50,000,000	48,094,564
Class C	Where gross revenue for the Mach7 Group is equal to or in excess of US\$12 million for CY16.	50,000,000	48,094,564
Class D	Where gross revenue for the Mach7 Group is equal to or in excess of US\$20 million for CY17.	50,000,000	48,094,564
TOTAL		300,000,000	288,567,381

The directors have assessed the fair value of the above performance shares issued to be nil.

Movements in ordinary shares on issue	No. of Ordinary Shares	\$
At 1 July 2014	855,868,074	3,151,893
Share purchase plan at issue price of \$0.002 per share	220,000,000	440,000
Share consolidation on a 1:10 basis	(968,281,473)	–
Issue of shares to 3D Medical Pty Ltd vendors at issue price of \$0.02 per share	175,000,000	3,500,000
Issue of shares under public offer at issue price \$0.05 per share	81,772,000	4,088,600
Issue of 8,750,000 shares in lieu of fees to facilitators at issue price of \$0.02 per share	8,750,000	175,000
Issue of shares in lieu of fees for services provided by a consultant to the company at an issue price of \$0.009 per share	2,845,224	25,607
Capital raising cost	na	(302,658)
At 1 July 2015	375,953,825	11,078,442
Issue of shares under capital raising placement at \$0.075 per share	53,121,066	3,984,081
Issue of shares under share purchase plan at \$0.075 per share	4,336,704	325,250
Issue of shares on exercise of options at an exercise price of \$0.05 per share	1,590,283	79,514
Shares issued on acquisition of Mach7 Technologies Pte. Ltd	459,499,119	28,029,446
Issue of shares under capital raising placement at \$0.06 per share	42,000,000	2,520,000
Issue of shares under agreements with employees	2,134,146	166,774
Shares issued in exchange for interest costs and variation on loan	1,500,000	92,736
Capital raising costs	na	(486,053)
At 30 June 2016	940,135,143	45,790,190

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

18. CONTRIBUTED EQUITY (continued)

(c) Options Outstanding as at 30 June 2016

Options do not entitle the holders to voting rights, to participate in dividends or the proceeds on winding up of the Company. Each option entitles the holder to one ordinary share upon exercise of that option upon payment of the relevant exercise price prior to the date of expiry of the option.

The following unlisted options to purchase fully paid ordinary shares in the Company were outstanding at balance date.

Grant Date	Expiry Date	Exercise Price	Opening balance 01 July 2015	Number Granted	Number Exercised	Number Expired	Closing balance 30 June 2016
6 Feb 15	6 Aug 16 (i)	\$0.05	51,239,454	na	(996,323)	–	50,243,131
6 Feb 15	6 Aug 16 (ii)	\$0.05	21,705,606	na	–	–	21,705,606
6 Feb 15	6 Feb 17 (i)	\$0.05	30,546,533	na	(593,960)	–	29,952,573
6 Feb 15	6 Feb 17 (ii)	\$0.05	12,939,854	na	–	–	12,939,854
8 April 16	8 April 20 (i)	\$0.10	–	1,000,000	–	–	1,000,000
8 April 16	8 April 21 (i)	\$0.10	–	6,000,000	–	–	6,000,000
Total			116,431,447	7,000,000	(1,590,283)		121,841,164
(i) Unrestricted							
(ii) Restricted until 18 February 2017							

Grant Date	Expiry Date	Exercise Price	Opening balance 01 July 2014	Number Granted	Number Exercised	Number Expired	Closing balance 30 June 2015
6 Feb 15	6 Aug 16 (i)	\$0.05	–	51,239,454	–	–	51,239,454
6 Feb 15	6 Aug 16 (ii)	\$0.05	–	21,705,606	–	–	21,705,606
6 Feb 15	6 Feb 17 (i)	\$0.05	–	30,546,533	–	–	30,546,533
6 Feb 15	6 Feb 17 (ii)	\$0.05	–	12,939,854	–	–	12,939,854
Total				116,431,447			116,431,447
(i) Unrestricted							
(ii) Restricted until 18 February 2017							

(d) Options granted during the year

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

Grant Date	Expiry Date	Share price at grant date	Exercise price	Expected Volatility	Dividend yield	Risk-free interest	Fair value at grant date
8 April 16	8 April 20	\$0.06	\$0.10	80%	0.00%	1.99%	\$0.0302
8 April 16	8 April 21	\$0.06	\$0.10	80%	0.00%	1.99%	\$0.0343
6 Feb 15	6 Aug 16	\$0.05	\$0.05	50%	0.00%	2.02%	\$0.0125
6 Feb 15	6 Aug 17	\$0.05	\$0.05	50%	0.00%	2.02%	\$0.0144

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

18. CONTRIBUTED EQUITY (continued)

The expected volatility for the options granted on 8 April 2016 was determined with reference to the historical volatility of the Company's share price since the February 2015 (being the date 3D Medical merged with Safety Medical Products) up to the date of grant. This assumption was made on the basis it would be a more appropriate predictor of future volatility given the significant changes in the company's operations and activities since that business acquisition was completed.

19. RESERVES

	CONSOLIDATED		
	Options Reserve	Foreign Exchange Translation Reserve	Total
	\$	\$	\$
At 30 June 2014	–	–	–
Options issued on acquisition	1,541,442	na	1,541,442
At 30 June 2015	–	–	–
Share based payments	30,267	na	30,267
Shares issued in exchange for options on acquisition	325,578		325,578
Foreign exchange on translation of subsidiaries	na	(139,425)	(139,425)
At 30 June 2016	1,897,287	(139,425)	1,757,862

Nature and purpose of options reserve

The Company has a share based payment option scheme under which options to subscribe for the Company's shares have been granted to certain executives and other employees.

20. CASH FLOW STATEMENT RECONCILIATION

	CONSOLIDATED	
	2016	2015
	\$	\$
Net loss after tax	(14,563,297)	(6,909,809)
Adjustments for		–
Depreciation & amortisation	1,317,405	7,624
Intangibles Impairment	8,438,774	4,824,359
Share based payments expense	30,267	–
Merger acquisition costs	986,416	–
Net foreign exchange differences relating to cash	200,270	–
Net liabilities acquired in acquisition of Mach7 Technologies Pte Ltd	(3,478,891)	–
Changes in assets and liabilities		
Decrease/(Increase) in trade and other receivables	(1,651,760)	(40,790)
Decrease/(Increase) in other current assets	(647,309)	52,888
Increase/(Decrease) in accounts payable and other payables	639,020	298,775
Increase/(Decrease) in deferred revenues	2,367,797	–
Increase/(Decrease) in interest bearing liabilities	2,992,802	–
Net cash used in operating activities	(3,368,506)	(1,766,953)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

21. RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of Mach7 Technologies Limited and its direct/indirect subsidiaries listed in the following table:

Name		Country of Incorporation	% of Equity interest held by the consolidated entity	
			2016	2015
<i>Direct subsidiaries</i>				
3D Medical Pty Ltd		Australia	100	100
Mach7 Technologies International Pty Ltd		Australia	100	–
Mach7 Technologies UK Ltd		UK	100	–
<i>Indirect subsidiaries</i>				
Mach7 Technologies Pte Ltd		Singapore	100	–
Mach7 Technologies Inc.		US	100	–
Mach7 Technologies Australia Pty Ltd		Australia	100	–
Mach7 Technologies Pvt Ltd		India	100	–

(b) Ultimate parent

Mach7 Technologies Limited is the ultimate parent of the Group.

(c) Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 22.

22. KEY MANAGEMENT PERSONNEL

(a) Compensation for Key Management Personnel

	CONSOLIDATED	
	2016	2015
	\$	\$
Short-term employee benefits	804,522	263,477
Post-employment benefits	25,654	9,200
Other long-term benefits	60,000	–
Equity-based payment	164,718	–
Total compensation	1,054,894	272,677

(b) Option holdings of Key Management Personnel

30 June 2016	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Options Forfeited/ Expired Cancelled	Balance at End of Period	Not Exercisable	Exercisable
Directors	29,815,457	5,000,000	–	–	34,815,457	34,815,457	–
Executives	–	2,000,000	–	–	2,000,000	2,000,000	–
Total	29,815,457	7,000,000	–	–	36,815,457	36,815,457	–

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

22. KEY MANAGEMENT PERSONNEL (continued)

Option holdings

Details of the key management personnel holdings of options to acquire ordinary shares in the Company, including their personally related parties, are shown in the following table:

Directors/ Executives	Balance 1 July 2015	Options granted	Disposed / expired	Options exercised	Balance 30 June 2016
Directors					
Mr F Pertile (i)	27,259,645	–	–	–	27,259,645
Dr N Finch	1,135,916	1,250,000	–	–	2,385,916
Mr M Morgan (i)	1,419,896	–	–	–	1,419,896
Mr N Ito	–	1,250,000	–	–	1,250,000
Mr K Poutakidis (i)	–	1,250,000	–	–	1,250,000
Mr D Lim	–	1,250,000	–	–	1,250,000
Executives					
Ms J Pilcher	–	2,000,000	–	–	2,000,000
Total	29,815,457	7,000,000	–	–	36,815,457

(i) Former director. Movements are up until date of resignation.

Share options held by key management personnel under the Employee and Officers Option Plan to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	2016 Number Outstanding	2015 Number Outstanding
6 Feb 2015	6 Aug 2016	\$0.05	18,679,580	18,679,580
6 Feb 2015	6 Feb 2017	\$0.05	11,135,877	11,135,877
8 Apr 2016	8 Apr 2021	\$0.10	6,000,000	–
8 Apr 2016	8 Apr 2020	\$0.10	1,000,000	–
Total			36,815,457	29,815,457

Refer to note 22 for further details on the plan.

(c) Shareholding of key management personnel

Ordinary shares held in Mach7 Technologies Limited (number)

30 June 2016	Balance 1 July 2015	Granted as Remuneration	On Exercise of Options	Issued on Acquisition Mach7	Net Change Other	Balance 30 June 2016
Directors	1,707,317	–	–	114,022,490	1,907,000	117,636,807
Executives	–	–	–	66,939,433	–	66,939,433
Total	1,707,317	–	–	180,961,923	1,907,000	184,576,240

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

22. KEY MANAGEMENT PERSONNEL (continued)

(i) Share holdings

Details of the Key Management Personnel holdings of ordinary shares in the Company, including their personally related parties, are shown in the following tables:

Ordinary Shares	Balance at start of year	Additions	Disposals	Other	Balance 30 June 2016
Mr A Liong (i)	–	27,046,890			27,046,890
Mr N Ito (ii)	–	6,524,188	–	–	6,524,188
Dr N Finch	1,707,317	1,907,000	–	–	3,614,317
Mr D Lim (ii)	–	80,451,412	–	–	80,451,412
Mr R Krishnan (iii)	–	57,805,614	–	–	57,805,614
Mr J Rice (iii)	–	9,133,819	–	–	9,133,819
Total	1,707,317	182,868,923	–	–	184,576,240

(i) Executive director appointed 8 April 2016

(ii) Non-executive director appointed 8 April 2016 upon the acquisition of Mach7

(iii) Executive appointed 8 April 2016 upon the acquisition of Mach7

23. SHARE-BASED PAYMENT PLAN

Recognised share-based payment expenses

The expense recognised from employee services received during the year is shown in the table below:

	CONSOLIDATED	
	Note	
	2016	2015
	\$	\$
Expenses arising from equity-settled share-based payment transactions	30,267	–

Types of share-based payment plan

Employee Share Option Plan, 'ESOP'

An Employee and Officers Option Plan has been established where Mach7 Technologies Limited may, at the discretion of the Board, grant options over the ordinary shares of Mach7 Technologies Limited to Directors, Executives, contractors and employees of the consolidated entity. The options, issued for nil consideration, are exercisable any time two to three years after the issue date and expire four to five years after the issue date.

The exercise of the options is not subject to any performance conditions other than the employee remaining in the employ of the Company at the date of exercise. The options cannot be transferred and will not be quoted on the ASX.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

23. SHARE-BASED PAYMENT PLAN (continued)

The following table illustrates the number and weighted average exercise price of, and movements in, share options issued during the year:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	29,815,457	\$0.05	–	–
– granted	7,000,000	\$0.10	29,815,457	\$0.05
– forfeited	–	–	–	–
Balance at end of year	36,815,457	\$0.06	29,815,457	\$0.05
Exercisable at end of year	–	–	–	–

Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2016 is 1.12 years (2015: 1.29 years)

Range of exercise price

The range of exercise prices for options outstanding at end of the year was \$0.05 – \$0.10 (2015: \$0.05).

Weighted average fair value

The weighted average fair value of options granted during the year was \$0.018 (2015: \$0.013).

Options held as at the end of the reporting period

The following table summarises information about options held as at 30 June 2016:

Number Issued	Grant date	Vesting date	Exercise Price	Expiry Date
17,967,921	6 Feb 2015	6 Feb 15	\$0.05	6 Aug 2016
711,659	6 Feb 2015	6 Aug 2016	\$0.05	6 Aug 2016
11,135,877	6 Feb 2015	18 Feb 2017	\$0.05	6 Feb 2017
6,000,000	8 Apr 2016	8 Apr 2018	\$0.10	8 Apr 2021
1,000,000	8 Apr 2016	8 Apr 2017	\$0.10	8 Apr 2020
36,815,457				

Option pricing model

Equity-settled transactions

The fair value of the equity-settled share options granted under the ESOP is estimated as at the date of grant using a Black-Scholes option pricing model taking into account the terms and conditions upon which the option were granted. The model takes into account the share price volatilities and co-variances of the Company, and excludes the impact of any estimated forfeitures related to the service-based vesting conditions on the basis that management has assessed the forfeiture rate to be zero.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

24. EXPENDITURE COMMITMENTS

		CONSOLIDATED	
	Note	2016	2015
		\$	\$
(a) Lease expenditure commitments			
Operating leases (non-cancellable):			
Minimum lease payments			
– not later than one year		264,120	106,875
– later than one year and not later than five years		511,172	299,147
Aggregate lease expenditure contracted for at reporting date		775,292	406,022

The operating leases are in respect of the lease of the premises in Australia, US and office equipment in Singapore.

(b) Capital expenditure commitments

There are no capital expenditure commitments, other than those disclosed in Note 17 for finance lease payments, as at 30 June 2016 (2015: nil).

25. CONTINGENT ASSETS AND LIABILITIES

There are no other contingent assets or liabilities as at 30 June 2016.

26. AUDITORS' REMUNERATION

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the company and unrelated firms:

	CONSOLIDATED	
	2016	2015
	\$	\$
The auditor of the Parent Company is – RSM Australia Partners		
Amounts received or due and receivable by the auditor of the company for:		
<i>Audit services – RSM Australia Partners</i>		
Audit or review of the financial statements	60,000	25,000
<i>Other services – RSM Australia Partners</i>		
Other consulting services	–	15,000
	60,000	40,000
<i>Audit services – unrelated firms</i>		
Audit or review of the financial statements	60,106	–

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

27. PARENT ENTITY DISCLOSURE

	PARENT	
	2016	2015
	\$	\$
Current assets	4,349,741	3,166,395
Non-current assets	30,872,262	522,563
TOTAL ASSETS	35,222,003	3,688,958
Current liabilities	307,858	592,270
Non-current liabilities	556,566	–
TOTAL LIABILITIES	864,424	592,270
Contributed equity		
Issued capital	45,757,867	11,078,442
Reserves	1,557,635	1,541,442
Retained earnings	(12,957,922)	(9,523,196)
TOTAL EQUITY	34,357,580	3,096,688
Total comprehensive income/(loss) attributable to equity	(3,218,117)	(6,909,809)

28. BUSINESS COMBINATIONS

(a) Acquisition of Mach7 Technologies Pte. Ltd

On 8 April 2016, 3D Medical Limited acquired all the issued share capital of Mach7 Technologies Pte. Ltd. a business specialising in enterprise imaging software for the healthcare industry. 3D Medical Limited is the exclusive reseller for Mach7 Enterprise Imaging Platform software in Australia and New Zealand.

The consideration for the purchase of Mach7 Technologies Pte. Ltd was comprised of the issue of 459,499,119 3D Medical Limited (now called Mach7 Technologies Limited) fully paid ordinary shares at a deemed issue price of \$0.061 per share, being the closing price on 7 April 2016. In addition, contingent consideration of 300 million performance shares were issued which have been given a fair value of nil at the date of acquisition (refer Note 18) for the purposes of acquisition accounting. A nil value has been ascribed due to the improbability of achieving the milestones attached to the performance shares as at the date of this report. As these are the preliminary amounts for the acquisition, the Company will reassess the fair value of the performance shares over the next twelve months, when at least one of the milestone outcomes will be known. Further details on the performance shares are contained in Note 18.

There was no cash consideration issued to the vendors of Mach7 Technologies Pte. Ltd. The Company acquired a total cash balance of \$236,622 as part of the acquisition. Consequently, the net cash impact of this acquisition is an inflow of \$236,622.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

28. BUSINESS COMBINATIONS (continued)

The preliminary amounts recorded as a result of the business combination are shown in the table below. The Company has 12 months from the date of acquisition to finalise these amounts. The company is actively assessing whether any of the value disclosed as Goodwill for the above acquisitions in the consolidated statement of financial position should be allocated to intangible assets, in line with the appropriate accounting standards and within the period allowed to finalise acquisition accounting entries. As at the date of this report, this assessment is not complete.

		CONSOLIDATED	
	Note	2016	2015
		\$	\$
Purchase consideration			
Shares issued on acquisition of Mach7 Technologies Pte. Ltd			
– Ordinary shares (459.5 million)	18	28,029,446	–
– Performance shares (300 million) issued (nil value)	18	–	–
– Cash advanced for exercise of options on acquisition		1,137,542	
– Charge for options exchanged on acquisition		325,578	
		29,492,566	–
Fair value and carrying value of net assets acquired			
Cash and cash equivalents		236,622	–
Trade and other receivables (i)		1,685,894	–
Deposits and prepayments		231,180	–
Bank guarantee (restricted cash balance) (ii)		208,737	–
Total current assets		2,362,433	–
Property, plant & equipment		196,913	–
Total non-current assets		196,913	–
Trade payables		632,478	–
Deferred revenue (iii)		1,438,142	–
Other payables (iv)		728,516	–
Interest bearing liabilities		2,863,658	–
Loan from related party (3D Medical Limited, the acquirer) (v)		1,978,475	–
Total current liabilities		7,641,269	–
Net tangible liabilities acquired		(5,081,923)	–
Customer contracts (vi)	14	8,824,764	–
Software intellectual property (vi)	14	24,116,955	–
Patents (vi)	14	1,204,959	–
Brand (vi)	14	2,597,532	–
Deferred tax liability on intangible assets acquired (vii)		(11,023,263)	–
Goodwill on consolidation	14	8,853,542	–
Total intangible assets acquired		34,574,489	–
Net assets acquired (fair value)		29,492,566	–

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

28. BUSINESS COMBINATIONS (continued)

- (i) Trade and other receivables comprises \$986,251 of trade receivables less \$503,677 for provision of doubtful debts. A further \$1,203,321 of unbilled trade receivables is included in this balance, representing revenue previously recognised but not yet billable to the customer in accordance with the contract terms.
- (ii) Bank guarantee expires 31 December 2016, when the balance will be returned to Mach7, less any applicable bank fees.
- (iii) Deferred revenue comprises annual maintenance contracts of \$731,680 where the customers have been billed annually in advance, and the revenue is recognised evenly through-out the year. A further \$706,462 represents advances from customers, where customers have been billed in accordance with the terms of the contract but the revenue will be recognised as the services are performed, for example, software implementation, training and data migration services.
- (iv) Other payables includes \$227,493 of accrued interest payable on the loans. The remainder of the balance are accruals for expenses not yet invoiced or paid in the normal course of business.
- (v) An amount of USD1.5 million was lent to Mach7 as part of the acquisition by 3D Medical.
- (vi) Intangible assets have been fair valued using net present value techniques. Refer Note 14 for further information.
- (vii) A deferred tax liability has been recorded in accordance with AASB 112 representing the future tax payable on the future revenues the intangible assets may generate.

(b) Acquisition of 3D Medical Pty Limited (formerly known as ThreeD Medical Pty Ltd)

On 6 February 2015 3D Medical Limited acquired all the issued share capital of ThreeD Medical Limited (which is now called 3D Medical Pty Limited) a business specialising in the 3D printing of customised medical products based on data captured by diagnostic imaging tools.

The consideration for the purchase of ThreeD Medical Limited was comprised of the issue of 175,000,000 3DM fully paid ordinary shares at \$0.02 each and 116,431,447 options to acquire shares at an exercise price of \$0.05 per share. There was no cash consideration issued.

The finalised amounts recorded as a result of the business combination are as follows:

	CONSOLIDATED	
	2016	2015
	\$	\$
Purchase consideration		
Ordinary shares issued (175,000,000 @ \$0.02 / share)	–	3,500,000
Options(i) 116,431,447 at fair value	–	1,541,442
	–	5,041,442
Fair value and carrying value of net assets acquired		
Net working capital	–	217,083
Goodwill on consolidation	–	4,824,359
	–	5,041,442

(i) For details of fair value of options refer Note

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

29. SUBSEQUENT EVENTS

Financing activities

Options

During the year, the Company had announced to the ASX that it received received irrevocable and binding commitments for the exercise of 49.8 million options at an exercise price of \$0.05 per option, and that it would raise a total of approximately \$2.5 million from the exercise of those options. The option holders agreed to complete the exercise of their options by 1 April 2016, being 1 business day after the Company received all necessary shareholder approvals in connection with the Company's merger with Mach7 Technologies Pte. Ltd. As at 30 June 2016, the Company had received \$79,514 for the exercise of 1.6 million options.

Since balance date, the Company has received a further \$444,787 (total \$524,301) for the exercise of 8.9 million (total 10.5 million) options. It has lapsed 21.3 million options (exercise total price of \$1,508,717) which expired on 6 August 2016. The Company continues to pursue the monies it is owed for the exercise of 18 million (exercise total price of \$899,425) options which expire 6 February 2017, and also the \$1,508,717 which it is owed under contract.

Loans

Since balance date, the Company has entered into three loan variation agreements which extend the maturity dates of the loans reported at 30 June 2016 to the following:

- US\$500,000 matures 1 January 2017
- US\$500,000 matures 1 April 2017
- US\$500,000 matures 1 June 2017
- US\$500,000 matures 1 July 2017

Refer Note 16 for further information on the loans.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Mach7 Technologies Limited, I state that:

1) In the opinion of the Directors:

(a) The financial statements, notes, and the additional disclosures included in the directors report and designated as audited, of the Company are in accordance with the *Corporations Act 2001*, including:

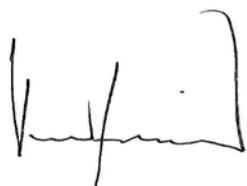
- I. Giving a true and fair view of the Company's financial position as at 30 June 2016 and of their performance for the year ended on that date; and
- II. Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2016.

On behalf of the Board



Damien Lim
Chairman

Signed at Singapore on 31 August 2016

RSM Australia Partners

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INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF****MACH7 TECHNOLOGIES LIMITED****Report on the Financial Report**

We have audited the accompanying financial report of Mach7 Technologies Limited ("the company"), which comprises the statement of financial position as at 30 June 2016, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mach7 Technologies Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Mach7 Technologies Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial report which refers to the current net liability position of \$2.16 million as at 30 June 2016, and operating losses of \$14.56 million and net cash outflows from operating activities of \$3.36 million for the year then ended, as well as the reliance of the company on its ability to achieve revenue forecasts and obtain finance to meet its debts as and when they fall due. These conditions, along with other matters set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Mach7 Technologies Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink, appearing to be 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to be 'R B Miano'.

R B MIANO
Partner

Melbourne, VIC
Dated: 31 August 2016

Shareholder Information

MACH7 TECHNOLOGIES LIMITED ABN 26 007 817 192

ABN 26 007 817 192

Website: www.mach7t.com

Directors and Company Secretary

Mr Damien Lim (Non-Executive Chairman)

Mr Albert Liong (Managing Director and CEO)

Dr Nigel Finch (Non-Executive Director)

Mr Nobuhiko Ito (Non-Executive Director)

Mr Wayne Spittle (Non-Executive Director)

Ms Alyn Tai (Company Secretary)

Registered Office and Principal Place of Business

Unit 4, 435 Williamstown Road

Port Melbourne, Victoria 3207

Telephone: +61 (3) 9646 2222

Facsimile: +61 (3) 9645 4707

Share Register

Link Market Services Limited

Level 1, 333 Collins St., Melbourne, VIC, 3000

Locked Bag A14, Sydney South, NSW, 1235

Telephone: 1300 554 474

Facsimile: +61 (2) 9287 303

Website: www.linkmarketservices.com.au

Stock Exchange Listing

Australian Stock Exchange

Issuer Code: M7T

Solicitors

Gadens Lawyers

Level 25, Bourke Place

600 Bourke Street

Melbourne VIC, 3000

Bankers

Westpac Banking Corporation

150 Collins Street

Melbourne, Victoria 3000

Auditors

RSM Bird Cameron Partners

Level 21, 55 Collins Street, Melbourne, VIC, 3000

Board of Directors and Company Secretary

Damien Lim

Non-Executive Chairman (appointed to the Board 8 April 2016, and as Chairman 15 June 2016)

Mr. Lim is the co-founder of Singapore-based BioVeda Capital. He has more than 21 years of experience in equity and investment banking with Director level roles at Prime Partners, Vickers Ballas and Morgan Greenfell Asia. Mr. Lim serves on a number of boards as well as grant and advisory committees.

Albert Liong

Managing Director and CEO (appointed to the Board 8 April 2016)

Mr. Liong is currently the Managing Director and CEO of Mach7 Technologies Ltd. He joined Mach7 in 2012 as CFO and COO bringing more than 20 years of experience in finance and accounting management, strategic planning and operations. Prior to joining Mach7, Mr. Liong held executive management roles in private and public software and IT companies. He was the CFO for Adteractive Inc., an online media company, in charge of operations and administrative functions. Prior to Adteractive, Mr. Liong held multiple roles, including CFO, VP, GM of APAC and VP of Operations, at Envivio Inc., a software technology leader in MPEG4 compression. Mr. Liong is a Certified Public Accountant and holds an M.B.A. and B.Sc. in Management from San Francisco State University.

Dr Nigel Finch

Non-Executive Director (appointed to the Board 7 May 2015)

Dr. Finch is a Non-Executive Director of Mach7 Technologies Ltd. and the former Chairman of 3D Medical. Dr. Finch is also a Principal at Saki Partners Transaction Advisors. He has held director and senior management roles focused on strategy execution and managing financial performance in both early-stage and mature firms and has significant experience in economic development throughout Asian markets. Previously, Dr. Finch was Associate Dean at the University of Sydney Business School. His successful academic career was preceded by a 20-year career as a CFO, investment manager and executive director. During the past three years he has served as a director of the following ASX listed entities: Panorama Synergy Limited, Skydive The Beach Group Limited and KNeoMedia Limited.

Nobuhiko Ito

Non-Executive Director (appointed to the Board 8 April 2016)

Mr. Ito is a Non-Executive Director of Mach7 Technologies Ltd. and an adviser to TPG Capital Japan, Director of Konica Minolta Business Solutions and Tadano Ltd. He is also the former President and CEO of GE Japan and was an executive with Exxon Chemical Japan for 16 years. Mr. Ito holds a B.Sc. degree from the University of Tokyo and an M.B.A. from Cornell University.

Wayne Spittle

Non-Executive Chairman (appointed to the Board 15 June 2016)

Mr. Spittle is a Non-Executive Director of Mach7 Technologies Ltd. and brings extensive industry experience in the global healthcare sector including all imaging modalities, IT solutions and patient monitoring. He has served as Executive VP with Samsung Medison and Health and Medical Equipment division of Samsung. Previously, he was Senior VP at Philips Healthcare for Asia Pacific and CEO for Philips Electronics for ASEAN Pacific. He has extensive experience in acquisitions, product development, marketing and sales. Currently Mr. Spittle remains as a consultant at Samsung Medison and Advisor at Novum Waves.

Alyn Tai

Company Secretary

Ms Tai is a corporate and commercial lawyer, and practices at Corporate Counsel, a boutique corporate law firm with a focus on the provision of company secretarial, corporate governance and legal counsel services to entities listed on the Australian Securities Exchange. She holds a Bachelor of Laws from the University of Exeter, and was called to the Bar of England and Wales before being admitted to the Supreme Court of Victoria as an Australian lawyer. Ms Tai is a member of Law Institute of Victoria and the Honourable Society of Inner Temple (UK).
