

# **Mach7 Technologies Limited**

ABN 26 007 817 192

and Controlled Entities (Mach7 Technologies Group)

## **ASX Appendix 4E Preliminary Final Report & Directors' Report and Audited Financial Statements**

**For the year ended 30 June 2017**

(Previous corresponding period: Year ended 30 June 2016)

Provided to the ASX in accordance with listing rule 4.3A

**Mach7 Technologies Limited**  
(ACN 007 817 192 ABN 26 007 817 192)  
Level 1 | 61 Spring Street | Melbourne  
VIC 3000 Australia

# Mach7 Technologies Limited

## ASX Appendix 4E Preliminary Final Report

YEAR ENDED 30 JUNE 2017

### Results for announcement to the market

Current reporting period 1 July 2016 to 30 June 2017

Previous corresponding period 1 July 2015 to 30 June 2016

		<b>% Change</b>		<b>\$'000</b>
<b>Revenue from continuing operations</b>	increase	452%	to	10,269
Net loss for the year	increase	40%	to	17,659
Net loss for the year attributable to members	increase	40%	to	17,659
<b>Dividends</b>				
Interim dividend		-		-
Final dividend		-		-

	<b>Current period \$'000</b>	<b>Previous Corresponding period \$'000</b>
<b>Consolidated accumulated losses</b>		
Accumulated losses at the beginning of the financial period	(22,153)	(9,523)
Net loss attributable to equity holders	(17,659)	(12,629)
Accumulated losses at the end of the financial period	(39,812)	(22,153)
<b>Earnings per share (EPS)</b>		
Basic EPS	Loss 16.3 cents	Loss 24.1 cents
Diluted EPS	Loss 16.3 cents	Loss 24.1 cents
Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	108,482,657	52,431,582
<b>Net tangible asset (NTA) backing</b>		
Net tangible asset backing per ordinary share	0.3 cents	(0.3) cents

#### 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 2017.

#### 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 2017

Your directors submit their report for the year ended 30 June 2017.

### Directors and Company Secretary

The following persons were Directors or Company Secretary of the Company at any time during the current financial year, or since 30 June 2017 up to the date of this report:

Mr Damien Lim	Non-Executive Chairman
Mr Albert Liong	Managing Director and CEO (up until 31 May 2017)
Dr Nigel Finch	Non-Executive Director
Mr Nobuhiko Ito	Non-Executive Director
Mr A. Wayne Spittle	Non-Executive Director
Ms Alyn Tai	Company Secretary

### Information of directors

Directors' and the Company Secretary qualifications, experience, special responsibilities and period in office are set out in the section of this document entitled "Board of Directors and Company Secretary" on page 88.

### Directors' relevant interest in Mach7 Technologies Limited securities

The directors' interests in the shares and options of Mach7 Technologies Limited at 30 June 2017 were:

Director	Ordinary Shares	Options
	No.	No.
Dr Nigel Finch	682,598	125,000
Mr Nobuhiko Ito	902,419	125,000
Mr Damien Lim <sup>#</sup>	250,000	125,000
Mr A. Wayne Spittle	250,000	125,000
Mr Albert Liong	2,954,689	–

<sup>#</sup> In addition to the shareholding of Mr Lim, 11,372,898 held by BV Healthcare II Pte Ltd, an investment fund of which Mr Lim is a Principal.

### 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		Audit & Risk Management Committee		Remuneration & Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Damien Lim	13	13	–	–	3	3
Albert Liong	11	10	–	–	–	–
Dr Nigel Finch	13	13	3	3	3	3
Nobuhiko Ito	13	8	3	–	–	–
Wayne Spittle	13	13	3	3	3	3

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Committee membership

As at the date of this Report, the Group had an Audit & Risk Management 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	-	Chairman
Albert Liong	-	-
Dr Nigel Finch	Chairman	Member
Nobuhiko Ito	Member	-
Wayne Spittle	Member	Member

### Dividends

Mach7 Technologies Limited did not declare or pay any dividends during the financial year (2016: nil).

### Principal activities

The principal activity of the Group during the year was the provision of enterprise imaging data sharing, storage and interoperability for healthcare enterprises globally.

### 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
- Business strategies and prospects for future years
- Business risks to achieving corporate strategy
- Going concern

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

### Financial position

The following table provides a snapshot of important balances from the Group's statement of financial position as at 30 June:

CONSOLIDATED	As at 30 June 2017	As at 30 June 2016	Movement	Move- ment
	\$	\$	\$	%
Cash (including all cash deposits)	2,784,225	1,929,738	854,487	44%
Deferred revenue – yet to be recognised	(2,855,480)	(2,367,797)	(487,683)	21%
Net current assets / (liabilities)	3,253,092	(2,159,334)	5,412,426	251%
Net tangible assets	3,424,995	(1,582,582)	5,007,577	316%
Intangible assets	17,843,215	35,568,869	(17,725,654)	(50%)
Deferred tax liability arising on intangible assets	(5,329,432)	(10,524,728)	5,195,296	(49%)
Net assets	15,938,778	23,461,559	(7,522,781)	(32%)

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

#### Cash & cashflows

The Group's cash balances increased by \$0.9 million (44%) to \$2.8 million from 30 June 2016 to 30 June 2017. During the year the Company raised capital (net of capital raising costs) of \$9 million, retired debt of \$2.9 million, and spent (net of receipts) \$5.2 million in the course of normal operations. As the Group continues to grow its revenues, Directors anticipate it will begin to generate positive net cash flows during the ordinary course of operations.

#### Deferred revenue

The Group's deferred revenue balance increased by \$0.5 million (21%) to \$2.9 million from 30 June 2016 to 30 June 2017. Deferred revenue represents contracts that have been executed prior to 30 June 2017, where the customer has made certain payments, but the Group has yet to recognise revenue as the services have not yet been performed. The Group would expect to fully convert this balance to revenue during the next financial year.

#### Net current assets

The Group has a positive net current asset balance at 30 June 2017 of \$3.3 million, an increase of \$5.4 million (251%) compared to 30 June 2016. The increase in current assets is largely as a result of the net cash generated from the capital raise (after debt repayments) of \$6.1 million. After allowing for this additional cash injection, the Group's net current asset position fell by \$0.7 million (32%) for the year.

#### Net tangible assets (NTA)

The Group has a positive net tangible assets balance at 30 June 2017 of \$3.4 million, an increase of \$5.0 million (316%) compared to 30 June 2016. The positive increase in NTA is a result of factors mentioned in the above section (net current assets).

#### Intangible assets

During the previous financial year, the Group acquired intangible assets (including goodwill) with a fair value of \$43.7 million by way of acquisition of Mach7 Technologies Pte Ltd and its subsidiaries (Mach7 Group). Also during the previous year, this balance was written down by way of an amortisation charge of \$1.6 million and an impairment charge of \$6.5 million, to a carrying value at 30 June 2016 of \$35.6 million. During the current year, this carrying value was written down a further \$17.7 million to a carrying value at 30 June 2017 of \$17.9 million. The Directors' are of the opinion this carrying value reflects the fair value of the net intangible assets acquired during the acquisition of the Mach7 Group. The carrying value will continue to be amortised over a remaining 4–6 years. Further details of the intangible assets acquired can be found in Note 14 to the financial statements.

#### Deferred tax liability

As part of the acquisition of the Mach7 Group mentioned above (refer intangible assets), the Group recognised a deferred tax liability of 30% of its intangible assets acquired in accordance with accounting standards. Like the intangible assets, this liability was reduced for an equivalent impairment credit, and is also amortised over a remaining period of 4–6 years.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

#### Net assets

The Group's net assets decreased by 32%, or \$7.5 million, from 30 June 2016 to 30 June 2017. This fall in net assets was largely as a result of the write down and amortisation of intangible asset and associated deferred tax liability balances of \$12.5 million. Partially offsetting this was an increase in net assets due to the cash raised and retirement of debt made during the year of \$6 million (net).

### Review and results of operations

#### Revenue from continuing operations

Total revenue reported for the current year is \$10.3 million, an increase of \$4.4 million (76%) from the previous pro-forma period (2016 pro-forma: \$5.8 million). A breakdown of revenues by category is shown in table 1 below:

Table 1. Sales revenues

CONSOLIDATED	2017	2016 (pro-forma*)	Movement	Movement
	\$	\$	\$	%
Sales revenues				
Software licence fees	5,724,889	2,921,459	2,803,430	96%
Professional service fees	1,050,472	873,979	176,493	20%
Support maintenance fees	2,962,661	1,486,860	1,475,801	99%
Subscriptions (pay-per-use)	502,993	348,585	154,408	44%
3D printed models	27,916	110,267	(82,351)	(75%)
Other revenue	–	93,089	(93,089)	(100%)
<b>TOTAL</b>	<b>10,268,931</b>	<b>5,834,239</b>	<b>4,434,692</b>	<b>76%</b>

\*2016 is a pro-forma, unaudited result, which includes the Mach7 Group for the full financial year, and not just from the date of acquisition (8 April 2016) by 3D Medical Limited as is the case with the amounts reported in the accompanying financial statements.

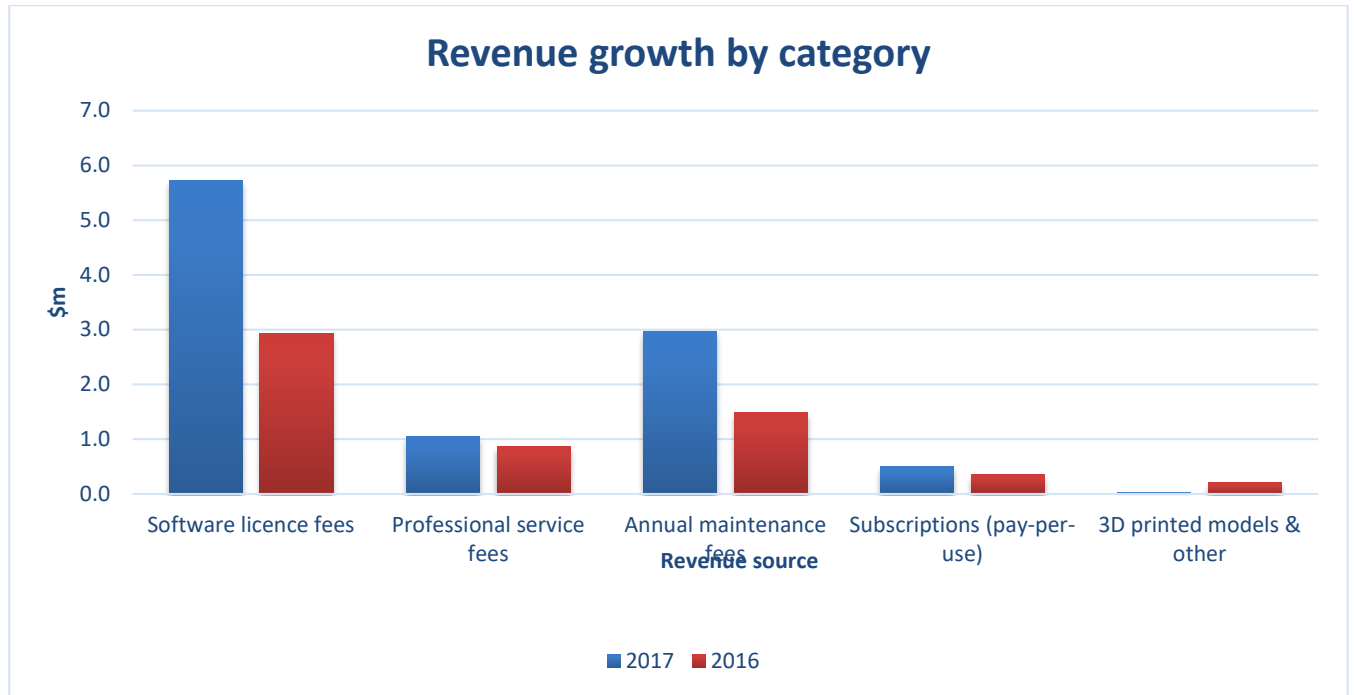
Every revenue category related to Mach7 software has produced strong double-digit growth which is also shown in the chart below:

# Mach7 Technologies Limited

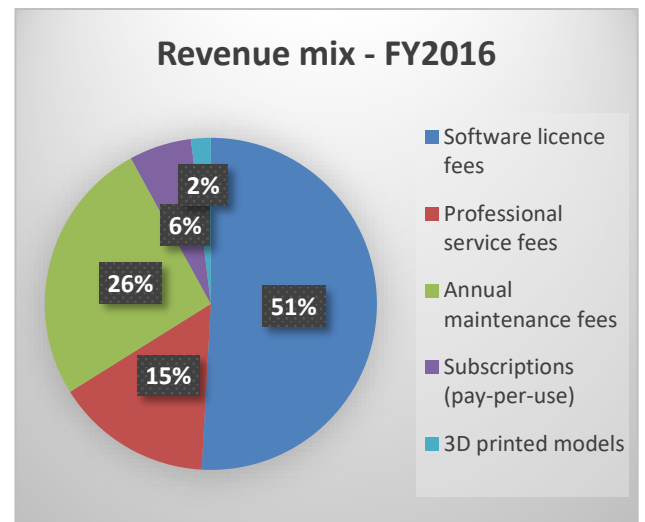
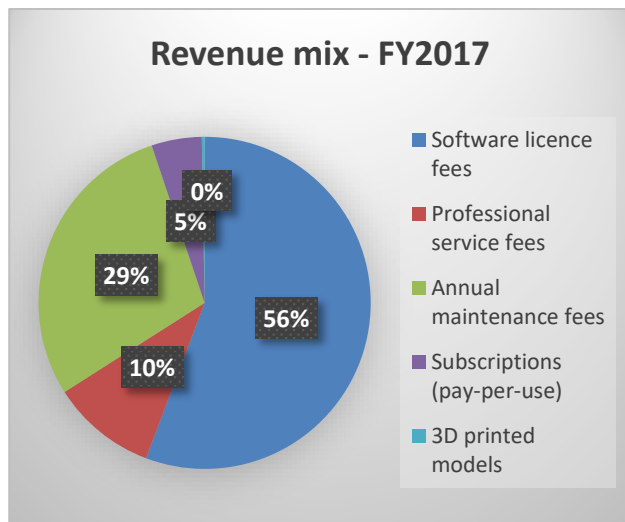
## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)



The charts below depict the % of each component of revenue for the current and prior financial years:



Each component of revenue is discussed in the following sections of this report.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

#### Software license fees

Revenues from software licenses is still the largest component of the Group's revenue stream (56%), and currently has the second highest rate of growth at 96% for the year. During the current year, the Group generated revenue from software licenses to its enterprise imaging platform from five large hospital enterprise customers, averaging at licenses of > \$1 million per customer. Four of these customers are located in the U.S. and one in the Middle East.

In addition, the Group generated software license fees from customer-specific software enhancements, from 16 customers, at an average fee of \$27,000 per license. Management are actively focussing on growing revenues from this area of the business going forward, as it believes there is much more revenue potential from smaller sales.

All software license fees are recognised as revenue at the time the contract is signed, or the purchase order is given, and the software is delivered to the customer and available for use.

#### Professional service fees

Revenues from professional service fees comprised 10% of the Group's revenues for the current year (2016: 15%). This revenue is made up of installation services, end-user training services, workflow consulting services and other services that the customer may require as a result of using our software. Service fee revenue is recognised as the services are performed – using a % complete method. The timing of the provision of services is often dictated by the customer and therefore the timing of the recognition of revenue from these services can often be outside the Groups control. This is usually because our software is part of a much larger investment in healthcare technology being made by the customer and these other components may be required to be implemented beforehand.

#### Support maintenance fees

Revenues from support maintenance fees comprised 29% of the Group's revenues for the current year (2016: 26%) and are an important growing annuity revenue stream for the Group. With each software license fee that is sold, there is usually a support and maintenance contract locked in for a period of time (usually five years). These fees commence once the software has achieved go-live i.e. when it is in a live-production environment. Support and maintenance fees are usually billed annually in advance, and the revenue is recognised evenly throughout the year. Any support fees that are paid for, but unrecognised, are recorded as deferred revenue on the Group's balance sheet. The balance of deferred revenue as at 30 June 2017 from support and maintenance fees was \$1.4 million (2016: \$1.0 million).

During the current year, the Group recognised \$2.9 million of support maintenance revenue from 29 customers, at an average of approximately \$0.1 million per customer. The Group still has contracted customers which have yet to reach go-live status and hence are not yet paying support and maintenance fees. Once these customers commence support, and provided there is no attrition, the annual revenue able to be recognised from all current customers is \$4.0 million per annum. This revenue stream will continue to grow as new software licenses are sold.

#### Subscriptions (pay-per-use)

Revenues from subscription-based licenses are a relatively small revenue stream for the Group currently, being 5% of the Group's revenues for the current year (2016: 6%). The Group still plans to grow this product line, however this growth did not occur as expected in the current year. Subscription fees are where the customer is billed monthly according to actual usage of the software. Revenue is recognised in line with the billing.



# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

#### 3D printed models & other revenue

Revenues from 3D model sales were a very small component of the Group's revenue – 0.3% (2016: 2.3%). As such the Directors made the decision to divest this business line during the current year. Consequently, there will be no revenues from 3D model sales in the next financial year and beyond. In 2016, the Group earned an additional \$93k from a one-off sale, which is not expected to be repeated.

#### Operating expenses from continuing operations

Operating expenditure for the year was \$13.7 million, and broadly equivalent to the previous corresponding period (2016 pro-forma: \$13.7 million). Operating expenditure by category is shown table 2 below:

Table 2. Operating expenses

CONSOLIDATED	2017	2016 (pro-forma*)	Movement	Movement
Operating expenses	\$	\$	\$	%
Employee salaries, benefits & staff-related expenses	10,307,258	8,363,257	1,944,001	23%
Professional fees and consultancy expenses	1,071,180	1,963,143	(891,963)	(45%)
Marketing expenses	847,724	1,358,190	(510,466)	(38%)
Travel and related expenses	679,156	843,976	(164,820)	(20%)
Rent and occupancy expenses	380,847	333,997	46,850	(14%)
General administration expenses	439,856	836,877	(397,021)	(47%)
<b>Total</b>	<b>13,726,021</b>	<b>13,699,440</b>	<b>26,581</b>	<b>-</b>

*\*2016 is a pro-forma, unaudited, result, which includes all of the Mach7 Group for the full financial year, and not just from the date of acquisition by 3D Medical Limited, being 8 April 2016, as is the case with the amounts reported in the accompanying financial statements.*

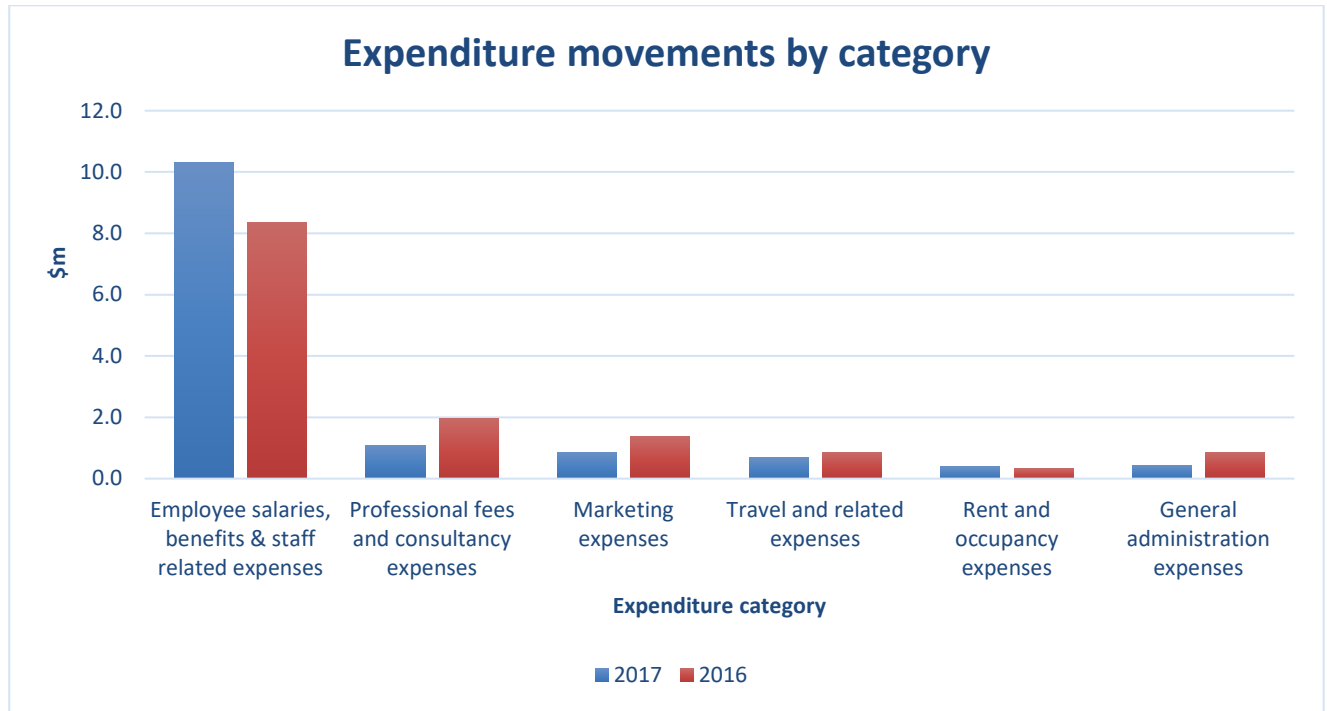
Every operating expenditure category has been reduced significantly compared to the prior year with the exception of labour. This is as a result of a concerted effort to reduce overheads, and increase labour resources to fuel revenue growth and service our growing customer base. The reduction in expenditure categories can also be seen from the chart below:

# Mach7 Technologies Limited

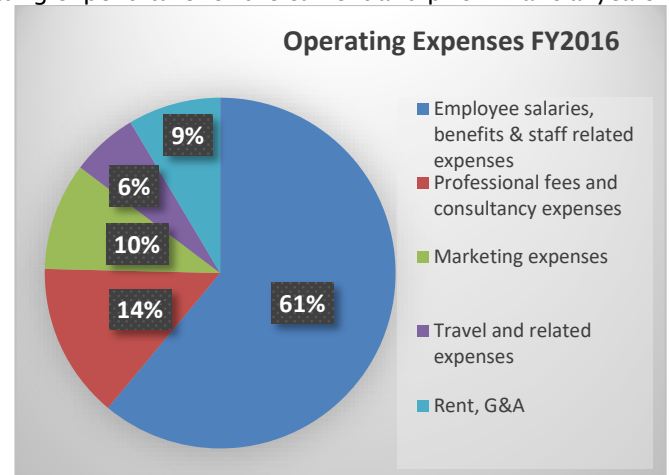
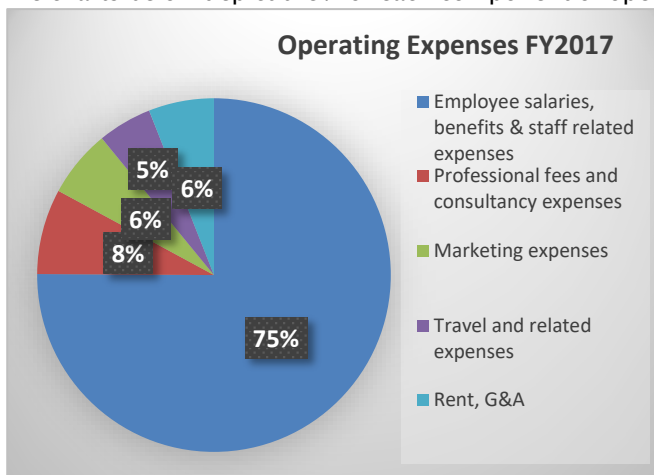
## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)



The charts below depict the % of each component of operating expenditure for the current and prior financial years:



Each component of operating expenditure is discussed in the following sections of this report.

# Mach7 Technologies Limited

## Directors' Report

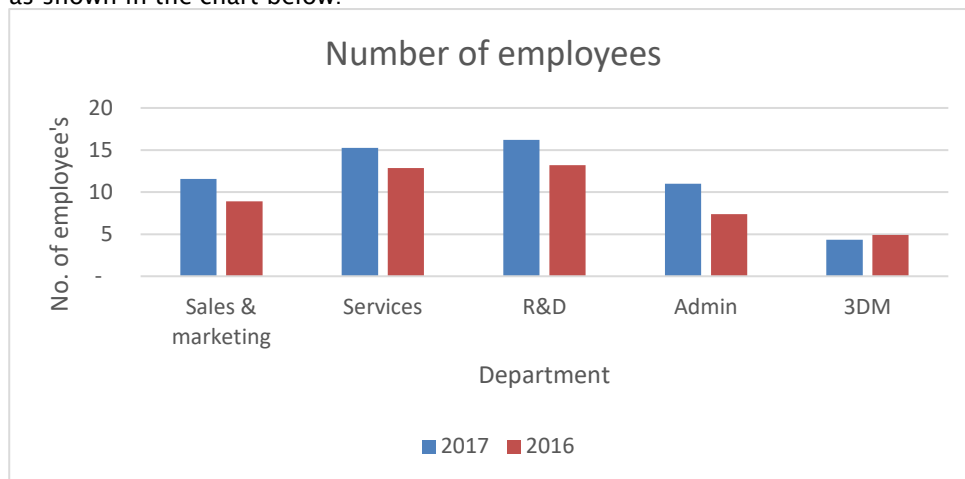
YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

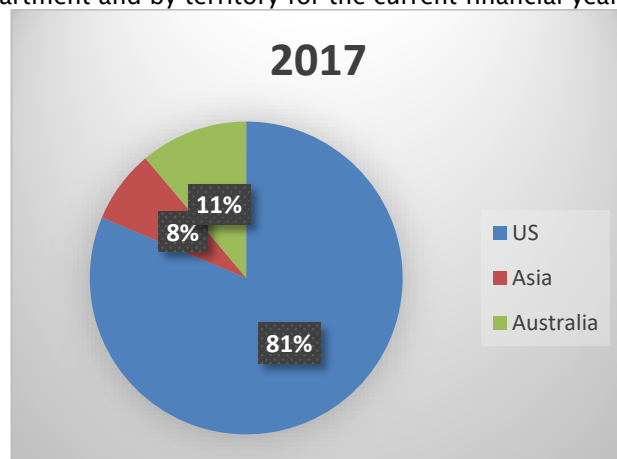
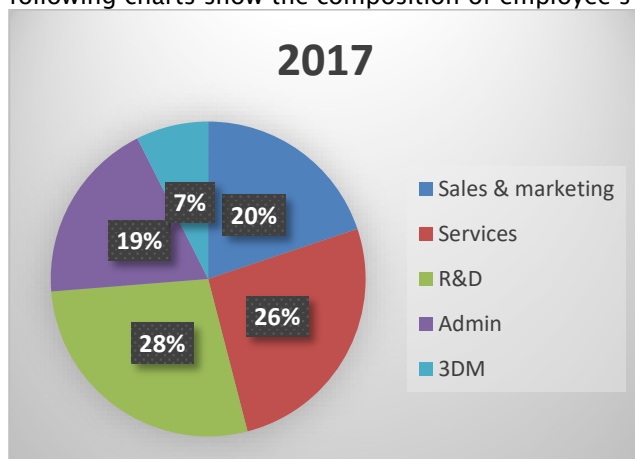
#### Employee salaries and benefits & other staff related expenditure

The Group's expenses from operations is largely made up by labour and related costs. During the current year, labour related expenses comprised 75% of the Group's operating expenditure (2016: 61%). Importantly, the Group's software is internally developed by its own internal resources, and as such its labour costs are relatively high compared to other components of operating expenditure. The Group does not capitalise any of this development related expenditure, and as such, all expenses are recognised immediately in the profit and loss when they arise. This means that the Group's expenditure will be higher during its development phase, but lower in its commercial phase which will maximise profits in future years.

During the current financial year, the Group employed (on average) 58 employees' throughout the year (2016: 47), as shown in the chart below:



The majority (74%) of the Groups staff are employed in sales & marketing, services and R&D. Due to the closure of 3D Medical (3DM) operations, the Group no longer employs any staff related to its 3D Medical operations. The following charts show the composition of employee's by department and by territory for the current financial year:



# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

During the current financial year, the Group embarked on a restructuring initiative. This initiative was important to ensure the Group had the right calibre of people performing the right roles. As a result of this initiative the Group's employee numbers have fallen from an average of 58 through-out the current year to 47 as at 1 August 2017. The Group spent \$0.9 million on restructuring related expenditure, for example, legal costs, severance payments and recruitment fees. Included in the restructuring was the closure of the 3D Medical operations. The restructuring initiative is now complete, and as a result, the Directors do not expect this cost will be repeated in the next financial year.

Due to the restructuring initiative described above, and an increase in staff numbers of 27% compared to the prior year, employee related expenses for the current year increased by \$1.9 million (23%) to \$10.3 million compared to the prior year (2016: \$8.4 million).

### Professional fees and consultancy

During the current year, professional fees and consultancy expenses comprised 8% of the Group's operating expenses (2016: 14%). Professional fees and consultancy expenses includes legal fees, audit fees, tax compliance fees, accounting support fees, ASX listing fees, ASIC fees, ISO certification firms, and other corporate finance advisors.

During the current year, the Group has significantly reduced the number of consultants and advisors it retains, and therefore associated expenditure has fallen compared to the previous year. The current year also has includes expenditure for ISO certification costs relating to 3D Medical operations which will not be repeated. During the prior financial year, the parent entity completed the acquisition of Mach7 Technologies Pte Ltd (and its subsidiaries) and consequently this expenditure category included legal and corporate advisory costs related to this transaction, which were not repeated during the current year. Consequently, the 2017 professional fees and consulting fees have decreased by \$0.9 million (45%) to \$1.0 million (2016: \$1.9 million).

### Marketing expenses

During the current year, marketing expenses comprised 6% of the Group's operating expenses (2016: 10%). Marketing expenses includes attendance at major U.S. trade shows and other marketing campaigns. During the current year, the Group ceased using an external marketing agency and instead utilised internal resources. Therefore marketing expenses for the current year decreased by \$0.5 million (38%) to \$0.8 million (2016: \$1.4 million).

### Travel expenses

During the current year, travel expenses comprised 5% of the Group's operating expenses (2016: 6%). Travel expenses have decreased by \$0.16 million (20%) to \$0.68 million (2016: \$0.84 million). This is a result of a concerted effort to reduce expenditure across the Group during the current financial year. Travel expenditure will always be necessary for our sales representatives, particularly those covering the U.S. and Asia, and also for certain executives, given the global nature of the Group.

### Rent, occupancy & general administration expenses

During the current year, rent, occupancy and general administration expenses comprised 6% of the Group's operating expenses (2016: 9%).

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

Rent & occupancy expenses have decreased by \$0.05 million (14%) to \$0.38 million (2016: \$0.33 million). During the current financial year the Group had offices in Burlington U.S, Singapore, and Melbourne Australia. Since the current financial year, the Group has assigned its lease for its Melbourne premises to a third party as part of the divestiture of its 3D Medical operations. Consequently, the rent and occupancy expenses are expected to fall for the next financial year. Other general & administration expenses have decreased by \$0.4 million (47%) to \$0.4 million (2016: \$0.8 million). This reduction was made as part of a concerted effort to reduce overhead expenditure across all areas of the Group.

### Adjusted EBITDA and net loss after tax

Table 3. Adjusted EBITDA and net loss after tax

CONSOLIDATED	2017	2016 (pro-forma*)	Movement	Movement
Adjusted EBITDA and Net loss after tax	\$	\$	\$	%
Revenues	10,268,931	5,847,031	4,421,900	76%
Reseller and distributor expenses	(856,564)	(670,404)	(186,160)	28%
Operating expenses	(13,726,021)	(13,699,440)	(26,581)	0%
Other income / (expenses) net	91,163	(114,090)	205,253	(180%)
<b>EBITDA loss (adjusted)</b>	<b>(4,222,491)</b>	<b>(8,636,903)</b>	<b>4,414,412</b>	<b>(51%)</b>
Depreciation & amortisation	(6,262,660)	(6,801,288)	538,628	(8%)
Impairment charges	(11,675,171)	(6,504,960)	(5,170,211)	79%
Share-based payments expense	(454,495)	(30,267)	(424,228)	1402%
Interest expense	(239,578)	(493,717)	254,139	(51%)
Income tax benefit	5,195,297	1,994,140	3,201,157	161%
<b>Net loss after tax</b>	<b>(17,659,098)</b>	<b>(20,472,995)</b>	<b>2,813,897</b>	<b>(14%)</b>

\*2016 is a pro-forma, unaudited, result, which includes all of the Mach7 Group for the full financial year, and not just from the date of acquisition by 3D Medical Limited, being 8 April 2016, as is the case with the amounts reported in the accompanying financial statements.

### Adjusted EBITDA

The Group reported an adjusted earnings before interest expense, tax, depreciation and amortisation (adjusted EBITDA) loss of \$4.2 million for the current financial year ending 30 June 2017. This represented an increase in profitability of \$4.4 million, or 51%, compared to the previous financial year pro-forma net adjusted EBITDA loss of \$8.6 million. The increase in profitability of \$4.3 million was directly related to the increase in revenues for the year of a similar amount, whilst the Group was able to hold operating expenses at a consistent level to the prior year.

### Capitalised expenditure

It is important to note that the Group does not capitalise any of its software development costs, and carries no capitalised expenditure of any kind on its balance sheet. This has resulted in the Group taking longer to reach break-even or profitability than it otherwise might have (had it capitalised expenditure), however it will also mean that future profits will be maximised and will not be impacted by costs that have been incurred in prior years.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

#### Net loss after tax

The Group reported a net loss after tax of \$17.7 million for the current financial year ending 30 June 2017. This represented an increase in profitability of \$2.8 million, or 14%, compared to the previous financial year pro-forma net loss of \$16.7 million. The main reason for the increase in net profit after tax (i.e. decrease in net loss after tax), is the increase of \$4.4 million of adjusted EBITDA as explained in the above section. Offsetting this increase, is a net increase of \$1.5 million for amortisation and impairment charges (net of income tax benefit) relating to the acquisition of Mach7 Technologies Pte Ltd. In addition, share-based payments expenses have increased by \$0.4 million reflecting the issue of options to employees during the previous year, and a decrease to interest expenses of \$0.3 million as a result of the Group retiring all of its external debt during the current financial year. Further detail on the acquisition of Mach7 Technologies can be found at note 31 to the financial statements.

#### Business strategies and prospects for future years

From 1 August 2017, Mike Jackman, the Group's recently appointed CEO, joined the Group and is in the process of developing and implementing a commercial strategy to ensure the Group is maximising its potential in all available markets given its available resources. These commercial strategic initiatives are outlined below.

Management are actively pursuing business opportunities on multiple fronts. While the Company continues to build momentum and traction among the top-tier hospital and health systems, leadership have devised a new 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 elsewhere in the world through indirect channel partners. Initial markets under development outside USA include Latin America, South East Asia, Netherlands and UK. Demand continues to grow for Mach7 solutions to address imaging challenges worldwide.

The Company has launched strategic initiatives to productise components of its current technology and turn these into commercially attractive solutions. This "land and expand" approach will increase its footprint in the existing customer install base and increase the adoption of Mach7 solutions within these large enterprises. 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.

Mach7 continues to work diligently to strengthen its market reach through a combination of Application Partners and Channel partners complemented by direct sales organisation. Mach7 has the reputation and brand recognition as the leading solution and technology provider in the industry.

#### Key business risks

The Group'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 Group's financial prospects, taking into account the nature and business of the Group and its business strategy.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Operating and financial review (continued)

(a) Commercialisation and new technology risk

The two principal activities of the Group 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 Group 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 Group is involved is subject to increasing domestic and global competition which is fast-paced and fast-changing. Whilst the Group 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, the image management platform may be superseded by new and cheaper technology creating competitive pressures, in which case, the Group's revenues and profitability could be adversely affected.

(c) Risks associated with the regulatory environment

The Group 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 Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

### 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.

The Directors believe that there are reasonable grounds to believe that the Group will be able to continue as a going concern, subject to the Group being successful in:

- converting its trade and other receivables balance (\$4.8 million) to cash in the coming year;
- securing projected new revenue contracts as per its budget and cash forecast for the next financial year; and
- managing its operating expenditures prudently and in line with its budget for the next financial year.

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.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group, however the Group has divested of its 3D Medical operations in the last quarter of the current financial year. This operation was not a material component of the Group's financial result.

### Events occurring after balance date

The Group recently announced the appointment of a new CEO, Mike Jackman, who commenced employment on 1 August 2017.

### Likely developments and expected results from operation

The Group will continue to announce material contract wins as and when they occur. In addition, it will aim to grow its revenues from smaller product sales which the Group will endeavour to keep the market updated. The Group will continue its product development strategy to ensure its product is at the forefront of medical imaging software to meet the customers' needs.

### Environmental regulation

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

## Remuneration Report (Audited)

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This Remuneration Report forms part of the Directors' Report and 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.

This report has been divided into the following sections:

- Details of key management personnel during the year
- Service (employment) agreements
- Principles used to determine remuneration
- Frameworks for setting director and executive compensation
- Short-term incentive program (STIP) details
- Long-term Incentive program (LTIP) details
- Remuneration granted to key management personnel
- Shares issued upon options being exercised by KMPs
- Other transactions with KMPs
- Shareholder voting of the Remuneration Report



# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

#### Key Management Personnel (KMP) covered in this report:

Directors	Role	Period covered
Damien Lim	Non-Executive Chairman	Full Year
Albert Liong	Managing Director and Global CEO	1 July 2016 to 26 May 2017
Dr Nigel Finch	Non-Executive Director	Full Year
Nobuhiko Ito	Non-Executive Director	Full Year
A. Wayne Spittle	Non-Executive Director	Full Year
Executives		
Ravi Krishnan	Founder and Chief Strategy Officer	Full Year
Mike Lampron	- VP Global Services - Chief Operating Officer	- 27 March 2017 to 31 May 2017 - From 1 June 2017
Jenni Pilcher	Global Chief Financial Officer & CEO Australian Operations	Full Year
J. Eric Rice	Chief Technology Officer	Full Year

#### Changes since the end of the reporting period:

On 1 August 2017, Mike Jackman was appointed to the role of Chief Executive Officer (CEO).

#### Service agreements

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

Component	Requirement	Applicable to
Fixed remuneration	Range \$250k to \$500k	Executives
Contract duration	Ongoing	All executives, with exception on one whose contract has expired and is being renegotiated
Termination of employment (without cause) by Company or by individual	3 months' notice	All executives
Termination of employment (for cause)	Terminated immediately	All executives
Change of control*	At least (30) days' notice, and one year's base salary	CEO and COO
Other	Sign-on bonus US\$30k	CEO

\*Change of Control is defined as a sale of more than 50% of the voting shares in the Company, or a sale of substantially all the assets of the Company.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

#### 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, through its Nomination and Remuneration Committee, is responsible for determining and reviewing remuneration arrangements for the Group's directors and executives. The performance of the Group depends on the quality of its directors and executives. The Group'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 Group'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 framework

All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

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. 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 Group's medium and long term performance objectives (each award is subject to shareholder approval);
- Other benefits required by law, for example, superannuation payments.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

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 been set at a maximum amount of \$500,000 per annum under clause 50 (a) of the Company's Constitution.

The fees awarded to Directors are as follows:

	From 1 May 2017	From 1 April 2016
<b>Base fee</b>		
Chair	\$80,000	\$100,000
Director	\$40,000	\$50,000
<b>Additional fees</b>		
Chair of a committee	Nil	\$5,000

### Executive remuneration framework and link to performance

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 main components all of which constitute the executive's total remuneration:

#### Fixed remuneration:

- 1) Annual base salary
- 2) Benefits in compliance with local laws including annual leave, sick leave, long service leave, medical insurance, and superannuation payments
- 3) Sign on bonuses
- 4) Termination payments reflecting contractual and legal obligations

#### Performance-based remuneration:

- 5) Bonuses to reward individuals following an outstanding business contribution having regard to clearly specified performance targets
- 6) Sales commission (sales executives only)
- 7) Equity based remuneration, reflecting the Group's medium and long term performance objectives.

### Fixed remuneration

Fixed remuneration for key management personnel is reviewed annually by the Board (via its Nomination and Remuneration Committee). Fixed remuneration is set with reference to the skills, experience and performance of the individual performing the role, comparable market remunerations for the role being performed, and the overall size and financial position of the Group as a whole.

### Performance-based remuneration

The short-term incentive program (**STIP**) is designed to align the targets of the both the Group as a whole, and individual business units, with the targets of those executives responsible for meeting those targets. STI payments are granted to executives based on the achievement of specific annual targets and key performance indicators (**KPI's**). KPI's can include (but are not necessarily limited to the following elements:

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

- Achievement of revenue targets;
- Growth measured with reference to the Group's market capitalisation;
- Adherence to budgeted expenditure levels and authority procedures;
- Excellence in customer service and satisfaction;
- Leadership contribution;
- Product development;
- Corporate transactions

The STIP was most recently approved by the Board in April 2016.

The long-term incentives program (LTIP) includes both long service leave and issues of equity instruments such as shares and options. Option awards typically vest over a period of between one and three years, expire within five years and have an exercise price that includes a premium to the market price as at the date of issue. The most recent LTI program was approved by shareholders on 31 March 2016.

Further information on the STIP and LTIP is the following sections of this report.

### Statutory performance indicators

We aim to align our executive remuneration to our strategic and business objectives, which will ultimately lead to the creation of shareholder wealth. The table below shows the measures of the group's financial performance over the last five years as required by the Corporations Act 2001. However, this Group has undergone two mergers/acquisitions during this period and therefore the prior year data is not necessarily relevant. In addition, basic earnings per share and share price data has been adjusted for stock splits at 1/10 in December 2014 and January 2017:

	30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Profit for the year	(17,659,098)	(12,629,483)	(6,909,809)	(302,272)	(938,813)
Basic earnings per share (cents)	(16.3)	(24.1)	(36.0)	(5.0)	(20.0)
Dividend payments	-	-	-	-	-
Dividend payout ratio (%)	-	-	-	-	-
Share price (cents)	16	34	94	70	30
Increase/(decrease) in share price (%)	(53%)	(64%)	34%	133%	(57%)
Parent entity name at balance date	Mach7 Technologies Limited	Mach7 Technologies Limited	3D Medical Limited	Safety Medical Products Limited	Safety Medical Products Limited
ASX symbol	M7T	M7T	3DM	SFP	SFP

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

#### Short-Term Incentive Program (STIP)

##### Description of the plan

The STIP 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 a STIP 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.

##### Appropriate STIP incentive

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

##### Performance period

Mach7 Technologies, prior to its acquisition by 3D Medical Limited, had a financial year end of 31 December, and consequently the performance period for Mach7 personnel was from 1 January to 31 December.

From 1 July 2017, the performance period has been realigned to the Group's financial year end, and will run from 1 July to 30 June.

##### Performance conditions

For the period 1 January 2016 to 31 December 2016, one executive received a bonus payment that was subject to the following performance criteria:

- Capital raising and refinancing of the Group
- Investor relations targets
- Other role specific targets

There were no other performance conditions, or bonuses paid, during the current financial year.

The Group is in the process of setting performance conditions/KPIs for KMPs for the next financial year 1 July 2017 to 30 June 2018. These KPIs will be set in conjunction with the CEOs, who was recently appointed on 1 August 2017, strategy and operational plans. The KPIs will include a mixture of the Group's performance, such as targets related to revenues, adjusted EBITDA and cash, and individual performance relevant to each person's role and responsibilities.

##### Choice of performance conditions

The choice of performance conditions for the STIP will be relevant to the Group in its current phase of growth as it embarks towards achieving profitability and becoming cash flow positive. The Directors believe these targets are most closely aligned with growing shareholder value. In addition, the performance conditions will be set with relevance to the individuals' role, such that the person is appropriately incentivised and motivated to achieve the best they can.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

#### 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 STIP

For the performance condition which existed for the period 1 January 2016 to 31 December 2016, the delivery condition was 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 Group's consolidated audited (or audit reviewed) financial reports for the half year ended 31 December in the performance calendar year. 90% of the STIP was paid in cash and 10% in fully paid ordinary shares of the Company.

Two executives have the following delivery conditions for STI payments:

The amount of the bonus payable in cash shall be equal to at least 50% of the bonus awarded (or such greater amount approved by the Board) and the remainder shall be payable in stock of Mach7 Technologies Ltd, the price of which shall be determined with reference to the 30 day volume weighted average stock price up to and including the date of Board approval. The bonus under the STIP shall be payable only if certain agreed key performance indicators are met and approved by Board. Any bonus under the STIP shall be payable during the two month period following the end of the applicable performance period and only if executive remains employed by the Group through the date of such payment.

It is envisaged that the above policy will be applied to all other executives.

#### Cessation of employment

Two executives in the Group have the following STIP clause within their service contract: – if the Group terminates the executive's employment without cause, the Company's obligation to the executive pertaining to any bonus payment under the STIP for the year in which the termination occurs is based on actual performance and prorated based on the number of days in the performance period in which the executive is employed. The bonus is paid during the two month period following the end of the applicable performance period, less such deductions as the Group is required to make under applicable law and regulations.

All other senior executives must remain employed with the Group 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 in the current year

One executive achieved 100% of their performance targets and related STI. No other STI payments were made during the current financial year.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

#### Long-Term Incentive Program (LTIP)

##### Description of the plan

An incentive plan under which senior executives are eligible to receive an award of performance rights, equity options or shares that are linked to the achievement of targets related to the Group's medium to long-term performance.

##### Performance period

The performance conditions must be satisfied in order for performance rights or equity options to vest. Performance conditions can include time-based conditions, whereby the holder must remain employed by the Group through to vesting date. Each performance right or equity option entitles the holder to acquire one share in the Company for a stated exercise price, subject to meeting specific performance conditions.

The performance rights and equity options do not carry rights to dividends or voting.

##### Cessation of employment

If a senior executive or non-executive director ceases to be employed or engaged by the Group for any reason other than as a result of a Qualifying Event, any performance rights and equity options 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 LTIP scheme ceases to be employed by the Group 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 rights or equity options become vested at the time of the cessation of employment of the participant or another date determined by the Board.

##### Restrictions on dealing in company securities

A senior executive or non-executive director in receipt of equity options must not sell, transfer, encumber, hedge or otherwise deal in equity options. A senior executive or non-executive director in receipt of LTI equity options will be free to deal with the shares allocated on vesting of those options, subject to the requirements of the Group's policy for dealing in securities. In the event of a change of control, the Board has discretion to determine that the vesting of some or all of a non-vested performance rights and equity options should be accelerated. Any remaining unvested performance rights or options will immediately lapse.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

#### Amounts of remuneration

Table 1: Remuneration for KMP for the years ended 30 June 2017 and 30 June 2016

	Short term				Post-employment		Equity-based		Total	Performance
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other <sup>^</sup>	Super-annuation Contributions	Retirement Benefits	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>										
Damien Lim – Chairman										
2017	102,917	-	-	-	-	-	21,438	-	124,354	-
2016*	25,000	-	-	-	-	-	4,875	-	29,875	-
Albert Liong – Former Managing Director and CEO										
2017	391,994	-	25,278	395,903	4,605	-	-	-	817,779	-
2016*	96,820	-	8,058	-	-	1,087	-	-	105,966	-
Dr Nigel Finch										
2017	53,750	-	-	-	-	-	21,438	-	75,188	-
2016	219,224	-	-	-	-	-	4,875	-	224,099	-
Nobuhiko Ito										
2017	49,167	-	-	-	-	-	21,438	-	70,604	-
2016*	12,500	-	-	-	-	-	4,875	-	17,375	-
Wayne Spittle										
2017	49,167	-	-	-	1,979	-	7,508	-	58,654	-
2016 **	12,500	-	-	-	-	-	-	-	12,500	-
<b>Sub-total Directors</b>										
2017	646,994	-	25,278	395,903	6,584	-	71,821	-	1,146,579	-
2016	428,005	-	8,058	-	-	1,087	19,499	-	456,650	-



# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

	Short term				Post-employment		Equity-based payments		Total	Perform- ance related
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other	Superannuation Contributions	Retirement Benefits	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Executives</b>										
Ravi Krishnan <sup>(i)</sup>										
2017	300,495	-	-	-	15,534	-	20,671	-	336,701	-
2016	71,515	-	-	-	-	3,097	-	-	74,612	-
Mike Lampron <sup>(ii)</sup>										
2017	60,686	-	5,442	-	-	-	-	-	66,128	-
2016	-	-	-	-	-	-	-	-	-	-
Jenni Pilcher										
2017	300,000	135,000	-	-	41,325	-	61,154	15,000	552,479	27
2016	125,000	-	-	-	11,875	-	10,767	-	147,642	-
J. Eric Rice <sup>(i)</sup>										
2017	265,182	-	22,139	-	5,304	-	20,671	-	313,296	-
2016	65,936	-	5,622	-	-	1,319	-	-	72,877	-
<b>Sub-total Executives</b>										
2017	926,363	135,000	27,581	-	62,163	-	102,497	15,000	1,268,604	-
2016	262,451	-	5,622	-	11,875	4,416	10,767	-	295,131	-
<b>Grand totals</b>										
2017	1,573,357	135,000	52,859	395,903	68,747	-	174,318	15,000	2,415,183	6
2016	690,456	-	13,680	-	11,875	5,503	30,266	-	751,781	-

(i) 1 April 2016 to 30 June 2016 reflecting period from acquisition of Mach7 to financial year end

(ii) From 27 March 2017 (commencement date)

\* from 8 April 2016 to 30 June 2016

\*\* from 15 June 2016 to 30 June 2016

^ Termination benefits, including unused annual leave

The amounts 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 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.

### Options provided as compensation

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.

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

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

2017	Granted (No.)	Grant date	Fair value per option at grant date*	Exercise price*	Expiry date	Vesting date	Vested (No.)	Vested (%)
<b>Directors</b>								
A. Wayne Spittle	125,000	9-Dec-16	24.6c	\$1.00	9-Dec-21	9-Dec-18	-	-
<b>Executives</b>								
Ravi Krishnan	340,000	27-Jan-17	23.6c	41c	27-Jan-22	27-Jan-18-20	-	-
Jenni Pilcher	340,000	27-Jan-17	23.6c	41c	27-Jan-22	27-Jan-18-20	-	-
J. Eric Rice	340,000	27-Jan-17	23.6c	41c	27-Jan-22	27-Jan-18-20	-	-
<b>Total</b>	<b>1,145,000</b>							
<b>2016</b>								
<b>Directors</b>								
Damien Lim	125,000	8-Apr-16	34.3c	\$1.00	8-Apr-21	8-Apr-18	-	-
Nobuhiko Ito	125,000	8-Apr-16	34.3c	\$1.00	8-Apr-21	8-Apr-18	-	-
Dr Nigel Finch	125,000	8-Apr-16	34.3c	\$1.00	8-Apr-21	8-Apr-18	-	-
<b>Executives</b>								
Jenni Pilcher	100,000	8-Apr-16	30.2c	\$1.00	8-Apr-20	8-Apr-17	100,000	100
Jenni Pilcher	100,000	8-Apr-16	34.3c	\$1.00	8-Apr-21	8-Apr-18	-	-
<b>Total</b>	<b>525,000</b>						<b>100,000</b>	

*\*In January 2017, the Company completed a reduction of its share capital on issue by a factor of 10. 2016 grants have been restated to reflect the holdings post the share capital consolidation. This means the options granted have been reduced by a factor of 10, and the fair value and exercise price have been increased by a multiple of 10.*

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
	\$	\$	\$
<b>Directors</b>			
A. Wayne Spittle	27,000	-	-
<b>Executives</b>			
Ravi Krishnan	80,172	-	-
Jenni Pilcher	80,172	-	-
J. Eric Rice	80,172	-	-
<b>Total</b>	<b>267,516</b>	<b>-</b>	<b>-</b>

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

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

#### Remuneration mix

The following table outlines the components of remuneration for each KMP:

Table 4: Relative percentages of remuneration and performance awards

	% Fixed		% Short-term Incentive (STI)		% Options/Shares		% STI Awarded	% STI Forfeited
	2017	2016	2017	2016	2017	2016	2017	2017
<b>Directors</b>								
Damien Lim	83	84	-	-	17	16	-	-
Albert Liong	100	100	-	-	-	-	-	-
Dr Nigel Finch	71	98	-	-	29	2	-	-
Nobuhiko Ito	70	72	-	-	30	28	-	-
A. Wayne Spittle	87	100	-	-	13	-	-	-
<b>Executives</b>								
Ravi Krishnan	94	100	-	-	6	-	-	-
Mike Lampron	100	na	-	na	-	na	-	-
Jenni Pilcher	62	93	27	-	11	7	100	-
J. Eric Rice	93	100	-	-	7	-	-	-

#### Equity holdings of KMP

Options over ordinary shares held in Mach7 Technologies Limited (number) by KMP as at 30 June 2017 are as follows:

Table 5: Option holdings of Key Management Personnel

	Balance at beginning of period	Granted as remuneration	Options exercised	Options forfeited	Balance at end of period	Vested at 30 June 2017
	No.	No.	No.	No.	No.	No.
<b>2017</b>	01-Jul-16				30-Jun-17	
<b>Directors</b>						
Damien Lim	125,000	-	-	-	125,000	-
Dr Nigel Finch	238,592	-	(71,166)	(42,426)	125,000	-
Nobuhiko Ito	125,000	-	-	-	125,000	-
A. Wayne Spittle	-	125,000	-	-	125,000	-
<b>Executives</b>						
Ravi Krishnan	-	340,000	-	-	340,000	-
Jenni Pilcher	200,000	340,000	-	-	540,000	100,000
J. Eric Rice	-	340,000	-	-	340,000	-

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Remuneration report (continued)

Ordinary shares held in Mach7 Technologies Limited (number) by KMP as at 30 June 2017 are as follows:

Table 6: Shareholding of Key Management Personnel

	Balance at beginning of period*	Granted as remuneration	Issued on exercise of options	Issued as part of debt restructuring	Purchased at market value	Balance at end of period
	No.	No.	No.	No.	No.	No.
<b>2017</b>	01-Jul-16					30-Jun-17
<b>Directors</b>						
Damien Lim#	-	-	-	-	250,000	250,000
Albert Liong	2,704,689	-	-	-	250,000	2,954,689
Dr Nigel Finch	361,432	-	71,166	-	250,000	682,598
Nobuhiko Ito	652,419	-	-	-	250,000	902,419
A. Wayne Spittle	-	-	-	-	250,000	250,000
<b>Executives</b>						
Ravi Krishnan	5,780,561	-	-	-	-	5,780,561
Jenni Pilcher	-	41,668	-	-	250,000	291,668
J. Eric Rice	913,382	-	-	-	-	913,382

\*In January 2017, the Company completed a reduction of its share capital on issue by a factor of 10. 2016 grants have been restated to reflect the holdings post the share capital consolidation. This means the options granted have been reduced by a factor of 10, and the fair value and exercise price have been increased by a multiple of 10.

# In addition to the shareholding of Mr Lim, 11,372,898 held by BV Healthcare II Pte Ltd, an investment fund of which Mr Lim is a Principal.

### Shares issued on exercise of compensation options

There were no shares issued on exercise of options granted as compensation during the period (2016: Nil).

### Other transactions with key management personnel and their related parties

The Group entered into a consulting contract with Saki Partners for the period 10 June 2016 to 31 December 2016. Dr Nigel Finch, non-executive director of the Group, is a principal of Saki Partners. The contract covered the provision of the following services by Dr Nigel Finch:

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

During the current financial year, the Group made payments totalling \$30,000 to Saki Partners pursuant to the above consulting agreement. In addition, the Group made payments totalling \$20,235 for accounting support services which were provided by an employee of Saki Partners.

### Voting and comments made at the most recent Annual General Meeting ('AGM')

At the most recent AGM held by the Company in December 2016, the remuneration report for the year ended 30 June 2016 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.

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

# Mach7 Technologies Limited

## Directors' Report

YEAR ENDED 30 JUNE 2017

### Shares under option

Unissued ordinary shares of Mach7 Technologies Limited under option at the date of this report, together with shares issued upon exercise of options, can be found in note 21 to the financial statements. There has been no change in options outstanding since 30 June 2017 and the date of this report.

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

### Insurance and indemnification of directors and officers

The Group has indemnified its directors and executives 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 Group paid a premium in respect of a contract to insure the directors and executives of the Group 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 Group 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.

### 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 29 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 29 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.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 29.

# Mach7 Technologies Limited

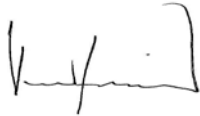
## Directors' Report

YEAR ENDED 30 JUNE 2017

### **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

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



Damien Lim

Chairman

Signed at Singapore on 25 August 2017

**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Mach 7 Technologies Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2017, 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

25 August 2017  
Melbourne, Victoria

# Statement of Financial Position

AS AT 30 JUNE 2017

		CONSOLIDATED	
		2017	2016
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	2,684,225	1,718,511
Financial assets	10	100,000	211,227
Trade and other receivables	11	4,814,753	2,066,735
Other current assets	12	297,399	436,082
<b>TOTAL CURRENT ASSETS</b>		<b>7,896,377</b>	<b>4,432,555</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	13	184,912	799,569
Intangible assets	14	17,843,215	35,568,869
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18,028,127</b>	<b>36,368,438</b>
<b>TOTAL ASSETS</b>		<b>25,924,504</b>	<b>40,800,993</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	1,755,447	964,016
Deferred revenue	16	2,855,480	2,367,797
Financial liabilities	17	20,000	267,274
Interest bearing liabilities	18	12,358	2,992,802
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,643,285</b>	<b>6,591,889</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance leases	19	13,009	222,817
Deferred tax liability	20	5,329,432	10,524,728
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>5,342,441</b>	<b>10,747,545</b>
<b>TOTAL LIABILITIES</b>		<b>9,985,726</b>	<b>17,339,434</b>
<b>NET ASSETS</b>		<b>15,938,778</b>	<b>23,461,559</b>
<b>EQUITY</b>			
Contributed equity	21	53,090,510	43,856,376
Reserves	22	2,660,045	1,757,862
Accumulated losses		(39,811,777)	(22,152,679)
<b>TOTAL EQUITY</b>		<b>15,938,778</b>	<b>23,461,559</b>

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 2017

CONSOLIDATED			
	Note	2017	2016
		\$	\$
<b>Continuing operations</b>			
Revenue from sales	5	10,268,931	1,858,855
Other income	6a	441,212	130,998
<b>Expenses</b>			
Employee salaries, benefits & staff related expenses	6b	(10,307,258)	(3,330,779)
Professional fees and consultancy expenses		(1,071,180)	(1,437,325)
Referral & distributor fees & royalties		(856,564)	(472,603)
Marketing expenses		(847,724)	(499,386)
Travel and related expenses		(679,156)	(350,417)
Rent and occupancy expenses		(380,847)	(175,763)
General administration expenses		(439,856)	(91,416)
Other expenses	6b	(350,049)	(244,359)
Share based payment expense		(454,495)	(30,267)
Impairment charge		(11,675,171)	(6,504,960)
Depreciation and amortisation	6b	(6,262,660)	(1,815,939)
Finance costs		(239,578)	(164,657)
<b>Loss from continuing operations before income tax</b>		<b>(22,854,395)</b>	<b>(13,128,018)</b>
Income tax benefit	7	5,195,297	498,535
<b>Loss for the year</b>		<b>(17,659,098)</b>	<b>(12,629,483)</b>
Other comprehensive income	22	447,688	(139,425)
<b>Total comprehensive loss for the year, net of tax, attributable to equity holders of the parent</b>		<b>(17,211,410)</b>	<b>(12,768,908)</b>
<b>Earnings per share (cents per share)</b>			
- Basic earnings/(loss) per share (cents)	8	(16.3)	(24.1)
- Diluted earnings/(loss) per share (cents)	8	(16.3)	(24.1)
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 2017

	Share Capital	Share Based Payments Reserve	Foreign Exchange Translation Reserve	Accumulated Losses	Total Equity
CONSOLIDATED	\$	\$	\$	\$	\$
<b>At 1 July 2015</b>	<b>11,078,442</b>	<b>1,541,442</b>	<b>-</b>	<b>(9,523,196)</b>	<b>3,096,688</b>
Loss for the year	-	-	-	(12,629,483)	(12,629,483)
Other comprehensive income for the year	-	(20)	(139,405)	-	(139,425)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(20)</b>	<b>(139,405)</b>	<b>(12,629,483)</b>	<b>(12,768,908)</b>
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	26,095,633	-	-	-	26,095,632
<b>Total as at 30 June 2016</b>	<b>43,856,376</b>	<b>1,897,267</b>	<b>(139,405)</b>	<b>(22,152,679)</b>	<b>23,461,559</b>
Loss for the year	-	-	-	(17,659,098)	(17,659,098)
Other comprehensive income for the year	-	-	447,688	-	447,688
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>447,688</b>	<b>(17,659,098)</b>	<b>(17,211,410)</b>
Capital raising costs	(553,710)	-	-	-	(553,710)
Share based payments	-	454,495	-	-	454,495
Issue of shares for exercise of options (non-employee)	480,370	-	-	-	480,370
Issue of shares pursuant to employee share plan	15,000	-	-	-	15,000
Issue of shares in accordance with debt refinancing terms	284,082	-	-	-	284,082
Issue of shares to repay debt	2,088,392	-	-	-	2,088,392
Issue of shares pursuant to capital raisings	6,920,000	-	-	-	6,920,000
<b>Total as at 30 June 2017</b>	<b>53,090,510</b>	<b>2,351,762</b>	<b>308,283</b>	<b>(39,811,777)</b>	<b>15,938,778</b>

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 2017

		CONSOLIDATED	
	Note	2017	2016
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		8,407,627	2,688,133
Payments to suppliers and employees		(13,837,427)	(5,976,042)
Interest received		37,551	21,976
Interest and other costs of finance paid		(146,040)	(99,644)
Taxes paid		-	(2,929)
Government grants		102,637	-
Other receipts		274,844	-
Net cash (used in) operating activities	24	(5,160,808)	(3,368,506)
<b>Cash flows from investing activities</b>			
Payment for plant and equipment		(33,902)	(479,960)
Payment for other non-current assets		(18,081)	(88,000)
Proceeds from sale of equipment		168,602	385,000
Return of bank guarantee/funds held on deposit		209,803	-
Loans made to other entities		-	(3,422,130)
Cash disbursements for business acquisition costs		-	(986,416)
Cash acquired through business acquisitions		-	236,622
Cash transferred to deposits (maturity dates > 3 months)		(100,000)	-
Net cash flows provided by / (used in) investing activities		226,422	(4,354,884)
<b>Cash flows from financing activities</b>			
Borrowings repaid		(737,087)	-
Payment for finance leases		(118,807)	-
Proceeds from issues of shares, options etc		7,400,370	6,942,278
Capital raising cost		(550,877)	(193,560)
Net cash flows provided by financing activities		5,993,599	6,748,718
Net increase/(decrease) in cash and cash equivalents		1,059,213	(974,672)
Net foreign exchange difference relating to cash		(93,499)	(58,237)
Cash and cash equivalents at beginning of year		1,718,511	2,751,420
<b>Cash and cash equivalents at end of year</b>	9	<b>2,684,225</b>	<b>1,718,511</b>

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 2017

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# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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## 1. CORPORATE INFORMATION

The financial report of Mach7 Technologies Limited (the “Company” or the “Parent”) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 25 August 2017.

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 Group incurred a net loss after tax of \$17.7 million, and adjusted earnings before interest and tax (adjusted EBITDA) loss of \$4.2 million (refer note 5). The Group reported net cash outflows from operating activities of \$5.2 million for the year ended 30 June 2017. As at 30 June 2017 the Group had net current assets of \$3.3 million, which includes cash on hand of \$2.7 million.

The positive net current asset balance as at 30 June 2017 is an important indicator that the Group will be able to continue as going concern. However, the adjusted EBITDA loss for the year and negative outflows from operations are also important factors which indicate material uncertainty as to whether the Group 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 Group will be able to continue as a going concern, subject to the Group being successful in:

- converting its trade and other receivables balance (\$4.8 million) to cash in the coming year;
- securing projected new revenue contracts as per its budget and cash forecast for the next financial year; and
- managing its operating expenditures prudently and in line with its budget for the next financial year.

Accordingly, the Directors believe it is appropriate to adopt the going concern basis in the preparation of the financial report. As such, 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 group does not continue as a going concern.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### (a) Compliance with IFRS

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

#### *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 2016. 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

#### *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 2016. Adoption of these standards did not have any material effect on the financial position or performance of the Group. The necessary disclosures have been updated to reflect amended accounting standards.

Standard & Title	Application date of standard	Application date for Group
AASB 1057 Application of Australian Accounting Standards	1 January 2016	1 July 2016
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.		

Standard & Title	Application date of standard	Application date for Group
AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]	1 January 2016	1 July 2016
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.		

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard & Title	Application date of standard	Application date for Group
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 January 2016	1 July 2016
<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 7 Financial Instruments: Disclosures:</i></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p><i>AASB 119 Employee Benefits:</i></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>		

Standard & Title	Application date of standard	Application date for Group
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	1 July 2016
<p>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.</p>		

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard & Title	Application date of standard	Application date for Group
AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	1 January 2016	1 July 2016
<p>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.</p> <p>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.</p>		

### (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 2017. These are outlined in the tables below.

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



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard & Title	Application date of standard	Impact on Group financial report	Application date for Group
AASB 15 Revenue from Contracts with Customers	1 January 2018	The Group will continue to assess the impact on the change in standard, if any	1 July 2018
<p>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:</p> <ol style="list-style-type: none"> <li>1. Identify the contract(s)</li> <li>2. Identify the performance obligations in the contract</li> <li>3. Determine the transaction price</li> <li>4. Allocate the transaction price to the performance obligations in the contract</li> <li>5. Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ol> <p>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.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p> <p>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.</p>			

Standard & Title	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]	1 January 2017	The Group will amend the future financial reports to comply with AASB 2016-1	1 July 2017
<p>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.</p>			

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard & Title	Application date of standard	Impact on Group financial report	Application date for Group
AASB 16 Leases	1 January 2019	No material impact	1 July 2019

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.

### AASB 16 supersedes:

- a) AASB 117 Leases
- b) Interpretation 4 Determining whether an Arrangement contains a Lease
- c) SIC-15 Operating Leases — Incentives

Standard & Title	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]	1 January 2018	The Group will amend the future financial reports to comply with IFRS 2	1 July 2018

This standard amends IFRS 2 *Share-based Payment*, 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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

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 and 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### 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".

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 and loss and other 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.

### (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 and other receivables 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 and other 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *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.

### *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.

<b>Asset class</b>	<b>Estimated life</b>	<b>Depreciation method</b>
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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### *Group as a lessee*

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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

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 of between five and seven years 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.



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### *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 projects.

### **(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.

### *Superannuation expense*

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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *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.

### **(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 as an expense, 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 profit and loss and other 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 2017

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## 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 available 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 2017

## 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.

### **(s) 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:

- 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *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.

### **(t) 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.

### **u) 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
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period, or
- 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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group classifies all liabilities not mentioned above as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities in accordance with accounting standards.

### (v) Comparatives

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

### (w) 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.

## 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 2017, the Group's cash and cash equivalents comprised of deposits on call and foreign currency accounts.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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	
	2017	2016
	\$	\$
<b>Financial assets</b>		
Deposits at call	1,366,231	60,137
Cash and cash equivalents	1,317,994	1,658,374
Term deposit (maturity date > 3 months after 30 June 2017)	100,000	–
	<b>2,784,225</b>	<b>1,718,511</b>

Sensitivity analysis	Profitability (post-tax) higher/(lower)		Equity (excluding accumulated losses) higher/(lower)	
	2017	2016	2017	2016
Judgement of reasonably possible movements:	\$	\$	\$	\$
<b>Consolidated</b>				
Interest rate strengthens +0.25% or 25 basis points (2016: +0.25% or 25 basis points)	6,961	4,296	–	–
Interest rate weakens -1% or 100 basis points (2016: -1% or 100 basis points)	(27,842)	(17,185)	–	–

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 2017

## 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	
	2017	2016
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents – held in USD	960,081	374,539
Cash and cash equivalents – held in SGD	24,829	16,200
Cash and cash equivalents – held in INR	20,492	40,615
Total cash and cash equivalents held in foreign currency	1,005,402	431,354
Accounts receivable – denominated in USD	1,509,396	891,149
Accounts receivable – denominated in SGD	82,473	17,741
Accounts receivable – denominated in GBP	40,809	211,347
Total debtors denominated in foreign currency	1,632,678	1,120,237
<b>Financial Liabilities</b>		
Trade and other payables – denominated in USD	169,021	198,280
Trade and other payables – denominated in SGD	890	–
Trade and other payables – denominated in GBP	–	14,485
Total trade and other payables denominated in foreign currency	169,911	212,765
Loan from Directors/Shareholder – USD	–	2,876,135
Net exposure – USD	2,300,456	(1,808,727)
Net exposure – SGD	106,412	33,941
Net exposure – INR	20,492	40,615
Net exposure – GBP	40,809	196,862
<b>Net exposure</b>	<b>2,468,169</b>	<b>(1,537,309)</b>

Based on the financial instruments held at 30 June 2017, 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)/increased by:

Sensitivity analysis	Profitability (post-tax) higher/(lower)		Equity (excluding accumulated losses) higher/(lower)	
	2017	2016	2017	2016
Consolidated	\$	\$	\$	\$
AUD strengthens +10% (2016: +10%)	224,379	139,735	–	–
AUD weakens –10% (2016: –10%)	(274,241)	(170,812)	–	–



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 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 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.

## 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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

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.

### (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 Group 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 5. SEGMENT INFORMATION

The business operations of Mach7 Technologies is the commercialisation and sale of medical imaging software, predominantly throughout the United States, Asia-pacific, and the Middle East region. The operational segments of this business are determined with reference to how revenue is generated, that is, from software license fees, provision of services to customers and other segments. Services provided to customers includes customer training, software installation services, and maintenance and support services. Other segments includes 3D medical printing operations, however this business was divested in the fourth quarter of 2017.

### Segment revenues

	CONSOLIDATED	
	2017	2016*
	\$	\$
<b>Product segment revenues</b>		
Software licenses	6,227,882	971,379
Professional services & maintenance services	4,013,133	684,120
Other segments	27,916	203,356
	<b>10,268,931</b>	<b>1,858,855</b>
<b>Geographical segment revenues</b>		
United States	6,781,754	1,218,349
Asia/Pacific	530,499	596,014
Middle East	2,658,006	44,492
Other	298,673	–
	<b>10,268,931</b>	<b>1,858,855</b>

*\*includes Mach7 operations for one quarter only, since acquisition date April 2016.*

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 5. SEGMENT INFORMATION (continued)

### Segment Adjusted Earnings before Interest, Tax, Depreciation & Amortisation (Adjusted EBITDA)

Adjusted EBITDA is determined using segment revenues, less segment operating expenditures. It does not include certain other income and other expenditure items which are detailed in the reconciliation to net loss for the year, after tax.

	CONSOLIDATED	
	2017	2016*
	\$	\$
<b>Segment adjusted EBITDA</b>		
Software licenses	169,646	(805,095)
Professional services & maintenance services	1,227,907	(126,661)
Other segments	(426,005)	(677,809)
	<b>971,548</b>	<b>(1,609,565)</b>
<b>Reconciliation to net loss after tax</b>		
<b>Segment adjusted EBITDA</b>	<b>971,548</b>	<b>(1,609,565)</b>
Administration <sup>^</sup>	(5,285,202)	(2,889,268)
Net other income/(other expenses) – excluding interest income	91,163	(113,362)
<b>Group adjusted EBITDA</b>	<b>(4,222,491)</b>	<b>(4,612,195)</b>
Share based payments expense	(454,495)	(30,267)
Amortisation expense	(6,066,261)	(1,664,091)
Depreciation expense	(196,399)	(151,848)
Impairment charge	(11,675,171)	(6,504,960)
Finance & interest costs	(239,578)	(164,657)
Income tax benefit	5,195,297	498,535
<b>Net loss after tax</b>	<b>(17,659,098)</b>	<b>(12,629,483)</b>

\*includes Mach7 operations for one quarter only, since acquisition date April 2016.

<sup>^</sup>Administration expenses are not allocated to a particular operating segment, but are rather reviewed by management according to the type of expense. This category includes expenses related to corporate/head office, ASX and governance, compliance costs (audit, tax etc), certain executive management costs, and occupancy costs.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 5. SEGMENT INFORMATION (continued)

	CONSOLIDATED	
	2017	2016
	\$	\$
<b>Segment assets – by product</b>		
Software licenses	3,565,232	1,182,747
Professional services & maintenance services	1,123,365	746,019
Other segments	1,301	12,874
	<b>4,689,898</b>	<b>1,941,640</b>
<b>Reconciliation to group assets</b>		
Segment assets	4,689,898	1,941,640
Cash	2,684,225	1,718,511
Financial assets	100,000	211,227
Other receivables	193,689	125,095
Prepayments and deposits	228,565	436,082
Fixed assets	184,912	799,569
Intangible assets	17,843,215	35,568,869
	<b>25,924,504</b>	<b>40,800,993</b>
<b>Geographical non-current assets</b>		
United States	218,087	196,504
Asia/Pacific	45,268	221,369
	<b>263,355</b>	<b>417,873</b>
<b>Segment liabilities – by product</b>		
Software licenses	(534,620)	(128,027)
Professional services & maintenance services	(2,829,479)	(2,351,638)
Other segments	–	–
	<b>(3,364,099)</b>	<b>(2,479,665)</b>
<b>Reconciliation to group liabilities</b>		
Segment liabilities	(3,364,099)	(2,479,665)
Trade payables & accruals*	(1,246,829)	(852,149)
Financial liabilities – current	(20,000)	(267,274)
Non-current liabilities	(5,354,798)	(13,740,346)
	<b>(9,985,726)</b>	<b>(17,339,434)</b>

\*Trade payables and accruals relate predominantly to administration items.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 6a. OTHER INCOME

	CONSOLIDATED	
	2017	2016
	\$	\$
<b>Other income</b>		
Rental income (sub-tenancy)	131,566	108,261
Sale of 3D printer asset, previously subject to finance lease	130,113	-
Interest income	41,688	22,008
R&D tax refund revenue	96,806	-
Gain on sale of fixed assets (net of losses)	22,921	-
Other revenues	11,038	-
Government grants	7,080	729
	<b>441,212</b>	<b>130,998</b>

## 6b. EXPENDITURE

	CONSOLIDATED	
	2017	2016
	\$	\$
<b>Other expenses</b>		
Foreign exchange losses	439,323	237,907
Doubtful debts since collected	(323,373)	-
Doubtful debts provided for	234,099	6,453
	<b>350,049</b>	<b>244,359</b>
<b>Employee salaries, benefit and staff related expenses</b>		
Salaries, wages & bonuses	7,385,990	2,184,085
Defined contribution plan expense (superannuation)	765,661	78,936
Workers compensation costs	15,839	3,770
Annual leave provision	30,353	77,624
Payroll and fringe benefit tax	487,676	121,479
Other employee benefits expense	701,016	426,103
Contractors and other employment related expenses	683,302	-
Directors fees	237,421	438,782
	<b>10,307,258</b>	<b>3,330,779</b>
<b>Depreciation and amortisation</b>		
Amortisation of intangible assets	6,066,261	1,664,091
Depreciation of property, plant and equipment	196,399	151,848
	<b>6,262,660</b>	<b>1,815,939</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 7. INCOME TAX

	CONSOLIDATED	
	2017	2016
	\$	\$
<b>(a) Income tax expense</b>		
<i>The major components of income tax expense are:</i>		
Current income tax on profits	-	-
(Increase) / decrease in deferred tax assets	-	-
(Decrease) / increase in deferred tax liabilities	(5,195,297)	(498,535)
Income tax benefit	(5,195,297)	(498,535)
<b>(b) Reconciliation of prima-facie tax payable to income tax expense</b>		
Loss from continuing operations before income tax expense	(22,854,395)	(13,128,018)
Tax benefit at the Australian statutory income tax rate of 30% (2016: 30%)	(6,856,318)	(3,938,405)
<i>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</i>		
Impairment expense related to goodwill	124,430	1,951,488
Amortisation expense (patents only)	3,504	692
Foreign exchange expense	67,775	-
Interest expense	26,175	-
Sub-total	(6,634,434)	(1,986,225)
Tax losses utilised - current year	(210,340)	-
Tax losses not recognised	2,078,652	1,487,690
Differences in local tax rates	(429,175)	-
Income tax expense/(benefit)	(5,195,297)	(498,535)

### (c) Unused tax losses

The Group has gross tax losses of \$39,161,300 (2016: \$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 \$5,329,432 (2016: \$10,524,728) as a result of the acquisition of Mach7 Technologies Pte. Ltd during the year in accordance with AASB112 Income Taxes. Refer to notes 20 and 31 for further details on this acquisition.

## 8. EARNINGS PER SHARE

	2017	2016
Loss per share - basic (cents)	16.3c	24.1c
Loss per share - diluted (cents)	16.3c	24.1c

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 2017

## 8. EARNINGS PER SHARE (continued)

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

	2017	2016
	\$	\$
Net loss used in calculating basic and diluted earnings per share	(17,659,098)	(12,629,483)
	<b>Number of Shares</b>	
Weighted average number of ordinary shares used in calculating basic earnings per share	108,482,657	52,431,582
Adjustments for calculation of diluted earnings per share Options	-	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	108,452,657	52,431,582

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 21 for further details on the current outstanding and issued share capital.

During the current financial year, the Group executed a share consolidation program at 10 for 1. The weighted average number of ordinary shares for 2016 has been restated. The earnings per share for 2016 on a like for like basis is a loss of 24.1 cents (previously 2.4 cents).

## 9. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2017	2016
	\$	\$
Cash at bank and on hand	1,317,994	1,658,374
Cash on call deposits	1,366,231	60,137
	<b>2,684,225</b>	<b>1,718,511</b>

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	
	2017	2016
	\$	\$
Restricted cash (bank guarantee)*	-	211,227
Cash held on term deposit at bank	100,000	-
	<b>100,000</b>	<b>211,227</b>

\*In 2016, an amount of US\$156,250 was 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 was returned to the Company in the current financial year.



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 11. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2017	2016
	\$	\$
<b>(a) Balances</b>		
Trade receivables <sup>(i)</sup>	1,837,340	1,506,095
Less provision for doubtful debts	(231,188)	(360,378)
Accrued revenue <sup>(ii)</sup>	2,941,796	920,912
Goods and services tax receivable	10,575	-
Other receivables	253,649	-
Interest receivable	2,579	-
	<b>4,814,753</b>	<b>2,066,735</b>

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

(ii) Accrued revenue 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 \$231,188 (2016:360,378) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017. The ageing of the impaired receivables provided for above are as follows:

	CONSOLIDATED	
	2017	2016
	\$	\$
Up to 3 months	231,188	-
3 to 6 months	-	-
> 6 months	-	360,378

### (c) Movement in provision for doubtful debts

	CONSOLIDATED	
	2017	2016
	\$	\$
Opening balance	360,378	-
Additional provisions recognised during the year	231,188	-
Amounts received during the year	(360,378)	-
Acquired as part of a business combination	-	360,378
	<b>231,188</b>	<b>360,378</b>

### (d) Past due but not impaired

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

	CONSOLIDATED	
	2017	2016
	\$	\$
Up to 3 months	659,355	153,369
3 to 6 months	291,298	375,095
> 6 months	90,118	78,885
	<b>1,040,771</b>	<b>607,349</b>

The consolidated entity did not consider a credit risk on the aggregate balances above after reviewing the credit terms of customers based on recent collection practices.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 12. OTHER CURRENT ASSETS

	CONSOLIDATED	
	2017	2016
	\$	\$
Security deposits	61,501	62,513
Prepayments	167,065	373,569
Deferred commission expense	68,833	-
	<b>297,399</b>	<b>436,082</b>

## 13. PROPERTY, PLANT AND EQUIPMENT

	Quality Manage- ment System	3D Printers	Office Equip- ment	Computer Hardware & Software	Leasehold Improve- ments	TOTAL
CONSOLIDATED	\$	\$	\$	\$	\$	\$
<b>2017</b>						
Cost	-	-	137,670	340,145	5,847	483,662
Accumulated depreciation	-	-	(75,534)	(220,691)	(2,525)	(298,750)
<b>Net carrying value at 30 June 2017</b>	-	-	62,136	119,454	3,322	184,912
<b>Movement in carrying value</b>						
At 1 July 2016	80,000	335,988	73,640	158,931	151,010	799,569
Additions	-	-	3,638	69,080	-	72,718
Disposals	(80,000)	(262,358)	-	(7,155)	(137,592)	(487,105)
Depreciation expense	-	(73,630)	(14,063)	(98,755)	(9,951)	(196,399)
Foreign exchange revaluations	-	-	(1,079)	(2,647)	(145)	(3,871)
<b>Net carrying value at 30 June 2017</b>	-	-	62,136	119,454	3,322	184,912
<b>2016</b>						
Cost	80,000	402,148	138,146	476,944	237,351	1,334,589
Accumulated depreciation	-	(66,160)	(64,506)	(318,013)	(86,341)	(535,020)
<b>Net carrying value at 30 June 2016</b>	80,000	335,988	73,640	158,931	151,010	799,569
<b>Movement in carrying value</b>						
At 1 July 2015	-	398,547	24,854	65,222	33,941	522,563
Additions	80,000	3,601	22,614	54,995	131,198	282,118
Acquired through business acquisition	-	-	33,853	97,080	5,403	136,336
Disposals	-	-	-	-	-	-
Depreciation expense	-	(66,160)	(7,681)	(58,366)	(19,641)	(151,848)
Foreign exchange revaluations	-	-	-	-	110	110
<b>Net carrying value at 30 June 2016</b>	80,000	335,988	73,640	158,931	151,010	799,569

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 14. INTANGIBLE ASSETS AND GOODWILL

	Patents	Goodwill	Customer Contracts	Brand Names	Software Intellectual Property	TOTAL
<b>CONSOLIDATED</b>	\$	\$	\$	\$	\$	\$
<b>2017</b>						
Cost	963,719	0	8,824,764	1,557,975	14,465,116	25,811,634
Accumulated amortisation	(286,460)	0	(2,911,515)	(463,845)	(4,306,599)	(7,968,419)
Net carrying value	677,319	0	5,913,249	1,094,130	10,158,517	17,843,215
<b>Movement in carrying value</b>						
Balance at 1 July 2016	1,276,633	414,768	8,117,070	2,504,763	23,255,635	35,568,869
Impairment charges	(569,007)	(414,768)	-	(1,039,557)	(9,651,839)	(11,675,171)
Amortisation expense	(46,085)	-	(2,203,821)	(371,076)	(3,445,279)	(6,066,261)
Additions	18,080	-	-	-	-	18,080
Foreign exchange	(2,302)	-	-	-	-	(2,302)
Balance at 30 June 2017	677,319	0	5,913,249	1,094,130	10,158,517	17,843,215
<b>2016</b>						
Cost	1,529,735	414,768	8,824,764	2,597,532	24,116,955	37,483,754
Accumulated amortisation	(253,102)	-	(707,694)	(92,769)	(861,320)	(1,914,885)
Net carrying value	1,276,633	414,768	8,117,070	2,504,763	23,255,635	35,568,869
<b>Movement in carrying value</b>						
Balance at 1 July 2015	-	-	-	-	-	-
Additions for the year (net)	13,405	-	-	-	-	13,405
Acquired as part of business combination	1,265,536	6,919,728	8,824,764	2,597,532	24,116,955	43,724,515
Impairment charge	-	(6,504,960)	-	-	-	(6,504,960)
Amortisation expense	(2,308)	-	(707,694)	(92,769)	(861,320)	(1,664,091)
Balance at 30 June 2016	1,276,633	414,768	8,117,070	2,504,763	23,255,635	35,568,869

### Impairment Testing

The Group has recognised individual intangible assets (patents, software, customer contracts and brands) and goodwill as a result of the acquisition of Mach7 Technologies Group. The recoverable amount of each individual intangible asset acquired, and the Group's goodwill, has been determined by a value-in-use calculation using a discounted cash flow model. The goodwill has been allocated to the enterprise imaging software product cash generating unit.

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:

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 14. INTANGIBLE ASSETS AND GOODWILL (continued)

	Financial Year	FY2017	FY2016	Rationale FY2017 assumptions	Rationale FY2016 assumptions
<b>Revenue assumptions</b>					
Revenue annual growth:	FY17	na	Per budget	na	Per internal budget
	FY18	Per budget	30%	Per Internal budget	management's estimated growth rate
	FY19	17.6%	30%	Ramp rate towards CAGR*	management's estimated growth rate
	FY20	37.4%	25%	Historical Mach7 CAGR	management's estimated growth rate
	FY21	37.4%	20%	Historical Mach7 CAGR	management's estimated growth rate
	FY22	9.0%	15%	Average global market growth rate for PACS and VNA technologies	management's estimated growth rate
	FY23	9.0%	10%	Average global market growth rate for PACS and VNA technologies	management's estimated growth rate
Revenue risk factor discount	All years	20.0%	-	Inherent risk in revenue growth	none
<b>Expenditure assumptions</b>					
Expenditure annual growth:	FY17	na	Per budget	na	Per internal budget
	FY18	Per budget	20% of revenue growth rate	Per internal budget	management's estimated growth rate
	FY19	10%	20% of revenue growth rate	Increased to allow for investment in sales personnel	management's estimated growth rate
	FY20-23	25% of revenue growth rate	20% of revenue growth rate	In line with expected margins	management's estimated growth rate
<b>Financial assumptions</b>					
Years forecasted – software fees & implementation services		5 years	6.5 years	5 years as per recommended length of time per AASB136	management's estimate for reasonable time frame for revenue generation
Years forecasted – annual support fees		5 years from commencement of support	5 years from commencement of support	5 years is the Mach7 standard term for support fee contracts	5 years is the Mach7 standard term for support fee contracts
Tax Rate	All	30%	na	Australia corporate tax rate	na
Working Capital	All	30 day terms + specific phasing	30 day terms	Standard debtor terms + cash-phasing based on historical estimates	Standard debtor terms
Discount Rate	All	15% post-tax	18% pre-tax	Management's estimate of the Group's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements	Management's estimate of the Group's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements

\*CAGR = Compound Annual Growth Rate

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## Impairment charges

Based on a discounted cash flow valuation using the assumptions above, the carrying amount of goodwill and other intangible assets exceeds the recoverable amount and therefore an impairment charge of \$11,675,171 has been recognised in the current financial year (2016: \$6,504,960).

The impairment charge of \$11,675,171 for the current year has been allocated first to goodwill and then on a pro-rata basis between software, brands, and patents. Customer contracts were separately tested for impairment and the recoverable amount exceeds the carrying amount and therefore no impairment charge has been allocated to this asset. The impairment charge of \$6,504,960 for the prior year was allocated entirely to goodwill. These allocations were made in accordance with AASB136.

## 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.

## 15. TRADE AND OTHER PAYABLES

		CONSOLIDATED	
	Footnote	2017	2016
	e	\$	\$
Trade creditors	(i)	267,437	340,467
Accrued expenses	(ii)	233,204	175,652
Distributor/reseller commissions payable	(iii)	413,563	62,382
Credit card payable	(iv)	13,228	-
GST payable		-	2,163
Employee entitlements and related costs	(v)	828,015	383,352
		<b>1,755,447</b>	<b>964,016</b>

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 general operating expenses where costs are incurred but have not yet been invoiced.
- (iii) Distributor commission will become payable at the time the customer pays their invoice, usually within 30-45 days.
- (iv) Credit cards are paid monthly, and are non-interest bearing if paid on time.
- (v) Employee entitlements includes sales commissions, redundancy provisions, withholding taxes, superannuation and other employee related costs

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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 16. DEFERRED REVENUE

	Footnote	CONSOLIDATED	
		2017	2016
		\$	\$
Software licenses & professional service fees received in advance	(i)	1,500,312	1,405,733
Annual support and maintenance fees received in advance	(ii)	1,355,168	962,064
		<b>2,855,480</b>	<b>2,367,797</b>

Terms and conditions relating to the above financial instruments:

- (i) Software licenses & professional service fees received in advance are where amounts are invoiced on a milestone basis but where the revenue is yet to be recognised.
- (ii) Support and maintenance 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).

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

## 17. FINANCIAL LIABILITIES

	Footnote	CONSOLIDATED	
		2017	2016
		\$	\$
Accrued interest	(i)	-	267,274
Security deposit for sub-tenancy	(ii)	20,000	-
		<b>20,000</b>	<b>267,274</b>

Terms and conditions relating to the above financial instruments:

- (i) Interest accrued on external debt. All loans were repaid in full during the current financial year.
- (ii) Bond received from sub-tenant.

## 18. CURRENT INTEREST BEARING LIABILITIES

	Note/footnote	CONSOLIDATED	
		2017	2016
		\$	\$
Interest bearing loans (i)	(i)	-	2,876,135
Current portion of finance lease	19	12,358	116,667
		<b>12,358</b>	<b>2,992,802</b>

Terms and conditions relating to the above financial instruments:

- (i) Interest bearing loans were repaid in full during the current financial year. These loans were unsecured debt, subject to an interest rate of 12% per annum.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 19. FINANCE LEASES – NON CURRENT

	Note/ footnote	CONSOLIDATED	
		2017	2016
		\$	\$
Balance as at 1 July		339,484	–
Proceeds received from sale and lease back of assets	(i), (ii)	37,075	350,000
Lease payments made during the year	(i), (ii)	(87,662)	(10,516)
Novation of lease to third party	(ii)	(263,530)	–
Balance as at 30 June		25,367	339,484
Less current portion	18	(12,358)	(116,667)
		13,009	222,817

Terms and conditions relating to the above financial instruments:

- (i) During July 2016, the Group entered into a sale and lease back for certain computer hardware equipment. The lease is a 3 year term, with an effective interest rate of 8.1%.
- (ii) 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 lease is a 3 year term with quarterly lease payments of \$35,060 (excl. GST, inclusive of financing charges). On 5 January 2017, the Company novated its finance lease (and sold the corresponding Trump 3D printer) to a third party.

Implicit finance costs are shown within interest expense in the statement of profit and loss and other comprehensive income for all finance leases.

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, together with the present value of the net minimum lease payments are as follows:

	CONSOLIDATED			
	2017		2016	
	Minimum payments	Present Value of payments	Minimum payments	Present Value of payments
Within one year	13,360	12,358	140,242	127,557
After one year but not more than five years	13,360	13,009	280,483	197,511
More than five years	–	–	–	–
Total minimum lease payments	26,720	25,367	420,725	325,068
Less amounts representing finance charges	(1,353)	–	(95,657)	–
<b>Lease payments recognised as a liability</b>	<b>25,367</b>	<b>25,367</b>	<b>325,068</b>	<b>325,068</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 20. DEFERRED TAX LIABILITY

		CONSOLIDATED	
		2017	2016
		\$	\$
	Note		
Cost		7,645,142	11,023,263
Accumulated amortisation of deferred tax liability		(2,315,710)	(498,535)
		<b>5,329,432</b>	<b>10,524,728</b>
Carrying value at the beginning of the year		10,524,728	-
Deferred tax recognised on acquisition of intangible assets	31	-	11,023,263
Impairment credit	7	(3,378,121)	-
Amortisation credit	7	(1,817,175)	(498,535)
Carrying value at the end of the year		<b>5,329,432</b>	<b>10,524,728</b>

## 21. CONTRIBUTED EQUITY

### Shares on issue

		CONSOLIDATED	
		2017	2016
		\$	\$
<b>Ordinary shares (i)</b>			
Issued and fully paid		53,090,510	43,856,376
<b>Performance shares (ii)</b>			
Unlisted (25,000,000)		-	-
<b>(i) Ordinary shares</b>		<b>No.</b>	<b>No.</b>
Unrestricted and quoted on ASX		118,097,196	437,953,969
Restricted until 30 November 2017 and quoted on ASX		150,000	1,500,000
Restricted until 18 February 2017 and unquoted on ASX		-	58,748,168
Restricted until 8 April 2017 and unquoted on ASX		-	441,933,006
<b>Total ordinary shares on issue</b>		<b>118,247,196</b>	<b>940,135,143</b>

On 23 January 2017, the Company completed a share consolidation at a ratio of 1 share for every 10 shares held. Therefore, share capital on issue reduced by a factor of 10 on this date. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### (ii) Performance shares

Four classes of performance shares were issued to the vendors of Mach7 Technologies Pte Ltd as part of the Company's merger with Mach7 on 8 April 2016. During the year, one class (class C) lapsed, and all share price hurdles and number of performance shares have been restated to take into account the share consolidation which occurred during the year.



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 21. CONTRIBUTED EQUITY (continued)

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 classes of Performance Shares have varying conversion rights which relate to Company performance milestones with respect to revenue and share price. Subject to each and every respective performance milestones being satisfied, each performance share will convert into one ordinary share in the Company. The directors have assessed the fair value of the above outstanding performance shares issued to be nil.

Performance share conversion hurdles that remain as at 30 June 2017 are as follows:

Class of Performance Shares	Revenue hurdle*	Share price hurdle**	Total number outstanding as at 30 June 2017
Class A	US\$6.6 million	\$2.00	15,000,000
Class B	US\$6.6 million	\$2.50	5,000,000
Class C	Lapsed	Lapsed	Lapsed
Class D	US\$20 million	No hurdle	5,000,000
<b>Total</b>			<b>25,000,000</b>

\*Revenue hurdles must be met or exceeded for calendar year 2017.

\*\*Share price hurdles are measured with reference to a volume weighted average price (VWAP) of the Company's shares for any 20-day period during calendar year 2017.

## Movements in ordinary shares on issue

	No. of Ordinary Shares	\$
At 1 July 2015	375,953,835	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	1,590,283	79,514
Shares issued on acquisition of Mach7 Technologies Pte. Ltd	459,499,119	26,095,632
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	940,135,153	43,856,376
Issue of shares pursuant to capital raising, at 4 cents per share	173,000,000	6,920,000
Capital raising costs	na	(553,710)
Options exercised during the year	9,607,398	480,370
Shares issued for repayment of debt	52,209,811	2,088,392
Shares issued for repayment of accrued interest	4,734,959	189,398
Shares issued for loan repayment date extension	1,379,800	55,192
Shares issued for brokerage fees	987,291	39,492
Shares issued for bonus payment	41,667	15,000
Share consolidation (every 10 shares held replaced with 1 share)	(1,063,848,883)	na
	<b>118,247,196</b>	<b>53,090,510</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 21. CONTRIBUTED EQUITY (continued)

### Options outstanding

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:

### 2017

Grant Date	Expiry Date	Exercise Price*	Opening balance 01 July 2016*	Number Granted	Number Exercised*	Number Lapsed*	Closing balance 30 June 2017
6 Feb 15	6 Aug 16	\$0.50*	7,194,873	–	(960,740)	(6,234,133)	0
6 Feb 15	6 Feb 17	\$0.50*	4,289,243	–	–	(4,289,243)	0
8 Apr 16	8 Apr 20	\$1.00*	100,000	–	–	–	100,000
8 Apr 16	8 Apr 21	\$1.00*	600,000	–	–	(125,000)	475,000
9 Dec 16	9 Dec 21	\$1.00	–	125,000	–	–	125,000
27 Jan 17	27 Jan 22	\$0.41	–	3,240,000	–	(560,000)	2,680,000
10 Mar 17	10 Mar 22	\$0.41	–	200,000	–	–	200,000
<b>Total</b>			<b>12,184,116</b>	<b>3,565,000</b>	<b>960,740</b>	<b>11,208,376</b>	<b>3,580,000</b>

\*Amounts have been restated for the share consolidation (1 share for every 10 held) that took place in the current financial year.

### 2016

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	\$0.05	51,239,454	na	(996,323)	–	50,243,131
6 Feb 15	6 Aug 16 <sup>(i)</sup>	\$0.05	21,705,606	na	–	–	21,705,606
6 Feb 15	6 Feb 17	\$0.05	30,546,533	na	(593,960)	–	29,952,573
6 Feb 15	6 Feb 17 <sup>(i)</sup>	\$0.05	12,939,854	na	–	–	12,939,854
8 April 16	8 April 20	\$0.10	–	1,000,000	–	–	1,000,000
8 April 16	8 April 21	\$0.10	–	6,000,000	–	–	6,000,000
<b>Total</b>			<b>116,431,447</b>	<b>7,000,000</b>	<b>(1,590,283)</b>		<b>121,841,164</b>

(i) Restricted until 18 February 2017

### 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 (adjusted for share consolidation), 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
9 Dec 16	9 Dec 21	41 cents	\$1.00	82.7%	–	2.2%	21.6 cents
27 Jan 17	27 Jan 22	33 cents	41 cents	79.5%	–	2.2%	23.6 cents
10 Mar 17	10 Mar 22	37.5 cents	41 cents	83.3%	–	2.4%	24.5 cents

The expected volatility for the options granted during the year was determined with reference to the historical volatility of the Company's share price since 8 April 2016, being the date 3D Medical Limited acquired the Mach7 Technologies group of companies, up to the date of grant.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 21. CONTRIBUTED EQUITY (continued)

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.

## 22. RESERVES

	CONSOLIDATED		Total
	Options Reserve	Foreign Exchange Translation Reserve	
	\$	\$	\$
At 30 June 2015	1,541,442	-	1,541,442
Share based payments	30,267	-	30,267
Shares issued in exchange for options on acquisition	325,578	-	325,578
Foreign exchange on translation of subsidiaries	-	(139,425)	(139,425)
At 30 June 2016	1,897,287	(139,425)	1,757,862
Share based payments	454,495	-	454,495
Foreign exchange on translation of subsidiaries	-	447,668	447,668
At 30 June 2017	2,351,762	308,283	2,660,045

### 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.

## 23. RELATED PARTY DISCLOSURE

### Ultimate parent

Mach7 Technologies Limited is the ultimate parent of the Group.

### 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	
		2017	2016
<i>Direct subsidiaries</i>			
3D Medical Pty Ltd	Australia	100	100
Mach7 Technologies International Pty Ltd	Australia	100	100
Mach7 Technologies UK Ltd	UK	100	100
<i>Indirect subsidiaries</i>			
Mach7 Technologies Pte Ltd	Singapore	100	100
Mach7 Technologies Inc.	U.S.	100	100
Mach7 Technologies Australia Pty Ltd	Australia	100	100
Mach7 Technologies Pvt Ltd	India	100	100

### Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 25.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 24. CASH FLOW STATEMENT RECONCILIATION

	CONSOLIDATED	
	2017	2016
	\$	\$
Net loss after tax	(17,659,098)	(12,629,483)
<b>Adjustments for financing/investing activities included in net loss after tax</b>		
Income tax benefit	(5,195,297)	(498,535)
Depreciation & amortisation	6,262,660	1,815,939
Net loss on fixed asset disposals	57,079	-
Share-based payments expense	454,495	30,267
Bonus paid with share issue	15,000	-
Interest expense attributable to finance leases	30,912	-
Finance expenses paid with share issue	54,621	-
Net foreign exchange differences relating to cash & non-operating items	499,152	200,270
Merger acquisition costs	-	986,416
Impairment charge	11,675,171	6,504,960
Net working capital liabilities acquired in acquisition of Mach7 Technologies Pte Ltd	-	(486,090)
<b>Changes in current assets and liabilities</b>		
Decrease/(increase) in trade and other receivables	(2,748,018)	(1,651,760)
Decrease/(increase) in other current assets	138,683	(647,309)
Increase/(decrease) in trade and other payables	791,431	639,020
Increase/(decrease) in deferred revenues	487,683	2,367,797
Increase/(decrease) in financial liabilities	(247,274)	-
<b>Adjusting items</b>		
Increase in trade and other receivables attributable to GST on capital raising costs (financing activity)	35,972	-
Decrease in other current assets attributable to finance leases (investing activity)	(3,378)	-
Decrease in financial liabilities attributable to shares issued (non-cash)	189,398	-
<b>Net cash used in operating activities</b>	<b>(5,160,808)</b>	<b>(3,368,506)</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 25. KEY MANAGEMENT PERSONNEL

### Compensation for Key Management Personnel

	CONSOLIDATED	
	2017	2016
	\$	\$
Short-term employee benefits	1,761,216	804,522
Post-employment benefits	68,747	25,654
Termination benefits	395,903	-
Other long-term benefits	-	60,000
Equity-based payment	189,318	164,718
	<b>2,415,183</b>	<b>1,054,894</b>

### Shareholdings of key management personnel

Ordinary shares held in Mach7 Technologies Limited (number) by key management personnel during 2017 are shown in table 1:

Table 1.

30 June 2017	Balance 1 July 2016*	Granted as remuneration	On exercise of options	Acquired as part of capital raising	Net change other	Balance 30 June 2017
Directors	11,763,681	-	71,166	2,500,000	2,077,757	16,412,604
Executives <sup>^</sup>	6,693,943	41,667	-	250,000	1	6,985,611
	<b>18,457,624</b>	<b>41,667</b>	<b>71,166</b>	<b>2,750,000</b>	<b>2,077,758</b>	<b>23,398,215</b>

<sup>^</sup> breakdown of executives can be found in table 2 below.

\*Balance at start of year has been restated for the share consolidation (1 share for every 10 held) that took place during the current financial year.

Details of the Key Management Personnel holdings of ordinary shares in the Company, including their personally related parties, are shown in table 2 below:

Table 2.	Balance 1 July 2016*	Additions	Disposals	Balance 30 June 2017
Dr N Finch	361,432	321,166	-	682,598
Mr N Ito	652,419	250,000	-	902,419
Mr R Krishnan <sup>^</sup>	5,780,561	-	-	5,780,561
Mr D Lim <sup>#</sup>	8,045,141	3,577,757	-	11,622,898
Mr A Liong <sup>(i)</sup>	2,704,689	250,000	-	2,954,689
Mrs J Pilcher <sup>^</sup>	-	291,668	-	291,668
Mr J Rice <sup>^</sup>	913,382	-	-	913,382
Mr W Spittle	-	250,000	-	250,000
	<b>18,457,624</b>	<b>4,940,591</b>	<b>-</b>	<b>23,398,215</b>

(i) Managing director resigned May 2017 <sup>^</sup> included as executives in table 1.

<sup>#</sup> Shareholding includes 11,372,898 at 30 June 2017 (2016: 8,045,141) held by BV Healthcare II Pte Ltd, an investment fund of which Mr Lim is a Principal. The remaining shares are held in the name of Mr Damien Lim.

\*Balance at start of year has been restated for the share consolidation (1 share for every 10 held) that took place during the current financial year.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 25. KEY MANAGEMENT PERSONNEL (continued)

### Option holdings of Key Management Personnel

30 June 2017	Balance 1 July 2016*	Granted as remuneration	Options exercised	Options forfeited/ lapsed	Balance at end of period	Not exercisable	exercisable
Directors	488,592	125,000	(71,166)	(42,426)	500,000	500,000	–
Executives	200,000	1,020,000	–	–	1,220,000	1,120,000	100,000
	<b>688,592</b>	<b>1,145,000</b>	<b>(71,166)</b>	<b>(42,426)</b>	<b>1,720,000</b>	<b>1,620,000</b>	<b>100,000</b>

\*Balance at start of year has been restated for the share consolidation (1 share for every 10 held) that took place during the current financial year.

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 2016*	Options granted	Options forfeited/ lapsed	Options exercised	Balance 30 June 2017
<b>Directors</b>					
Dr N Finch	238,592	–	(42,426)	(71,166)	125,000
Mr N Ito	125,000	–	–	–	125,000
Mr D Lim	125,000	–	–	–	125,000
My W Spittle	–	125,000	–	–	125,000
<b>Executives</b>					
Mr R Krishnan	–	340,000	–	–	340,000
Mr J Rice	–	340,000	–	–	340,000
Ms J Pilcher	200,000	340,000	–	–	540,000
	<b>688,592</b>	<b>1,145,000</b>	<b>(42,426)</b>	<b>(71,166)</b>	<b>1,720,000</b>

\*Balance at start of year has been restated for the share consolidation (1 share for every 10 held) that took place during the current financial year.

Share options held by key management personnel under the Long Term Incentive Plan (note 26) to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price*	2017 Number*	2016 Number*
6 Feb 2015	6 Aug 2016	\$0.50	–	71,166
6 Feb 2015	6 Feb 2017	\$0.50	–	42,426
8 Apr 2016	8 Apr 2021	\$1.00	475,000	475,000
8 Apr 2016	8 Apr 2020	\$1.00	100,000	100,000
9 Dec 2016	9 Dec 2021	\$1.00	125,000	–
27 Jan 2017	27 Jan 2022	41c	1,020,000	–
			<b>1,720,000</b>	<b>688,592</b>

\*Number outstanding for 2016, and exercise price, has been restated for the share (and option) consolidation (1 share for every 10 held) that took place during the current financial year.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 26. 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	
	2017	2016
	\$	\$
Expenses arising from equity-settled share-based payment transactions	454,495	30,267

### Types of share-based payment plan

#### *Employee Share Option Plan, 'ESOP'*

A Long Term Incentive Plan has been established and approved by shareholders 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.

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

	2017		2016	
	Number of options*	Weighted average exercise price*	Number of options*	Weighted average exercise price*
Balance at beginning of year	3,681,546	\$0.60	2,981,546	\$0.50
- granted	3,565,000	\$0.511	700,000	\$1.00
- exercised	(71,166)	\$0.50	-	-
- forfeited/lapsed	(3,595,380)	\$0.503	-	-
Balance at end of year	3,580,000	\$0.525	3,681,546	\$0.60
Exercisable at end of year	100,000	\$1.00	-	-

\*Amounts restated for the share consolidation (1 share for every 10 held) that took place during the current financial year.

### Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2017 is 4 years 5 months (2016: 1 year 1 month)

### Range of exercise price

The range of exercise prices for options outstanding at end of the year was \$0.41 – \$1.00 (2016: \$0.50 – \$1.00).

### Weighted average fair value

The weighted average fair value of options granted during the year was \$0.236 (2016: \$0.18).

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 26. SHARE-BASED PAYMENT PLAN (continued)

### Options held as at the end of the reporting period

The following table summarises information about options held as at 30 June 2017:

Number Issued	Grant date	Vesting date	Exercise Price	Expiry Date
475,000	08-Apr-16	08-Apr-18	\$1.00	08-Apr-21
100,000	08-Apr-16	08-Apr-17	\$1.00	08-Apr-20
125,000	09-Dec-16	09-Dec-18	\$1.00	09-Dec-21
893,348	27-Jan-17	27-Jan-18	\$0.41	27-Jan-22
893,335	27-Jan-17	27-Jan-19	\$0.41	27-Jan-22
893,317	27-Jan-17	27-Jan-20	\$0.41	27-Jan-22
66,667	10-Mar-17	10-Mar-18	\$0.41	10-Mar-22
66,667	10-Mar-17	10-Mar-19	\$0.41	10-Mar-22
66,666	10-Mar-17	10-Mar-20	\$0.41	10-Mar-22
<b>3,580,000</b>				

### 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.

## 27. EXPENDITURE COMMITMENTS

	CONSOLIDATED	
	2017	2016
	\$	\$
<b>Lease expenditure commitments</b>		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
- not later than one year	177,670	292,976
- later than one year and not later than five years	173,970	511,172
Aggregate lease expenditure contracted for at reporting date	<b>351,640</b>	<b>804,148</b>

The operating leases for the current financial year are in respect of the lease of the premises in the U.S. and office equipment in Singapore & Australia. The prior financial year lease expenditure commitments includes the lease of premises in Australia. Effective 1 July 2017, this lease was assigned to a third party and consequently the Group has no further lease expenditure commitments in respect of this lease (refer note 28 for further detail).

### Capital expenditure commitments

There are no capital expenditure commitments, other than finance leases disclosed in note 19, as at 30 June 2017 (2016: nil).



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 28. CONTINGENT ASSETS AND LIABILITIES

During the year the Company novated its finance lease to a third party. The Company continues to act as guarantor for this lease through to the expiry of 30 June 2019. If the third party were to default on all lease payments since 30 June 2017, the Company's maximum exposure is \$280,480.

Effective 1 July 2017, the Group assigned its lease of premises in Australia to a third party (assignee). Under the terms of the lease, the Group remains liable for any terms and conditions in the lease agreement in the event the assignee defaults or is in breach of the lease agreement. This obligation expires on 7 September 2018.

The Company has no contingent assets at 30 June 2017.

## 29. 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	
	2017	2016
	\$	\$
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	74,270	60,000
<i>Other services – RSM Australia Partners</i>		
Taxation services	20,000	11,350
	<b>94,270</b>	<b>71,350</b>
<i>Audit services – unrelated firms</i>		
Audit or review of the financial statements	<b>58,478</b>	<b>60,106</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

## 30. PARENT ENTITY DISCLOSURE

	PARENT	
	2017	2016
	\$	\$
Current assets	10,747,296	4,349,742
Non-current assets	29,488,159	30,872,262
<b>TOTAL ASSETS</b>	<b>40,235,455</b>	<b>35,222,004</b>
Current liabilities	316,505	307,858
Non-current liabilities	217,083	556,566
<b>TOTAL LIABILITIES</b>	<b>(533,588)</b>	<b>864,424</b>
Contributed equity		
Issued capital	53,090,510	45,757,867
Reserves	2,351,762	1,557,635
Retained earnings	(15,740,405)	(12,957,922)
<b>TOTAL EQUITY</b>	<b>39,701,867</b>	<b>34,357,580</b>
Total comprehensive income/(loss) attributable to equity	<b>(2,635,375)</b>	<b>(3,218,117)</b>

## 31. BUSINESS COMBINATIONS

There were no business combinations during the current financial year.

During the previous financial year, 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 (pre-share consolidation). 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 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. Further details on the performance shares are contained in note 21.

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 2017

## 31. BUSINESS COMBINATIONS (continued)

During the current financial year, the Group finalised its amounts recorded as a result of the business combination. The final values, together with the preliminary values recorded on acquisition date, are shown in the table below. In accordance with accounting standards (AASB3), the Group has 12 months from the date of acquisition to finalise these amounts. Any differences between the preliminary values and final values have been recorded as at the date of acquisition in accordance with AASB3, and consequently amounts may have changed in the corresponding period compared to what has been previously reported.

	Note	CONSOLIDATED	
		Final Values	Preliminary Values
		\$	\$
<b>Purchase consideration</b>			
Shares issued on acquisition of Mach7 Technologies Pte. Ltd			
– Ordinary shares (459.5 million)	21	26,095,633	28,029,446
– Performance shares (300 million) issued (nil value)	21	–	–
– Cash advanced for exercise of options on acquisition		1,137,542	1,137,542
– Charge for options exchanged on acquisition		325,578	325,578
		<b>27,558,753</b>	<b>29,492,566</b>
<b>Fair value and carrying value of net assets acquired</b>			
Cash and cash equivalents		236,622	236,622
Trade and other receivables (i)		1,685,894	1,685,894
Deposits and prepayments		231,180	231,180
Bank guarantee (restricted cash balance) (ii)		208,737	208,737
<b>Total current assets</b>		<b>2,362,433</b>	<b>2,362,433</b>
Property, plant & equipment		136,336	136,336
Patents		60,577	60,577
<b>Total non-current assets</b>		<b>196,913</b>	<b>196,913</b>
Trade payables		632,478	632,478
Deferred revenue (iii)		1,438,142	1,438,142
Other payables (iv)		728,516	728,516
Interest bearing liabilities		2,863,658	2,863,658
Loan from related party (3D Medical Limited, the acquirer) (v)		1,978,475	1,978,475
<b>Total current liabilities</b>		<b>7,641,269</b>	<b>7,641,269</b>
<b>Net liabilities acquired</b>		<b>(5,081,923)</b>	<b>(5,081,923)</b>
Customer contracts (vi)	14	8,824,764	8,824,764
Software intellectual property (vi)	14	24,116,955	24,116,955
Patents (vi)	14	1,204,959	1,204,959
Brand (vi)	14	2,597,532	2,597,532
Deferred tax liability on intangible assets acquired (vii)	20	(11,023,262)	(11,023,263)
Goodwill on consolidation	14	6,919,728	8,853,542
<b>Total intangible assets acquired due to business combination</b>		<b>32,640,676</b>	<b>34,574,489</b>
<b>Net assets acquired (fair value)</b>		<b>27,558,753</b>	<b>29,492,566</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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## 31. 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 expired 31 December 2016 and was returned to the Group in the current financial year.
- (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.

## 32. SUBSEQUENT EVENTS

The Company is not aware of any subsequent events that have occurred since 30 June 2017 that may materially affect the financial information in this report.

## 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:

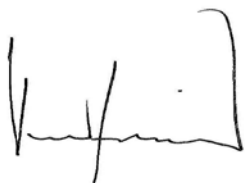
- I. Giving a true and fair view of the Company's financial position as at 30 June 2017 and of their performance for the year ended on that date; and
- II. Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and

(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 2017.

On behalf of the Board



Damien Lim  
Chairman

Signed at Singapore on 25 August 2017

**RSM Australia Partners**

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**INDEPENDENT AUDITOR'S REPORT  
To the Members of Mach7 Technologies Limited****Opinion**

We have audited the financial report of Mach7 Technologies Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

**Material Uncertainty Related to Going Concern**

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss after tax of \$17,659,098 and net cash outflows from operating activities of \$5,160,808 for the year ended 30 June 2017. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed this matter
<p><b><i>Impairment of Intangible Assets</i></b>  Refer to Note 14 in the financial statements</p>	
<p>The Group determined goodwill and separately identifiable intangible assets of \$44m relating to its acquisition of its Singapore subsidiary Mach7 Technologies Pte. Ltd. in 2016.</p> <p>The recoverable amount of the intangibles have been determined by a value-in-use calculation using a discounted cash flow model.</p> <p>We identified this area as a Key Audit Matter due to the size of the intangible assets balance and because the directors' assessment of the 'value in use' of this cash generating unit ("CGU") incorporated significant judgment in respect of factors such as discount rate and assumptions underlying the cash flows of the business.</p>	<p>Our audit procedures in relation to management's impairment assessment included:</p> <ul style="list-style-type: none"> <li>• Assessing management's determination of the CGU based on the nature of the Group's business and the manner in which results are monitored and reported;</li> <li>• Checking the mathematical accuracy of the cash flow model, and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and</li> <li>• Challenging the reasonableness of key assumptions used, including those relating to forecasted revenue, cost, working capital, projected cash flow years, and discount rates.</li> </ul>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf).

This description forms part of our auditor's report.

### **Report on the Remuneration Report**

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 14 to 26 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Mach7 Technologies Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

#### *Responsibilities*

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



**RSM AUSTRALIA PARTNERS**



**R B MIANO**

Partner

28 August 2017  
Melbourne, Victoria



# Shareholder Information

**MACH7 TECHNOLOGIES LIMITED** ABN 26 007 817 192

**Website:** [www.mach7t.com](http://www.mach7t.com)

## **Directors and Company Secretary**

Mr Damien Lim (Non-Executive Chairman)

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**

Level 1, 61 Spring Street, Melbourne, VIC 3000

Telephone: +61 (0) 3 9286 7500

## **Principal Place of Business**

120 Kimball Avenue, Suite 210

South Burlington, VT 05403, United States

T: +1 802.861.7745

## **Share Registrar**

Link Market Services Limited

Tower 4, 727 Collins Street, Melbourne, VIC 3008

Telephone: 1300 554 474

Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## **Stock Exchange Listing**

Australian Securities Exchange (ASX)

Issuer Code: M7T

## **Solicitors**

Gadens Lawyers

Level 25, Bourke Place, 600 Bourke Street, Melbourne, VIC 3000

## **Bankers**

Westpac Banking Corporation

150 Collins Street, Melbourne, VIC 3000

## **Auditors**

RSM Australia Partners

Level 21, 55 Collins Street, Melbourne, VIC 3000

# Board of Directors and Company Secretary

## **Damien Lim**

Non-Executive Chairman

Mr. Lim is the co-founder and principal 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.

## **Dr Nigel Finch**

Non-Executive Director

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 Advisers. 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, KNeoMedia Limited and Animoca Brands Corporation Limited.

## **Nobuhiko Ito**

Non-Executive Director

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

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).

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