

15 September 2020: ASX RELEASE

**Annual Report & Corporate Governance Statement
For the year ended 30 June 2020**

Following the release of the Preliminary Final Report and Appendix 4E on 25 August 2020, MSL Solutions Limited (ASX: MSL) ("MSL" or "the Company") is pleased to release its Annual Report for the year ended 30 June 2020 and the Corporate Governance Statement (refer to separate Appendix 4G announcement).

The Company advises that it intends to hold its Annual General Meeting on 17 November 2020. More details will be provided next month in the Notice of Annual General Meeting.

Authorised by the Board of Directors of MSL Solutions Limited.

- ENDS -

MSL

MSL Solutions Limited (ASX: MSL) operates in the sports, leisure and hospitality sectors. Some of the world's iconic sports and entertainment companies and PGA's rely on MPower MSL every day. We create the systems that connect every department of a business from point of sale and membership to marketing and real time visibility on staff levels, customer engagement, profits and revenue. MPower MSL has 1,220+ customers with offices in Australia, UK and Denmark. To discover more about MPower MSL please visit www.mpowermsl.com.

Contact details

For media enquiries please contact:
Patrick Howard, CEO
+61 (0) 439 474 531

M-POWER MSL



MSL Solutions Limited

ANNUAL FINANCIAL REPORT – 30 JUNE 2020

MSL SOLUTIONS LIMITED and CONTROLLED ENTITIES
Annual financial report – 30 June 2020
ACN 120 815 778

| | |
|--|----|
| Chairman’s Report | 2 |
| Board of Directors | 3 |
| Directors’ Report | 7 |
| Auditor’s Independence Declaration | 29 |
| Financial Statements | 30 |
| Directors Declaration..... | 83 |
| Independent Auditor’s Report | 84 |
| Shareholder information..... | 88 |
| Corporate Directory | 90 |

Chairman's Report

Dear Shareholder,

Welcome to the 2020 Annual Report for MSL Solutions Limited (ASX: MSL), as we reflect on progress the company has made in turning around performance, and early signs that our efforts are paying off, providing momentum for growth in FY21.

MSL is a software-as-a-service (SaaS) provider in the sports, leisure and technology sectors and operates with three main product pillars – point of sale (POS), analytics and engagement. During the year our company has worked to enhance its position as a provider of technology that can connect venues to its customers.

Following the well communicated refresh of the Company's Board and management team early in FY20, a plan was developed and commenced to achieve growth in key performance metrics and positioned a leaner, more focused MSL for greater success in years to come. The Company exited several business lines, which included the sale of the iSeekGolf.com website and business to NBC/GolfNow, with a net return of \$1.312 million. MSL also reduced its costs to be more in line with its predictable and resilient recurring revenue, addressed its working capital and cash position, resulting in a stronger balance sheet.

These activities were our priority in the first half of the year, and the efforts of our new Board and management in completing this process has provided the Company with a revised baseline on which we can deliver growth and a return to profitability in years to come. Our substantial earnings turnaround in 2HFY20, with positive EBITDA of \$0.25 million, is evidence the developed plan is starting to show results. Overall while we reported an EBITDA loss of \$0.9 million for the year, this was a \$4.7 million, or 83% year-on-year improvement on our previous full-year result.

We achieved steady recurring revenue of \$17.9 million, with growth in MSL's Golf and Venue operations despite the impact of the global COVID-19 pandemic, which affected many businesses and overall economic conditions, particularly in Q4. Our efforts prior to the last quarter, including efficiency gains, led to an 18% decrease in headcount expenses, totalling \$3.3 million, before government subsidy benefits partially offset the negative impact of COVID-19 on the business. Management expects further headcount expense decreases by a range of 5-10% in FY21 due to the impacts of some management decisions not realised in FY20.

With these changes in place, our streamlined business secured important wins during the year. These included new long-term partnerships with Addvance IT Limited, which owns Kappture point-of-sale (POS) software, allowing MSL to resell across Europe and the Asia-Pacific region, and post-year end, we announced a three-year revenue sharing merchant agreement with OpenPay, a leading 'buy now, pay later' (BNPL) payment solution provider. MSL will integrate OpenPay's BNPL plans as a payment option for golf memberships. Both these agreements will support the Company's growth strategy in FY21 and beyond.

We finished the year with a cash position of \$3.8 million, with undrawn \$0.5 million standby facilities available. This puts MSL in a solid position to build on the foundations we have redeveloped and take advantage of new opportunities in the year ahead.

I take this opportunity to thank our Board and management, of whom some are still relatively new to their roles, for tremendous efforts during the year to turn around the fortunes of MSL and provide positive signs for the year ahead. In particular, I thank our CEO Pat Howard and our CFO/COO David Marshall for their efforts in steering MSL into a stronger position on which we can build our future.

I thank our staff for their contribution during what has been a challenging year in light of the significant restructuring and rightsizing process and the COVID-19 restrictions, and I also thank our shareholders for your continued belief in MSL as we build a more streamlined and optimised business.

While the past year saw us navigate significant uncertainty and make some difficult decisions, MSL has now laid the groundwork to deliver continued improvement in revenue and profitability in FY21. I look forward to seeing what our new team can achieve in its first full year of working together. I hope you will share the journey with us in the year ahead.

Tony Toohey
Executive Chairman

Board of Directors

Tony Toohey – Executive Director and Chairman

Tony Toohey was appointed as an Executive Director and Chairman on 1st September 2019.

Tony is a highly accomplished senior executive with over 35 years in the gaming, hospitality, leisure and technology industries with a proven track record of success in creating sustainable competitive advantage and a strong platform for continuing growth.

Tony is the former Managing Director, CEO & Executive Chairman of ASX listed Intecq & eBet Limited. Intecq & eBet Limited was acquired by Tabcorp in Dec 2016 for \$128 million. Tony served as GM Business Development Gaming Tabcorp from 2016 until July 2018.

Interest in Shares and Options

Mr Toohey and associated entities held 1,500,000 Performance Rights in MSL Solutions Limited as at 30 June 2020.

Earl Eddings - Non-Executive Director

Managing Director of The Riskcom Group, Earl was North Melbourne Cricket Club President from 2001 until November 2008. Earl has served as a Director of Cricket Australia since September 2008 and Chairman since 28 November 2018. He was a Director of Cricket Victoria from 2006-2015 and held the position of Deputy Chairman from 2008-2015. Earl also served as Co-Chair of the Victorian Indigenous Cricket Advisory Committee.

Earl Eddings is a member of the Company's Audit & Risk Committee and the Nomination & Remuneration Committee.

Interest in Shares and Options

Mr Eddings and associated entities held 2,596,622 Ordinary Shares in MSL Solutions Limited as at 30 June 2020.

Dr Richard Holzgrefe - Non-Executive Director

Richard was appointed as a non-executive Director in December 2007. He brings corporate experience across multiple industry sectors to the Company.

He joined MSL from VLRQ Pty Ltd where he served as a Director from 1998 to 2004. He was a Director of Kenlynn Property Syndicates Pty Ltd from 1997 to 2000, and co-founded The BOH Dental Group, in 1976. He left in 1997 to pursue interests in the Property and Retirement Living sectors.

He currently serves as Chairman of Verton Technologies Aust Pty Ltd and is a Director of Holmac Holdings Pty Ltd.

Richard holds a Bachelor of Dental Science degree from the University of Queensland.

Richard Holzgrefe is a member of the Company's Audit & Risk Committee and the Nomination & Remuneration Committee.

Interest in Shares and Options

Dr Holzgrefe and associated entities held 16,790,364 Ordinary Shares and 785,714 Options over Ordinary Shares in MSL Solutions Limited as at 30 June 2020.

David Trude - Non-Executive Director

David Trude joined the Board in 2017 bringing over 40 years' experience as a senior corporate executive within the banking and securities industries.

He was formerly Managing Director, Australian Chief Executive Officer/Country Manager of Credit Suisse, Australia for 10 years from 2001.

He has served as Chairman of Baillieu Holst Limited since 2010 having been a Board member since 2007, is Chairman of Waterford Retirement Village, Hansen Technologies Limited and East West Line Parks Pty Limited, a member of the Board of Chi-X Australia Pty Ltd and non-executive Director of Acorn Capital Investment Fund Limited, an ASX listed entity.

David holds a Bachelor of Commerce Degree from the University of Queensland, is a Senior Associate of the Financial Services Institute of Australasia, a member of the Australian Institute of Company Directors and Master Member of the Stockbrokers and Financial Advisers Association.

David Trude is the Chair of the Company's Nomination & Remuneration Committee.

Interest in Shares and Options

Mr Trude and associated entities held 1,000,000 Ordinary Shares in MSL Solutions Limited as at 30 June 2020.

David Usasz - Non-Executive Director

David Usasz joined the Board on 5 February 2020.

David has over 40 years' experience in business in Australia and Hong Kong, including over 20 year as a partner of PriceWaterhouseCoopers (and its predecessor organisations). He has been involved in tax, mergers and acquisitions advice and corporate advisory consultancy specialising in corporate reorganisations. He is currently Non-Executive Chairman on ASX-listed Smiles Inclusive Limited (ASX:SIL) and has previously held the position of Non-Executive Director of ASX-listed entities Cromwell Property Group, Queensland Mining Corporation Limited, GARDA Diversified Property Fund and GARDA Capital Group. David was also a Non-Executive Director of Queensland Investment Corporation (QIC).

David holds a Bachelor of Commerce from the University of Queensland and is a Fellow of the Institute of Chartered Accountants.

David Usasz is the Chair of the Company's Audit & Risk Committee.

Interest in Shares and Options

Mr Usasz and associated entities held 3,000,000 Ordinary Shares in MSL Solutions Limited as at 30 June 2020.

Kenneth John Down - Non-Executive Chairman - retired 30 August 2019

John Down was appointed as non-executive Chairman in October 2008.

In 1997 he founded Viking Industries Ltd, a multi faceted marine industrial business which was subsequently sold as a mid-cap publicly listed company to private equity in 2008. He was appointed to the position of Co-ordinator General and Director-General, in the Office of Major Projects, by the Premier of Queensland in 1993, and held this position until 1996. In 1970, John co-founded the GRM Group of Companies, a multifaceted agribusiness with operations in over 50 countries, which was also sold to private equity in 1992.

He has significant Board experience in both public and private companies. He has served as the Chairman of Asia Pacific Aircraft Storage Pty Ltd; Chairman of Nutrafruit Pty Ltd and on the Council of Brisbane Boys College. His former Board appointments include AUSTRADE (Deputy Chairman), Export Finance Insurance Corporation; QCT Resources Ltd; Anaconda Nickel Ltd; Santos Ltd – UK & USA; and Herron Pharmaceutical Advisory Board.

John holds a Bachelor of Economics from the University of Queensland and a Master of Economics from the University of New England.

Craig Kinross - Managing Director & Chief Executive Officer – resigned 20 August 2019

Craig was appointed from within MSL to the role of Managing Director and Chief Executive Officer in November 2012.

He has almost 20 years software industry experience holding various senior operations and finance management roles in successful international companies. His career also includes over 10 years' experience with global software company Mincom, which operated in over 40 countries.

He has also held corporate finance roles with Invensys Plc and Credit Suisse Financial Products in London, and prior to moving to London Craig started his career at KPMG Brisbane as an accountant in their Business Advisory Group. He holds a Bachelor of Commerce degree from the University of Queensland and is a Member of The Institute of Chartered Accountants, Australia and New Zealand.

Ian Daly - Non-Executive Director – retired 30 August 2019

Ian joined the Board in December 2009 bringing over 48 years of first hand corporate experience to MSL.

He commenced his career with John Rawlinson & Partners in 1967 as a Senior Chartered Quantity Surveyor, and over 31 years grew with the firm to become Qld Managing Director and Chairman of The Rawlinsons Group, recognised as one of Australia's leading quantity surveying and project management consultancies operating from 21 local and overseas offices.

He joined the Brisbane Marine Industry Park in 1999, then its successor Viking Industries Ltd in 2001 serving as an Executive Director to both organisations. Ian has served as a Director of Zuuse Pty Ltd, a software company servicing the infrastructure, building and asset management sectors.

Ian is a Fellow of The Royal Institution of Chartered Surveyors and a Fellow of the Australian Institute of Quantity Surveyors.

Company Secretary

Andrew Ritter was appointed as Company Secretary on 27 March 2017. Mr Ritter has approximately 20 years of international finance experience with various listed global IT & Telco organisations. Andrew is a Chartered Accountant, holds a Bachelor of Commerce degree, a Graduate Diploma of Applied Corporate Governance and is a Fellow of the Governance Institute of Australia and the International Institute of Chartered Secretaries and Administrators.

Assistant Company Secretary

David Marshall was appointed Assistant Company Secretary on 5 February 2020. Mr Marshall is the Chief Financial and Operating Officer of the Group.

Directors' Report

The Directors of MSL Solutions Limited ('MSL' or 'the Company') submit their report together with the consolidated financial report of the Company, comprising the Company and its controlled entities (together 'the Group') for the year ended 30 June 2020 and the audit report thereon.

Directors

The names of the Directors of the Company in office during the year and to the date of this report are:

| Name | Director since |
|--|-------------------------|
| Non-Executive | |
| Dr Richard Holzgrefe | 18 December 2007 |
| Mr David Trude | 9 March 2017 |
| Mr Earl Eddings | 30 April 2019 |
| Mr David Usasz | 5 February 2020 |
| Mr Kenneth (John) Down | Retired 30 August 2019 |
| Mr Ian Daly | Retired 30 August 2019 |
| Executive | |
| Mr Anthony (Tony) Toohey (Chairman) | 1 September 2019 |
| Mr Craig Kinross (Managing Director & Chief Executive Officer) | Resigned 20 August 2019 |

Principal activities

MSL Solutions Limited (ASX: MSL) is a software-as-a-service (SaaS) provider in the sports, leisure and technology sectors.

MSL generates revenues from external customers through the sale of software, hardware, professional services, advertising, subscription annuities and customer contract annuities. Revenue from these services relate to the sale of the Group's own internally generated software in addition to third party suppliers of software and hardware.

MSL operates with three main product pillars: Point of Sale (POS), Analytics and Engagement.

MSL's POS system connects customers to venues using mobile and contactless entry, ordering and payment solutions. It extends POS beyond traditional terminals using its own technology on a single integrated system. Using this system then delivers analytics that customers can use to reduce costs and drive increased revenue by helping venues understand and engage with their customers.

Financial Results

Revenue from ordinary activities was \$25.1 million in FY20, down \$2.7 million or 9.8% on last year's revenue of \$27.8 million. This was due to the Company exiting non-core business lines but also encountering a difficult trading environment due to COVID-19 in Q4FY20.

EBITDA in FY20 was a significant improvement on the previous year, with FY20 EBITDA loss of \$0.9 million representing a \$4.7 million year-on-year improvement. MSL achieved positive EBITDA of \$0.25 million in 2HFY20. This was a significant achievement given that COVID-19 affected operating conditions during this period. Refer to key financial results table on page 9 for further details.

Despite the second half improved performance, the full year (with impairment and one-off restructure costs) recorded a Net Loss after income tax of \$16.4 million.

FY20 recorded an impairment charge against goodwill of \$10.7 million as at 31 December 2019. An additional significant Expected Credit Loss provision was booked during 1HFY20 of \$0.6 million relating to sales and revenue from prior periods. A restructuring charge was also booked in 1HFY20 of \$0.9 million as management took the initial steps to right size the business for future profitable growth.

MSL ended the period with cash at bank of \$3.8 million, with undrawn standby facilities of \$0.5 million.

Operational Review

Following a strategic review announced in August 2019, the first half of 2020 saw the business reduce its costs more in line with its predictable recurring revenue, review non-core products and businesses, address its working capital and cash position and review the balance sheet.

This process dominated the six months to 31 December 2019, however, it provided the Company with a new baseline to deliver sustainable growth and a return to profitability moving forward. Priorities for the 2020 calendar year were identified as:

- Managing operating expenses as a ratio to recurring revenues;
- Reviewing non-core products and businesses;
- Assessing opportunities to transition from a reseller to MSL owning its own intellectual property; and
- Improving the quality and strength of pipeline opportunities.

During 2HFY20, MSL disposed of its iSeekGolf.com website and business to NBC/GolfNow which provided a gain on disposal of \$1.312 million, net of costs.

The global COVID-19 pandemic impacted business operations to some extent, however Golf business was largely unaffected as revenues are generated by Golf memberships rather than Golf activities. The business right sizing and cash improvements undertaken by the Company during Q2FY20 and Q3FY20 allowed a rapid response to managing MSL's cost base in line decreased revenue as a consequence of COVID-19's economic impact.

MSL applied for support under the Australian Federal Government's Job Keeper program and the UK Government Coronavirus Job Retention Scheme which contributed to the COVID-19 Government subsidies received of \$881k for the year. These amounts were not included in the EBITDA results for the year. These payments are expected to continue into 1QFY21.

The Company identified further reductions in its operating cost base with a permanent reduction in salary costs resulting in an 18% (\$3.3 million) decrease in headcount expenses before government subsidy benefits.

In May 2020, MSL announced the signing of a five-year reseller agreement with Addvance IT Limited, which owns Kappture POS software, hardware and payment technologies. The strategic agreement will allow MSL to resell across Europe and Asia-Pacific.

Kappture is a UK-based entity which develops stadium and events specific point of a sale and payments technologies enabling multiple touch points including mobile, tablets and kiosks. Its flagship customers include Twickenham, Crowe Park, Lords, Ascot and Cheltenham racecourses.

This agreement will see MSL's recently established MPowerMSL UK Limited leverage the Kappture technologies across UK, Ireland and Mainland Europe; and MSL will exclusively market and promote Kappture technologies throughout Australia, NZ and East Asia.

This strategic relationship broadens MSL's POS product offering, providing a purpose-built SaaS POS solution for the stadium and events operators. It will enable MSL to expand its global market penetration into stadium and large event venues (current penetration is less than 5%). Kappture's technology is tailored to high volume operations and can be integrated with MSL's own technologies in analytics, in-seat ordering and inventory management.

Key Financial Results

The table below provides a summary of the FY20 results, with a comparison to the prior year's statutory performance:

| | 1H FY20 | 2H FY20 | FY20 | FY19 |
|---|-----------------|---------------|-----------------|-----------------|
| | A\$'000 | A\$'000 | A\$'000 | A\$'000 |
| Recurring Revenue | 8,849 | 9,054 | 17,903 | 17,625 |
| Non-Recurring Revenue | 4,060 | 3,095 | 7,155 | 10,144 |
| Revenue from ordinary activities | 12,909 | 12,149 | 25,058 | 27,769 |
| Other income | (17) | 38 | 21 | 21 |
| Cost of sales | (3,702) | (2,920) | (6,622) | (7,785) |
| Gross margin | 9,190 | 9,267 | 18,457 | 20,005 |
| Operating expenses | (10,385) | (9,012) | (19,397) | (25,597) |
| EBITDA * | (1,195) | 255 | (940) | (5,592) |
| Depreciation and amortisation | (2,833) | (2,796) | (5,629) | (4,872) |
| Restructure and transaction costs | (936) | 4 | (932) | (246) |
| Expected credit loss - prior period | (616) | | (616) | |
| Impairment expense | (10,672) | | (10,672) | (11,500) |
| Proceeds from Sale of Zuuse shares | | | | 3,071 |
| Iseek Golf Sale (net of costs) | | 1,312 | 1,312 | |
| Release of Deferred Consideration | | 165 | 165 | |
| COVID-19 related Government subsidies | | 881 | 881 | |
| EBIT | (16,252) | (179) | (16,431) | (19,139) |
| Net finance income/(costs) | (139) | (91) | (230) | (22) |
| NPBT | (16,391) | (270) | (16,661) | (19,161) |
| Income tax benefit | 776 | (517) | 259 | 1,219 |
| NPAT | (15,615) | (787) | (16,402) | (17,942) |

*The EBITDA for 1HFY20 has been adjusted from the 31 December 2019 Financial Statements for 1HFY20 capitalisation of Research & Development Costs consistent with prior periods.

* EBITDA excludes the effects of significant non-recurring items of income and expenditure which may have an impact on the quality of earnings such as restructuring and transaction costs, material credit loss provision increase relating to sales and revenue from prior periods, impacts from fair value movements through the income statement (including impairment of goodwill), gains resulting from acquisition accounting and proceeds from disposal of assets (net of costs).

Dividends

No dividends were paid to shareholders during the financial year, and no dividend has been declared or paid subsequent to the end of the financial year.

Measures of profitability and basis of preparation

The accounting policies adopted in the preparation of this report are summarised in Note 22 of the Financial Statements.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Company during the financial year, other than those disclosed in this report.

Subsequent events

The following matter has arisen since the end of the financial year which may materially affect operations of MSL, the results of those operations, or the state of affairs of MSL in future financial years.

Post year-end, in August 2020, MSL signed a three year revenue sharing Merchant Agreement with leading ‘buy now pay later’ (BNPL) payment solution provider Openpay Group Ltd (ASX: OPY, ‘Openpay’).

Openpay is a well-established player in the fast-growing global market for BNPL payment solutions and partners with merchants to provide repayment plans to customers in-store, in-app and online, allowing customers to make purchases while spreading repayments over time with no interest costs.

The agreement will see MSL integrate Openpay’s BNPL offering with MSL’s golf and membership products in Australia. This allows participating golf clubs to include Openpay’s BNPL plans as a payment option for member subscription fees whilst enhancing golf clubs’ operating cashflows.

MSL agreed to partner during this period with Openpay on a basis that excludes Openpay’s competitors in the Australian market. Openpay will pay for the platform functionality to be established, and the parties agreed to revenue sharing terms which will see Openpay pay MSL an annual rebate of fees payable to Openpay during each preceding year.

The Openpay payments and commissions from Tyro emphasize the opportunity MSL has with its customer base to drive increased revenue. MSL has over 1220 customers but each of those customers also have customers reaching into the thousands. The ability for MSL to leverage the transactional value being used in their systems is only at its infancy.

Future developments, prospects and opportunities

Information regarding the Company’s future developments, prospects and business opportunities is included in the report above. Overall, MSL will continue to focus on returning the business to growth by expanding sales of the MSL Connect Solution Platform and further management of operating expenses as it continues to review and optimise its portfolio of products and businesses. It will also assess opportunities to move from a being a reseller to owning its own IP and continue to convert and improve the quality and strength of its pipeline.

Environmental issues

The Directors have considered climate related risks and do not currently consider that there is an associated material risk to the Group’s operations and the amounts recognised in the financial statements. The Group continues to monitor climate related and other emerging risks and the potential impact on the financial statements.

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

| | Board | | Audit & Risk Committee | | Nomination & Remuneration Committee | |
|-------------------|----------|----------|------------------------|----------|-------------------------------------|----------|
| | Eligible | Attended | Eligible | Attended | Eligible | Attended |
| John Down | 3 | 2 | - | - | - | - |
| Craig Kinross | 1 | 1 | - | - | - | - |
| Ian Daly | 3 | 3 | 2 | 2 | - | - |
| Richard Holzgrefe | 13 | 13 | 3 | 3 | 2 | 2 |
| David Trude | 13 | 12 | 2 | 1 | 2 | 2 |
| Earl Eddings | 13 | 11 | 2 | 2 | 2 | 2 |
| David Usasz | 5 | 5 | 1 | 1 | - | - |
| Tony Toohey | 10 | 10 | - | - | - | - |

Corporate Governance Statement

A copy of the Company's Corporate Governance Statement is available on the Company's website at <https://mpowermsl.com/corporate-governance/>

Remuneration report - audited

The information provided in the remuneration report relates to the Company for the year ended 30 June 2020 and has been audited as required by section 308(3C) of the *Corporations Act (2001)*.

The directors present the MSL Solutions Limited FY20 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded. This report is structured as follows:

1. Remuneration Highlights
2. Key management personnel covered in this report
3. Remuneration policy and link to performance
4. Elements of remuneration
5. Link between remuneration and performance
6. Remuneration expenses for executive KMPs
7. Contractual arrangements with executive KMPs
8. Non-executive director arrangements
9. Additional Statutory information

1. Remuneration Highlights

Performance Highlights

Revenue from ordinary activities of \$25.1m (down 9.8% on FY19)

Revenue from ordinary activities was \$25.1 million in FY20, down 9.8% on last year's revenue of \$27.8 million. This was due to the Company exiting non-core business lines but also encountering a difficult trading environment due to COVID-19 in Q4FY20. Recurring Revenue of \$17.9 million was resilient with growth in the Golf and Venues operations in EMEA.

Net Profit after Tax (NPAT) of \$(16.4)m (up \$1.5 m or 8.6% on FY19)

NPAT of \$(16.4) million was up \$1.5m in FY20. FY20 recorded an impairment charge against goodwill of \$10.7 million at 31 December 2019. An additional expected credit loss provision was booked during 1HFY20 of \$0.6 million relating to sales and revenue from prior periods. A restructuring charge was also booked in 1HFY20 of \$0.9 million as management took the initial steps to right size the business for future profitable growth.

Remuneration Highlights

Executive Chairman Remuneration – Tony Toohey

FY20 remuneration agreement:

- \$2,300 per day – 1 ½ days per week (ex GST) on average
- As a response to the COVID-19 pandemic, the Executive Chairman agreed to a 20% reduction in fees from April-June 2020.

CEO Remuneration – Patrick Howard

Total FY20 annualised remuneration was \$295K, as:

- base salary of \$275k
- leave & other benefits of \$20k
- As a response to the COVID-19 pandemic the CEO agreed to not take a salary from April-June 2020.

CFO/COO Remuneration – David Marshall

Total FY20 annualised remuneration was \$321K, as:

- base salary of \$300k
- leave & other benefits of \$21k
- probation bonus of \$20k applied in December 2019
- As a response to the COVID-19 pandemic, the CFO/COO agreed to a 20% reduction in salary from April-June 2020.

LTI Incentive Plan

Options and Performance Rights held by Directors and Key Management Personnel as at 30 June 2020:

| | |
|----------------------------------|-----------------------------|
| Options (vested and exercisable) | 785,714 (FY19: 2,657,142) |
| Performance Rights (unvested) | 3,100,000 (FY19: 1,060,000) |

Non-Executive Director Fees

Total Non-Executive Director remuneration for FY20 was \$170,400 and within the maximum aggregate amount of \$250,000 approved by shareholders. As a response to the COVID-19 pandemic, all Non-Executive Directors agreed to a 20% reduction in fees from April – June 2020.

2. Key management personnel covered in this report

2.1 Non-executive and executive directors

Non-Executive Directors

Richard Holzgrefe

David Trude

Earl Eddings

David Usasz (appointed 5 February 2020)

Executive Directors

Tony Toohey Executive Chairman (appointed 1 September 2019)

2.2 Other key management personnel (KMP)

2.3 Key Management Personnel (KMP)

Patrick Howard ¹ Chief Executive Officer

David Marshall ² Chief Financial and Operating Officer

¹ Mr. Howard commenced as Chief Executive Officer on 19 August 2019.

² Mr. Marshall commenced as Chief Financial and Operating Officer on 23 September 2019.

3. Remuneration policy and link to performance

The remuneration committee is made up of independent non-executive directors and was formed post the successful listing of MSL Solutions Limited on the Australian Stock Exchange. It is the role of the committee to review and determine the remuneration policy and structure annually to ensure it remains aligned to business needs, and meets the Company's remuneration principles. From time to time, the committee may also engage external remuneration consultants to assist with this review.

In particular, the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent,
- aligned to the Company's strategic and business objectives and the creation of shareholder value,
- transparent and easily understood, and
- acceptable to shareholders.

Figure 1: Remuneration Framework

| Element | Purpose | Performance | Potential value | Changes for FY20 |
|-----------------------------------|--|------------------------------------|--|--|
| Fixed remuneration (FR) | Provide competitive market salary including superannuation and non-monetary benefits | Nil | Positioned at median market rate | Reviewed in line with market positioning |
| Short Term Incentive (STI) | Cash based reward for in-year performance | EBITDA for business unit and Group | CEO: 30% of FR Execs: 10%-30% of FR | STIs paid on over-achievement of FY20 Corporate EBITDA. Self-funding model to preserve cash. |
| Long Term Incentive (LTI) | Alignment to long-term shareholder value | Increase in shareholder value | CEO: 20% of FR Execs: 5-20% of FR | Change to vesting performance hurdles. |

3.1 Balancing short-term and long-term performance in FY20

Supporting the achievement of forecast financial targets, good cash management, and increasing shareholder value, balanced with the value of retaining key talent, the performance hurdles within the remuneration elements for FY20 were altered.

- STI payment structure was modified to promote cross business collaboration, ownership of in-year business performance, and to preserve and promote cash returns to the business. The incentive was moved to a self-funding models where payments start to accrue once EBITDA targets have been achieved. Each dollar EBITDA (prior to R&D adjustment) earned over the company EBITDA target, is split evenly between the Company and the Incentive Pool. STI payments became capped to ensure maximum company return.
- LTI performance hurdles were altered in balance to the STI change. Tenure and vesting price were changed to promote more meaningful targets for key personnel, tenure, and long-term shareholder return.
- During the year, Share Equivalent Rights were issued to non-management personnel, promoting tenure and recognition for all levels of personnel, and share price performance.

The Board will continue to review the target remuneration mix for the CEO, KMP and other management personnel to ensure remuneration packages are consistent with the mix used by other public listed companies in the Software sector.

3.2 Assessing performance

The remuneration committee is responsible for determining the performance requirements and calculation mechanism used to provide STI and LTI rewards based on performance. To assist in this assessment, the committee receives detailed reports on performance from management which are based on independently verifiable data such as financial measures and data from independently run surveys, such as the Australian Information Industry Association salary survey produced by Aon Hewitt.

In the event of serious misconduct or a material mis-statement in the Company's financial statements, the remuneration committee can cancel or defer performance-based remuneration.

4. Elements of remuneration

4.1 Fixed annual remuneration (FR)

Executives generally receive their fixed remuneration as cash. FR is reviewed annually, or on promotion. It is benchmarked against market data for comparable roles in companies in a similar industry, using the Australian Information Industry Association salary survey produced by Aon Hewitt including consideration for employees residing in different markets. The committee aims to position executives at or near the median, with flexibility to take into account capability, experience, and value to the organisation and performance of the individual.

For all executives, superannuation is included in FR.

During FY20, fixed remuneration was adjusted for the following KMPs:

- Chief Executive Officer – the total remuneration package and remuneration mix is under the median level for comparative roles; and
- Chief Financial and Operating Officer – the total remuneration package and remuneration mix is consistent with the median level for comparative roles.

4.2 Short-term incentives

STIs are set as a percentage of fixed remuneration, in accordance with industry benchmarks, to drive achievement of annual targets, without encouraging undue risk-taking. Current STIs for the CEO and KMPs have been based on achievement of revenue and EBITDA targets, and have been set at 10% to 30% of FR.

Figure 2: Structure of the Short Term Incentive Plan

| Feature | Description | | | |
|---------------------|---|--------|-----------|---|
| Maximum opportunity | CEO and other executives: 10% - 30% of fixed remuneration (FR). | | | |
| Performance metrics | The STI metrics align with our strategic priority of consistent achievement of financial targets. | | | |
| Applicability | Metric | Target | Weighting | Reason for selection |
| | EBITDA | Group | 100% | Reflects profitable growth in line with forecast. |
| Payment | Any STI award is payable in cash in the first month after release of the audited results for the financial year. | | | |
| Calculation | <p>Less than 100% of target – no STI earned.</p> <p>At 100% of target – STI starts to accrue as per below</p> <p>Incentive payments are self-funding and begin to accrue once the company has achieved target EBITDA (prior to R&D adjustment) achievement of the FY20 audited results. Each dollar EBITDA (prior to R&D adjustment) earned over the company EBITDA target, will be split evenly between the Company and the Incentive Pool. This incentive pool will then be divided between the eligible employees on a pro-rata basis capped at the amount the employee is eligible for.</p> | | | |
| Board discretion | The Board has discretion to adjust remuneration outcomes up or down as they see fit to prevent any inappropriate reward outcomes, including reducing (down to zero, if appropriate) any STI award. | | | |

4.3 Long-term incentives

Executive KMP and other management personnel participate, at the Board's discretion, in the Company's long-term incentive plan ("LTIP"), which may be in the form of options or performance rights. The Board considers performance hurdles as part of the vesting considerations. LTIs are allocated by the Board and assessed on an annual basis to promote long term shareholder return.

The Board maintains that the Group's target remuneration mix for the CEO, KMP and other management personnel is appropriate and consistent with the mix used by other public listed companies in the Software sector, including the use of grants for the purpose of LTI. The Board allocated LTI grants during FY20, in line with these targets.

Figure 3: Structure of the LTIP

| Feature | Description |
|--|---|
| Opportunity / Allocation | The value of LTIP will be determined based on an independent market salary survey. The number of shares or performance rights to be allocated under the LTIP will be determined using the Black-Scholes method for valuation of LTIPs. |
| Performance hurdle / Vesting Conditions | Have a mixture of tenure at vesting periods and performance hurdles as detailed in Section 9.2.2 below. |
| Vesting Date and Forfeiture | Performance rights granted during FY20 have expiry dates from 23 September 2023 to 1 September 2024. Performance rights will be forfeited on cessation of employment unless the Board determines otherwise (e.g. retirement due to injury, disability, death or redundancy). |

5. Link between remuneration and performance

5.1 Statutory performance indicators

MSL aims to align our executive remuneration to our strategic and business objectives and the creation of shareholder wealth. The Company's annual financial performance and indicators of shareholder wealth for the current financial period are listed below. As the Company listed in May 2017, these performance measures have not been included for prior financial periods. However, these measures are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Figure 4: Statutory Performance Indicators

Statutory Performance indicators

| | FY20 | FY19 | FY18 |
|---------------------------|--------|--------|-------|
| EBITDA (\$'mil) | (0.9) | (5.6) | 3.5 |
| NPAT | (16.4) | (17.9) | (0.4) |
| Dividends per share (cps) | Nil | Nil | Nil |
| Earnings per share (cps) | (5.6) | (7.2) | (0.1) |

Earnings before Interest, Taxation, Depreciation & Amortisation (EBITDA) is a measure used for assessing statutory performance since the Group recognises computer software and customer contracts from acquisitions and capitalised software development costs as intangible assets that are amortised to the income statement.

EBITDA provides a normalised view of the operations closely aligned to cash generation by excluding the effects of significant non-recurring items of income and expenditure which may have an impact on the quality of earnings such as restructuring and transaction costs, material credit loss provision increase relating to sales and revenue from prior periods, impacts from fair value movements through the income statement (including impairment of goodwill), gains resulting from acquisition accounting and proceeds from disposal of assets (net of costs).

The Company's share price on listing was \$0.25 per share, and the share price as at 30 June 2020 was \$0.056 per share, down from \$0.12 per share as at 30 June 2019.

6. Remuneration expenses for KMP

The following table shows details of the remuneration expense recognised for the Group's key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

Figure 5: Executive remuneration

| Name | Year | Cash Salary | Fixed remuneration Non-monetary benefits | Annual & long service leave | Post employee benefits | Other | Cash bonus | Options | Variable remuneration Shares | Total | % performance related |
|-----------------------------|-------------|----------------|--|--------------------------------|------------------------------|---------------|---------------|---------------|---------------------------------|----------------|-----------------------------|
| Executive Directors | | | | | | | | | | | |
| Tony Toohey ¹ | 2020 | 192,050 | - | - | - | - | - | - | 30,313 | 222,363 | 14% |
| | 2019 | - | - | - | - | - | - | - | - | - | 0% |
| Craig Kinross ² | 2020 | 39,113 | - | (191) | 4,707 | - | - | - | - | 43,629 | 0% |
| | 2019 | 265,892 | - | (2,142) | 19,651 | - | - | 23,975 | - | 307,376 | 8% |
| Other Key Management | | | | | | | | | | | |
| Patrick Howard ³ | 2020 | 157,590 | - | 10,187 | 13,780 | - | - | - | 31,932 | 213,489 | 15% |
| | 2019 | - | - | - | - | - | - | - | - | - | 0% |
| David Marshall ⁴ | 2020 | 215,769 | - | 13,522 | 17,891 | - | 18,265 | - | 14,959 | 280,406 | 12% |
| | 2019 | - | - | - | - | - | - | - | - | - | 0% |
| James Aleman ⁵ | 2020 | 23,558 | - | 8,368 | 8,221 | 62,500 | - | - | - | 102,647 | 0% |
| | 2019 | 245,346 | - | 5,382 | 23,308 | - | - | 21,406 | - | 295,442 | 7% |
| Darren Basford ⁶ | 2020 | 130,500 | - | - | - | - | - | - | - | 130,500 | 0% |
| | 2019 | 121,500 | - | - | - | - | - | - | - | 121,500 | 0% |
| TOTAL | 2020 | 758,580 | - | 31,886 | 44,599 | 62,500 | 18,265 | - | 77,204 | 993,034 | |
| TOTAL | 2019 | 632,738 | - | 3,240 | 42,959 | - | - | 45,381 | - | 724,318 | |

¹ Mr. Toohey commenced as Executive Chairman on 1 September 2019.

² Mr. Kinross resigned as Managing Director and Chief Executive Officer on 20 August 2019 at which time he ceased to be a KMP.

³ Mr. Howard commenced as Chief Executive Officer on 19 August 2019.

⁴ Mr. Marshall commenced as Chief Financial and Operating Officer on 23 September 2019.

⁵ Mr. Aleman ceased in his role as Chief Operating Officer on his termination on 2 August 2019.

⁶ Mr. Basford was Acting Chief Financial Officer until the appointment of Mr Marshall on 23 September 2019.

7. Contractual arrangements with Executive KMPs

| Component | CEO | Other KMP |
|---|---|---------------------------------------|
| Fixed Remuneration | \$295,000 | Range between \$200,000 and \$325,000 |
| Contract Duration | Ongoing contract | Ongoing contract |
| Notice by the individual/Company | 6 months | 3 months |
| Termination of employment (without cause) | Entitlement to pro-rata STI for the year (if applicable). The Board has discretion to award a greater or lower amount. | |
| Termination of employment (with cause) or by the individual | STI is not awarded, and all unvested LTI will lapse. | |

Different contractual terms apply to the following individuals:

| | |
|-----------------------|---|
| Tony Toohey | Services are provided under a Services Contract that incorporates the Executive Chairman duties. Mr Toohey has a notice period of 30 days, and is responsible for appropriate insurances. |
| Darren Basford | Services are provided under a Services Contract that incorporates the CFO duties. Mr Basford had a notice period of 30 days, and is responsible for appropriate insurances. |

8. Non-executive Director arrangements

Non-executive directors receive a fixed Board fee inclusive of superannuation and no additional fees for chairing or participating on Board committees (refer to the table below). 785,714 options were granted to Richard Holzgrefe in previous financial years.

The Chairman does not receive additional fees for participating in or chairing committees, and Non-executive directors do not receive performance-based pay or any other allowances.

Fees are reviewed annually by the Board taking into account comparable roles and market data provided by the Board's independent remuneration adviser. The current base fees were reviewed prior to the Company's IPO and remain in effect.

In FY20 Directors received a 20% fee reduction in line with company employees during the April-June Quarter. This was in response to the COVID-19 crisis and subsequent business cash management initiatives.

The maximum annual aggregate directors' fee pool limit of \$250,000 was approved by shareholders at the Company's annual general meeting on 30 November 2015 and has not increased.

| Base fees | |
|---------------------------------|----------|
| Chair | \$48,000 |
| Other Non-executive Directors | \$48,000 |
| Additional fees | |
| Audit committee – Chair | Nil |
| Audit committee – Member | Nil |
| Remuneration committee – Chair | Nil |
| Remuneration committee – Member | Nil |

All non-executive directors have entered 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 officeholding of director.

Figure 6: Non-executive director remuneration

| Name | Year | Cash Salary | Fixed remuneration | | | | Variable remuneration | | | Total | % performance related |
|------------------------------|------|-------------|-----------------------|-----------------------------|------------------------|-------|-----------------------|---------|--------|---------|-----------------------|
| | | | Non-monetary benefits | Annual & long service leave | Post employee benefits | Other | Cash bonus | Options | Shares | | |
| Non-executive Directors | | | | | | | | | | | |
| Richard Holzgrefe | 2020 | 45,600 | - | - | - | - | - | - | - | 45,600 | 0% |
| | 2019 | 48,000 | - | - | - | - | - | - | - | 48,000 | 0% |
| Earl Eddings ¹ | 2020 | 45,600 | - | - | - | - | - | - | - | 45,600 | 0% |
| | 2019 | 8,000 | - | - | - | - | - | - | - | 8,000 | 0% |
| David Trude | 2020 | 41,644 | - | - | 3,956 | - | - | - | - | 45,600 | 0% |
| | 2019 | 43,836 | - | - | 4,164 | - | - | - | - | 48,000 | 0% |
| David Usasz ² | 2020 | 17,600 | - | - | - | - | - | - | - | 17,600 | 0% |
| | 2019 | - | - | - | - | - | - | - | - | - | 0% |
| John Down ³ | 2020 | 8,000 | - | - | - | - | - | - | - | 8,000 | 0% |
| | 2019 | 48,000 | - | - | - | - | - | - | - | 48,000 | 0% |
| Ian Daly ⁴ | 2020 | 8,000 | - | - | - | - | - | - | - | 8,000 | 0% |
| | 2019 | 48,000 | - | - | - | - | - | - | - | 48,000 | 0% |
| Kaylene Gaffney ⁵ | 2020 | - | - | - | - | - | - | - | - | - | 0% |
| | 2019 | 25,571 | - | - | 2,429 | - | - | - | - | 28,000 | 0% |
| TOTAL | 2020 | 166,444 | - | - | 3,956 | - | - | - | - | 170,400 | 0% |
| | 2019 | 221,407 | - | - | 6,593 | - | - | - | - | 228,000 | 0% |

¹ Mr. Eddings commenced as Non-Executive Director on 30 April 2019.

² Mr. Usasz commenced as Non-Executive Director on 5 February 2020.

³ Mr. Down retired as Chairman and Non-Executive Director on 30 August 2019.

⁴ Mr. Daly retired as Non-Executive Director on 30 August 2019.

⁵ Ms. Gaffney resigned as Non-Executive Director on 30 January 2019.

9. Additional statutory information

9.1 Performance based remuneration granted & forfeited during the year

Figure 7 shows for each KMP how much of their STI cash bonus was awarded and how much was forfeited. It also shows the value of options that were granted and forfeited during FY20.

Figure 7: Performance based remuneration granted and forfeited during the year

| KMP | Position | Short Term Incentive | | | Long Term Incentive | | |
|-----------------------------|---------------|----------------------|-----------|---------|---------------------|-----------|---------|
| | | Total Opportunity | Forfeited | Awarded | Total Opportunity | Forfeited | Awarded |
| Craig Kinross ¹ | MD & CEO | 140,000 | 100% | 0% | 120,848 | 120,848 | - |
| Tony Toohey | Exec Chairman | n/a | n/a | n/a | 166,800 | - | 166,800 |
| Patrick Howard | CEO | 88,916 | 100% | 0% | 74,000 | - | 74,000 |
| David Marshall | KMP | 100,000 | 100% | 0% | 78,000 | - | 78,000 |
| James Aleman ² | KMP | 85,000 | 100% | 0% | 107,900 | 107,900 | - |
| Darren Basford ³ | KMP | n/a | n/a | n/a | n/a | n/a | n/a |

¹ Mr. Kinross resigned as Managing Director and CEO on 20 August 2019 and transitioned to Director of Strategy role until his resignation on 31 March 2020.

² Mr. Aleman ceased in his role as Chief Operating Officer on his termination on 2 August 2019.

³ Mr. Basford was Acting Chief Financial Officer until the appointment of Mr. Marshall on 23 September 2019.

9.2 Terms and conditions of the share-based payment arrangements

9.2.1 Employee Option Plan

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

| Grant date | Vesting & exercise date | Expiry date | Exercise price | Value per option at grant date | % Vested |
|------------|-------------------------|-------------|----------------|--------------------------------|----------|
| 18-Dec-15 | 18-Dec-15 | 18-Dec-20 | \$0.217 | \$0.096 | 100% |
| 21-Oct-15 | 21-Oct-15 | 21-Oct-20 | \$0.308 | \$0.035 | 100% |
| 30-May-16 | 30-May-16 | 30-May-21 | \$0.308 | \$0.035 | 100% |
| 15-May-17 | 15-May-17 | 15-May-22 | \$0.350 | \$0.063 | 100% |

The number of options over ordinary shares in the Company provided as remuneration to key management personnel is shown in figure 8 below. The options carry no dividend or voting rights until exercised.

When exercisable, each option is convertible into one ordinary share of MSL Solutions Limited.

The exercise price for options granted 18 December 2015, was approved by shareholders at the AGM held November 2015 and related to grants of options to Directors as reward for their significant financial support and contributions over many years and as an incentive for future performance.

The exercise price of all other option grants to date, was based on a 40% uplift over the previous traded price at the time of granting the option. The Board deemed that this was a reasonable estimate of achievable growth as an unlisted entity.

9.2.2 Share Performance Rights

The terms and conditions of each grant of Share Performance Rights affecting remuneration in the current or a future reporting period are as follows:

| Grant Date | Vesting Date | Expiry date | Exercise price | Value per right at grant date | % Vested |
|------------|--------------|-------------|----------------|-------------------------------|----------|
| 06-Dec-18 | 30-Jun-20 | 30-Jul-22 | \$0.00 | \$0.2158 | 0% |
| 24-Sep-19 | 13-Dec-22 | 01-Sep-24 | \$0.00 | \$0.1112 | 0% |
| 23-Sep-19 | 19-Aug-21 | 23-Sep-23 | \$0.00 | \$0.0740 | 0% |
| 23-Sep-19 | 23-Sep-23 | 23-Sep-23 | \$0.00 | \$0.1300 | 0% |

The number of Share Performance Rights issued to key management personnel is shown in figure 9 below. The Share Performance Rights carry no dividend or voting rights until exercised.

When exercisable, each Share Performance Right is convertible into one ordinary share of MSL Solutions Limited.

The approved value of the performance rights granted on 20 December 2018 at a value of \$0.2158 was \$927,940. These rights have a performance hurdle of a cumulative annual growth rate of total shareholder return of 10% over the vesting period.

The approved value of the performance rights granted on 24 September 2019 at a value of \$0.1112 was \$166,800. These rights were approved at the Company's AGM on 27 November 2019 with the following conditions:

| Tranche | Number | Performance Condition by expiry date |
|---------|---------|---|
| 1 | 225,000 | MSL's share price (30d VWAP) equals or exceeds \$0.25 |
| 2 | 425,000 | MSL's share price (30d VWAP) equals or exceeds \$0.30 |
| 3 | 425,000 | MSL's share price (30d VWAP) equals or exceeds \$0.35 |
| 4 | 425,000 | MSL's share price (30d VWAP) equals or exceeds \$0.40 |

The approved value of the performance rights granted on 23 September 2019 at a value of \$0.0740 was \$74,000.

The approved value of the performance rights granted on 23 September 2019 at a value of \$0.1300 was \$78,000.

9.3 Rights to deferred shares

There are no rights to deferred shares for either Directors, key management personnel, or staff.

9.4 Reconciliation of options, performance rights and ordinary shares held by KMP

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY20. All vested options were exercisable.

Figure 8: Options held by Directors and KMP

| Name | Balance at the start of the year | Balance on resignation | Balance at the end of the year | Vested and exercisable |
|-------------------|----------------------------------|------------------------|--------------------------------|------------------------|
| John Down | 785,714 | (785,714) | - | - |
| Richard Holzgrefe | 785,714 | - | 785,714 | 785,714 |
| Ian Daly | 785,714 | (785,714) | - | - |
| James Aleman | 300,000 | (300,000) | - | - |
| | 2,657,142 | (1,871,428) | 785,714 | 785,714 |

No amounts are unpaid on any shares issued on the exercise of Options.

Figure 9: Performance Rights held by Directors and KMP

| Name | Balance at the start of the year | Other changes during the year | Balance at the end of the year | Unvested |
|----------------|----------------------------------|-------------------------------|--------------------------------|------------------|
| Craig Kinross | 560,000 | (560,000) | - | - |
| James Aleman | 500,000 | (500,000) | - | - |
| Tony Toohey | - | 1,500,000 | 1,500,000 | 1,500,000 |
| Patrick Howard | - | 1,000,000 | 1,000,000 | 1,000,000 |
| David Marshall | - | 600,000 | 600,000 | 600,000 |
| | 1,060,000 | 2,040,000 | 3,100,000 | 3,100,000 |

No amounts are unpaid on any shares issued on the exercise of Performance Rights.

Figure 10: Shareholdings held by Directors and KMP

| Name | Balance at the start of the year | Other changes during the year | Balance on resignation | Balance at the end of the year |
|-------------------|----------------------------------|-------------------------------|------------------------|--------------------------------|
| John Down | 7,385,347 | - | (7,385,347) | - |
| Richard Holzgrefe | 13,267,071 | 3,523,293 | - | 16,790,364 |
| Ian Daly | 9,214,286 | - | (9,214,286) | - |
| David Trude | 300,000 | 700,000 | - | 1,000,000 |
| Earl Eddings | 73,622 | 2,523,000 | - | 2,596,622 |
| Craig Kinross | 10,748,271 | - | (10,748,271) | - |
| James Aleman | 40,000 | - | (40,000) | - |
| David Usasz | - | 3,000,000 | - | 3,000,000 |
| Patrick Howard | - | 650,000 | - | 650,000 |
| | 41,028,597 | 10,396,293 | (27,387,904) | 24,036,986 |

The above table includes consolidated holdings as held by the Directors and key management personnel. None of the shares above are held nominally by the directors or any of the other key management personnel.

9.5 Loans given to/from key management personnel

During the financial year there were no loans made to directors of MSL Solutions Limited and other key management personnel of the group, including their close family members and entities related to them.

9.6 Reliance on external remuneration consultants

During FY20, Crichton and Associates was engaged to provide a review of the executive remuneration for executives and Key Management Personnel.

9.7 Voting of shareholders at last year's annual general meeting

The Company's annual general meeting was held on 27 November 2019. A resolution was put to shareholders to pass the adoption of the Company's remuneration report, which was passed. Proxy votes received were 95.18% in favour of the resolution.

This is the end of the audited remuneration report.

Indemnifying Directors and Officers

During the financial year, the Company paid a premium of \$76,575 to insure the Directors and Officers of the Company. The terms of the insurance contract prevent additional disclosure.

In addition, the Company has entered into Deeds of Access, Insurance Indemnity which ensure the Directors and Officers of the Company will incur, to the extent permitted by law, no monetary loss as a result of defending the actions taken against them as Directors and Officers.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings. The Company was not a party to any such proceedings during the year.

Non-audit services

The Board of Directors, in accordance with advice from the Audit and Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act (2001)*. The Company's auditor did not provide any non-audit services during the financial year.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

Grant Thornton Audit Pty Limited

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | 2020 \$AUD | 2019 \$AUD |
|--|----------------|----------------|
| Audit and review of financial statements | 174,528 | 395,790 |
| Other assurance services | - | 20,000 |
| Total remuneration for audit and other assurance services | 174,528 | 415,790 |
| Total Remuneration Australia | 174,528 | 415,790 |

Network firms

1. Audit and other assurance services

United Kingdom

| | 2020 \$AUD | 2019 \$AUD |
|--|---------------|---------------|
| Audit and review of financial statements | 56,604 | 60,548 |
| Total remuneration for audit and other assurance services | 56,604 | 60,548 |

Denmark

| | 2020 \$AUD | 2019 \$AUD |
|--|---------------|---------------|
| Audit and review of financial statements | 18,868 | 19,000 |
| Tax and filing fees | - | 6,000 |
| Total remuneration for audit and other assurance services | 18,868 | 25,000 |
| Total Remuneration of network firms | 75,472 | 85,548 |

Grant Thornton Audit Pty Limited were appointed the company auditor for the FY20 year (FY19: PricewaterhouseCoopers Australia).

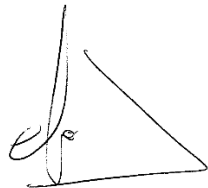
Lead Auditor's Independence Declaration

The lead Auditor's independence declaration can be found on the page following this Directors' report and forms part of the Directors' report for the year ended 30 June 2020.

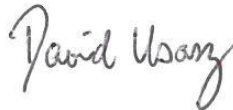
Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



Tony Toohey
Executive Director and Chairman



David Usasz
Director

Dated at Brisbane this 15th day of September 2020.

Auditor's Independence Declaration

To the Directors of MSL Solutions Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of MSL Solutions Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



CDJ Smith
Partner – Audit & Assurance

Brisbane, 15 September 2020

Financial Statements

Consolidated Statement of Profit or Loss & Other Comprehensive Income

| | Note | 30 Jun 20 A\$'000 | 30 Jun 19 A\$'000 |
|---|------|----------------------|----------------------|
| Revenue | 3a | 25,058 | 27,769 |
| Other income | 3a | 1,498 | 3,092 |
| Cost of sales | | (6,622) | (7,785) |
| Sales and marketing expenses | | (4,270) | (6,322) |
| Customer support and technical services | | (4,581) | (7,551) |
| Research and development expenses | | (4,169) | (5,710) |
| General and administration expenses | | (6,055) | (5,900) |
| Other gains and expenses (net) | | (13) | (57) |
| Net Impairment losses on financial and contract assets | | (44) | (57) |
| Depreciation expense | 7a | (59) | (117) |
| Amortisation expense - Intangible assets | 7b | (4,830) | (4,755) |
| Amortisation expense - Right-of-use assets | | (740) | - |
| Impairment expense | 7b | (10,672) | (11,500) |
| Transaction and restructuring costs | 4 | (932) | (246) |
| Finance costs | | (230) | (22) |
| (Loss) before income tax | | (16,661) | (19,161) |
| Income tax benefit/(expense) | | 259 | 1,219 |
| (Loss) for the year | | (16,402) | (17,942) |
| Other comprehensive income for the year | | 95 | 59 |
| Total comprehensive (loss) for the year | | (16,307) | (17,883) |
| Loss attributable to: | | | |
| Owners of MSL Solutions Limited | | (16,307) | (17,883) |
| | | (16,307) | (17,883) |
| Total comprehensive (loss) for the period attributable to: | | | |
| Owners of MSL Solutions Limited | | (16,307) | (17,883) |
| | | (16,307) | (17,883) |
| EARNINGS PER SHARE FROM LOSS FROM CONTINUING OPERATIONS | | | |
| ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY | | | |
| Basic earnings per share (cents) | | (5.6) | (7.2) |
| Diluted earnings per share (cents) | | (5.6) | (7.2) |

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

Consolidated Statement of Financial Position

| | Note | 30 Jun 20 | 30 Jun 19 |
|--------------------------------------|------|---------------|---------------|
| | | A\$'000 | A\$'000 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 6c | 3,806 | 2,284 |
| Trade and other receivables | 6a | 5,015 | 5,610 |
| Contract assets | 6a | 398 | 1,766 |
| Prepaid income tax | | 39 | - |
| Other current assets | | 1,120 | 890 |
| Total current assets | | 10,378 | 10,550 |
| Non-current assets | | | |
| Receivables | 6b | 1,200 | 646 |
| Contract assets | 6b | 707 | 818 |
| Property, plant and equipment | 7a | 189 | 222 |
| Right of Use Asset | 7c | 2,640 | - |
| Intangible assets | 7b | 13,543 | 27,974 |
| Deferred tax asset | 7d | - | 1,314 |
| Other non-current assets | | 34 | 115 |
| Total non-current assets | | 18,313 | 31,089 |
| Total assets | | 28,691 | 41,639 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 6d | 3,363 | 4,712 |
| Lease Liability | 6e | 414 | - |
| Borrowings | 6f | 543 | 833 |
| Provisions | 7e | 1,394 | 1,411 |
| Income tax payable | | - | 217 |
| Contract liabilities | 3b | 5,125 | 6,298 |
| Total current liabilities | | 10,839 | 13,471 |
| Non-current liabilities | | | |
| Borrowings | 6f | 554 | 914 |
| Lease Liability | 6e | 2,601 | - |
| Deferred tax liability | 7d | 716 | 2,051 |
| Provisions | 7e | 96 | 292 |
| Total non-current liabilities | | 3,967 | 3,257 |
| Total liabilities | | 14,806 | 16,728 |
| Net assets | | 13,885 | 24,911 |
| EQUITY | | | |
| Contributed equity | 8a | 66,186 | 61,003 |
| Reserves | 8b | 2,923 | 2,730 |
| Accumulated losses | 8c | (55,224) | (38,822) |
| Total equity | | 13,885 | 24,911 |

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

Consolidated Statement of Changes in Equity

| | Contributed equity | Retained earnings | Foreign currency translation reserve | Share-based payment reserve | Total equity |
|---|-----------------------|----------------------|---|-----------------------------------|-----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance as at 30 June 2018 | 60,988 | (21,004) | 2,383 | 103 | 42,470 |
| Change in accounting policies | | | | | |
| Restatements - AASB9 impact | - | 124 | | | 124 |
| Total restatements due to change in accounting policies | - | 124 | - | - | 124 |
| Total comprehensive loss for the period | | | | | |
| Loss for the period | - | (17,942) | - | - | (17,942) |
| Other comprehensive income | - | - | 59 | - | 59 |
| Total comprehensive loss for the period | - | (17,942) | 59 | - | (17,883) |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs | 15 | - | - | - | 15 |
| Share-based payments expense | - | - | - | 185 | 185 |
| Total transactions for the period | 15 | - | - | 185 | 200 |
| Balance as at 30 June 2019 | 61,003 | (38,822) | 2,442 | 288 | 24,911 |
| Total comprehensive loss for the period | | | | | |
| Loss for the period | - | (16,402) | - | - | (16,402) |
| Other comprehensive income | - | - | 96 | - | 96 |
| Total comprehensive loss for the period | - | (16,402) | 96 | - | (16,306) |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs | 5,183 | - | - | - | 5,183 |
| Dividends paid | - | - | - | - | - |
| Share-based payments expense | - | - | - | 97 | 97 |
| Total transactions for the period | 5,183 | - | - | 97 | 5,280 |
| Balance as at 30 June 2020 | 66,186 | (55,224) | 2,538 | 385 | 13,885 |

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

Consolidated statement of cash flows

| | 30 Jun 20 \$'000 | 30 Jun 19 \$'000 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Receipts from customers | 26,391 | 30,492 |
| Payments to suppliers, employees and others | (28,041) | (36,366) |
| Restructure Costs | (925) | - |
| Finance costs | (269) | (101) |
| Interest received | 112 | 80 |
| Income tax paid | (52) | - |
| Government grants and tax incentives | 661 | - |
| Net cash flows used in operating activities | (2,123) | (5,895) |
| Cash flows from investing activities | | |
| Capital expenditure | (27) | (90) |
| Purchase of intangibles | (1,110) | (448) |
| Acquisition of subsidiaries, net of cash & cash equivalents | (180) | (3,828) |
| Loans to other entities | 212 | - |
| Proceeds for disposal of assets | 100 | - |
| Proceeds from disposal of investment | 652 | 4,248 |
| Net cash flows used in investing activities | (353) | (118) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | - | 1,594 |
| Repayment of borrowings | (532) | (40) |
| Proceeds from issue of share capital | 5,431 | - |
| Costs paid on issuance of share capital | (221) | - |
| Lease principle repayments | (513) | - |
| Net cash flows from financing activities | 4,165 | 1,554 |
| Net cash (outflow) for the year | 1,689 | (4,459) |
| Cash at beginning of the year | 2,130 | 6,647 |
| Effect of foreign exchange | (13) | (58) |
| Cash at end of the year | 3,806 | 2,130 |

The above consolidated statement of cashflows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

The financial statements were approved for issue by the directors on 15 September 2020. The Directors have the power to amend and re-issue the financial statements.

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

1. Changes in accounting policies

The Group has adopted all the new or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

a) Impact on the financial statements

The Group transitioned to AASB16 'Leases' on 1 July 2019 on the modified retrospective approach in which the comparative period is not restated. The Group recognised a Right-of-Use Asset of \$3.381m on the 1 July 2019 and a Lease Liability of \$3.529 m.

When measuring lease liabilities, the Group discounted lease payments using a discount rate of 6.5%.

| | Lease liability \$'000 |
|--|---------------------------|
| Operating lease commitment at 30 June 2019 | 6,912 |
| Discounted using the incremental borrowing rate at 1 July 2019 | 5,244 |
| Lease options not exercised | (1,715) |
| Current lease liability | 551 |
| Non current lease liability | 2,978 |
| Opening Balance 1 July 2019 | 3,529 |
| Principal element of lease payments | (514) |
| Interest element of lease payments | (212) |
| Current lease liability | 414 |
| Non current lease liability | 2,601 |
| Closing Balance 30 June 2020 | 3,015 |

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with an amortisation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and amortisation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The comparative information has not been restated and continues to be reported under AASB 117. The details of accounting policies under AASB 117 are disclosed separately if they are different from those under AASB 16.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

Leases classified as operating leases under AASB 117

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Adjusted the right-of-use asset by the amount of AASB 137 onerous contract provision immediately before the date of application, as an alternative to an impairment review;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As at the date of this report, the Group has entered into a new lease with a commencement date 1 July 2020. The Right-of-Use Asset and Lease Liability calculation for this lease have not been included as at 30 June 2020 but will be included on its effective date of 1 July 2020.

b) Summary of significant accounting policies

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the amortisation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Critical accounting judgements, estimates and assumptions

Right of use assets

Management have assessed which leases with the options to renew or reasonably likely to be renewed. In the event these renewals do not take place, there may be a significant impact on the right of use asset and associated liability.

2. Segment information

a) Description of segments and principal activities

The Group's executive management team, consisting of the Executive Director & Chairman, Chief Executive Officer, Chief Financial and Operating Officer, Executive General Manager – Product and Support, Executive General Manager – Research & Development and General Manager – Human Resources, examines the Group's performance from an industry perspective with entities in similar markets grouped on a global basis. The following are the identified reportable segments:

1. **MPower Venue:** services the stadia and arena and registered clubs (excluding golf clubs) on a global basis.
2. **MPower Golf:** services the golf clubs and associations market on a global basis.
3. **Corporate:** provides corporate governance overheads for all other segments on a global basis.

Note – the segment of Emerging Markets was discontinued as announced in August 2019 as part of the Board led strategic review.

Management primarily uses a measure of revenue and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) to assess the performance on a monthly basis. Information about their key performance indicators is detailed below.

b) Segment revenue and Segment Adjusted EBITDA

| Year ended 30 June 2020 | MPower Venue AS'000 | MPower Golf AS'000 | Emerging Markets AS'000 | Corporate AS'000 | Total AS'000 |
|---------------------------------|------------------------|-----------------------|----------------------------|---------------------|-----------------|
| Revenue from external customers | 15,571 | 9,487 | - | - | 25,058 |
| Timing of revenue | | | | | |
| At a point in time | 5,740 | 1,415 | - | - | 7,155 |
| Over time | 9,831 | 8,072 | - | - | 17,903 |
| Other revenue | - | - | - | 21 | 21 |
| Adjusted EBITDA | 8,654 | 7,519 | - | (15,113) | (940) |

| Year ended 30 June 2019 | MPower Venue AS'000 | MPower Golf AS'000 | Emerging Markets AS'000 | Corporate AS'000 | Total AS'000 |
|---------------------------------|------------------------|-----------------------|----------------------------|---------------------|-----------------|
| Revenue from external customers | 17,519 | 10,250 | - | - | 27,769 |
| Timing of revenue | | | | | |
| At a point in time | 8,018 | 2,126 | - | - | 10,144 |
| Over time | 9,501 | 8,124 | - | - | 17,625 |
| Other revenue | - | - | - | 21 | 21 |
| Adjusted EBITDA | 7,177 | 7,150 | (358) | (19,561) | (5,592) |

Segment Adjusted EBITDA excludes the effect of significant items which may have an impact on the quality of earnings such as transaction costs and the net effect of foreign exchange and fair value movements through the income statement.

Geographical earnings

Revenue of Verteda Limited of \$7,182k was primarily derived from the United Kingdom. The original currency of pounds sterling has been converted to the presentation currency of the Group at 30 June 2020 as per the Group's accounting policy detailed in Note 22.

Revenue of GolfBox A/S of \$3,649k was primarily derived from Scandinavian and European countries. The original currency of Danish krone has been converted to the presentation currency of the Group at 30 June 2020 as per the Group's accounting policy detailed in Note 22.

c) Segment Adjusted EBITDA reconciliation to profit/(loss) before tax

| Reconciliation of segment adjusted EBITDA to Profit /(Loss) before income tax | 30 Jun 20 | 30 Jun 19 |
|--|-----------------|-----------------|
| | A\$'000 | A\$'000 |
| Segment adjusted EBITDA | (940) | (5,592) |
| Proceeds from sale of Zuuse shares (net of cost) | - | 3,071 |
| Proceeds from sale of Iseek Golf (net of cost) | 1,312 | - |
| COVID-19 related government subsidies | 881 | - |
| Release of deferred consideration | 165 | - |
| Transaction and restructuring costs | (932) | (246) |
| Expected credit loss - prior period | (616) | - |
| Finance costs (net) | (230) | (22) |
| Depreciation & amortisation | (5,629) | (4,872) |
| Impairment of Goodwill | (10,672) | (11,500) |
| Loss before income tax | (16,661) | (19,161) |

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same ways as in the consolidated statement of profit or loss and other comprehensive income.

Refer to Note 4 for further details on the above significant items (excluding depreciation and amortisation).

3. Revenue from contracts with customers

a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

| | 30 Jun 20 | 30 Jun 19 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| <i>Recurring Revenue</i> | | |
| Customer contracts annuities | 9,650 | 9,761 |
| Subscription annuities | 8,253 | 7,864 |
| Total - Recurring revenue | 17,903 | 17,625 |
| <i>Non-recurring revenue</i> | | |
| Booking Fees | 190 | 190 |
| System Installations | 2,126 | 2,518 |
| Software Fees and Royalties | 1,178 | 1,740 |
| Hardware Fees | 3,304 | 4,984 |
| Advertising | 201 | 484 |
| Other | 156 | 228 |
| Total - Non-recurring revenue | 7,155 | 10,144 |
| Revenue from Operating Activities | 25,058 | 27,769 |
| <i>Other Income</i> | | |
| Gain on sale of an asset - Iseek Golf (net of costs) | 1,312 | - |
| Gain on sale of an asset - Zuuse | - | 3,071 |
| Gain on reversal of earnout provision/sale of asset | 165 | 10 |
| Settlement of professional matters/export grant income | 21 | 11 |
| Total | 1,498 | 3,092 |

Revenues from external customers comes from the sale of software, hardware, professional services, advertising, subscription annuities and customer contract annuities. The revenue from these services relate to the sale of the Group's own internally generated software in addition to third party suppliers of software and hardware.

As at the 30 June 2020, the earnout of a historical acquisition of \$165k was not met and reversed out. Consequently, there are no remaining deferred consideration liabilities.

b) Assets and liabilities related to contract with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

| | 30 Jun 20 | 30 Jun 19 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| Current contract asset relating to fulfilled contracts | 401 | 1,785 |
| Loss allowance | (3) | (19) |
| Total current contract assets | 398 | 1,766 |
| Non-current contract assets relating to fulfilled contracts | 719 | 842 |
| Loss allowance | (12) | (24) |
| Total non-current contract assets | 707 | 818 |
| Total contract assets | 1,105 | 2,584 |
| Current contract liabilities - post sales support | 4,895 | 6,027 |
| Current contract liabilities - customer monies held | 230 | 271 |
| Total current contract liabilities | 5,125 | 6,298 |
| Total contract liabilities | 5,125 | 6,298 |

i. Significant changes in contract assess and liabilities

The Group recognised a loss allowance for contract asses following the adoption of AASB 9.

Contract liabilities relate to the post sales contracted support and subscription services that have been invoiced but yet to be fulfilled. IT consulting contracts comprise those contracts where work remains to be completed that has been invoiced.

ii. Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

| | 30 Jun 20 | 30 Jun 19 |
|---|-----------|-----------|
| | \$'000 | \$'000 |
| Revenue recognised that was included in the contract liability balance at the beginning of the period | | |
| Post sales support | 6,027 | 5,840 |
| Customer monies held | 25 | 34 |

c) Accounting policies and significant judgements

The Group recognises revenue from either individual or multiple element arrangements such as hosting and installation, an assessment is made as to whether these give rise to separate performance obligations which are accounted for using the methods outlined below for each individual element contained within the contract.

Customer contracts annuities – (contract liability)

Timing of recognition: The Group recognises the revenue from customer care and support contracts over the period of time governed by the contract, as the customer is receiving and consuming the benefit provided over that time. Customers are invoiced prior to the commencement of the support period with this invoiced amount deferred until support has been provided.

Measurement of revenue: Revenue is measured per supported license module. Various modules have differing support prices. The Group has a cancellation policy of 90 days.

Subscription annuities – (contract liability)

Timing of recognition: The Group recognises the revenue from SaaS or subscription contracts over the period of time governed by the contracts from which the customer is receiving and consuming benefits. Customers receive several products or services that are not distinct from each other and as such are recognised as a bundled arrangement. Customers are invoiced prior to the commencement of the subscription period with this invoiced amount deferred until the service has been provided.

Measurement of revenue: Revenue is measured for each subscription license module. Various modules have differing subscription prices.

Booking fees/referral fees

Timing of recognition: The Group accounts for booking and referral revenue when the booking or referral has been completed. This revenue is recognised at a point in time when all obligations have been met.

Measurement of revenue: Booking and referral revenue is based on commission charged for products and services to be provided by a third party, this is an agency arrangement where MSL is acting as an agent for these providers. As such the net revenue of the agency arrangement is recognised.

System installations/professional services – (contract liability/contract asset)

Timing of recognition: Revenue from system installations is recognised over a period of time governed by when the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (input method). Depending on the billing arrangements with customers MSL either holds a contract liability or contract asset for this revenue.

Measurement of revenue: Estimates of revenues, cost or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in the estimated revenues or costs are reflected in

profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Judgements: The Group has determined that it is a separate performance obligation where:

- the services are generic;
- they could be provided by a third party; and
- they do not significantly modify the software or hardware provided to the customer.

Software fees and royalties (contract asset)

Timing of recognition: The Group sells a range of software applications on a perpetual license basis. Sales are recognised when control of the software has been transferred to the customer enabling them to direct the use of the transferred asset. As such revenue is recognised at a point in time once this obligation is complete. The software license is provided as a distinct service that can be individually measured.

Measurement of revenue: Revenue from sales is based on the price specified in the fixed price agreement, net of any discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for discounts and returns.

Hardware fees (contract asset)

Timing of recognition: The Group sells a large range of hardware applications. Sales are recognised when control of the hardware has been transferred to the customer enabling them to direct the use of the transferred asset. As such revenue is recognised at a point in time once this obligation is complete. The hardware is provided as a distinct service that can be individually measured.

Measurement of revenue: Revenue from sales is based on the price specified in the fixed price agreement, net of any discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for discounts and returns.

Advertising (contract asset)

Timing of recognition: The Group recognises revenue over a period of time governed by when the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (input method). Depending on the billing arrangements with customers MSL either holds a contract liability or contract asset for this revenue.

Measurement of revenue: Revenue is measured in line with the executed insertion orders.

4. Other significant income and expense items

The Group has identified the following items included in the Consolidated Statement of Profit or Loss, which are material due to the significance of their nature and/or amount:

| | Consolidated | |
|---|-----------------|-----------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Accounting gains included in other income | | |
| Gain on reversal of earnout provisions/sale of assets | 165 | 10 |
| Settlement of professional matters/grant income | 21 | 11 |
| Gain on sale of investments (net of costs) - Iseek Golf | 1,312 | - |
| Gain on sale of investments - Zuuse | - | 3,071 |
| | 1,498 | 3,092 |
| Significant expense items | | |
| Transaction and restructuring costs | (932) | (246) |
| Expected credit loss - prior period | (616) | - |
| Foreign exchange gains / (losses) | (13) | (57) |
| | (1,561) | (303) |
| Employee benefits expenses* | | |
| Salaries and wages including on costs | (11,625) | (15,443) |
| Superannuation and pension contributions | (870) | (1,010) |
| Annual and long service leave expense | (47) | (108) |
| Share based payments | (97) | (184) |
| Government stimulus # | 881 | - |
| | (11,758) | (16,745) |

*Employee benefits expenses are included in the Consolidated Statement of Profit and Loss and Other Comprehensive Income in Sales and marketing expenses, Customer support and technical services, Research and development expenses, General and administration expenses

The Company received Australian Federal Government Jobkeeper payments of \$571k, Australian state Payroll Tax refunds of \$69k and UK Government Coronavirus Job Retention Scheme payments of \$AUD 241k related to Government support of COVID-19 impact.

5. Income tax expense/(benefit)

a) Income tax expense/(benefit)

| | Consolidated | |
|--|--------------|----------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Income tax expenses/(benefit) | | |
| Current tax (benefit) expense | 13 | 97 |
| Deferred tax (benefit) expense | (113) | (1,725) |
| Adjustments for current tax expense of prior period | (273) | (238) |
| Adjustments for deferred tax expense of prior period | 114 | 647 |
| Total income tax expense/(benefit) | (259) | (1,219) |
| Decrease (increase) in deferred tax assets | 1,314 | (914) |
| (Decrease) increase in deferred tax liabilities | (1,427) | (811) |
| Total deferred tax expense/(benefit) | (113) | (1,725) |

b) Numerical reconciliation of income tax expense to prima facie tax payable

| | Consolidated | |
|--|--------------|----------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Profit/(loss) from continuing operations before income tax expense | (16,661) | (19,162) |
| Tax at the Australian tax rate of 27.5% | (4,582) | (5,270) |
| - Fair value movement on financial liability at fair value through profit and loss | - | - |
| - Transaction costs | 47 | 48 |
| - Sale of Iseek Golf | 326 | - |
| - Expected credit loss - prior year | 169 | - |
| - Gain on reversal of earnout provision | 45 | - |
| - R&D tax incentive | - | (47) |
| - Impairment of goodwill | 2,935 | 3,163 |
| - Other | 505 | 287 |
| | (555) | (1,819) |
| - Adjustments for income tax expense at prior period | 273 | 410 |
| - Change in tax rate | - | (11) |
| - Difference in tax rate of foreign jurisdictions | 23 | 201 |
| Total income tax expense/(benefit) | (259) | (1,219) |

i. Recognition and measurement

MSL Solutions Limited and its wholly-owned Australian subsidiaries have formed a tax consolidated group, and accordingly these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The income tax expense or benefit for the year represents the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted for permanent differences, and any net movements in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax benefit is calculated on the basis of the tax laws enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation

is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income, or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

ii. Estimates and judgements

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain at the time of the transaction/calculation. The Group estimates its tax liabilities based on the Group's understanding of the taxation legislation in each jurisdiction it operates, and where the final tax outcome of these matters is different from the amounts that were initially recorded, any difference will impact the current and/or deferred income tax assets and liabilities in the period the initial determination was made.

In addition, the Group recognises deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy the necessary tests relating to utilisation of tax losses.

For the incentives and deductions available for eligible research and development expenditure, the Group has exercised judgement and calculated an estimate of the eligible expenditure in both Australia and the United Kingdom and included the estimated tax credit and additional tax deduction in its tax calculations for the reporting period.

6. Financial assets and liabilities

The Group holds the following financial assets and liabilities:

| Financial assets | | Assets at fair value through profit and loss | Financial assets at amortised cost | Total |
|-----------------------------|---------|--|------------------------------------|--------|
| 2020 | Notes | \$'000 | \$'000 | \$'000 |
| Trade and other receivables | 6a & 6b | - | 6,215 | 6,215 |
| Cash and cash equivalents | 6c | - | 3,806 | 3,806 |

| Financial assets | | Assets at fair value through profit and loss | Financial assets at amortised cost | Total |
|-----------------------------|---------|--|------------------------------------|--------|
| 2019 | Notes | \$'000 | \$'000 | \$'000 |
| Trade and other receivables | 6a & 6b | - | 6,256 | 6,256 |
| Cash and cash equivalents | 6c | - | 2,284 | 2,284 |

| Financial Liabilities | | Liabilities at fair value through profit and loss | Liabilities at amortised cost | Total |
|--------------------------|-------|---|-------------------------------|--------|
| 2020 | Notes | \$'000 | \$'000 | \$'000 |
| Trade and other payables | 6d | - | 3,363 | 3,363 |
| Lease liability | 6e | - | 3,015 | 3,015 |
| Borrowings | 6f | - | 1,097 | 1,097 |

| Financial Liabilities | | Liabilities at fair value through profit and loss | Liabilities at amortised cost | Total |
|--|-------|---|-------------------------------|--------|
| 2019 | Notes | \$'000 | \$'000 | \$'000 |
| Trade and other payables | 5d | - | 4,712 | 4,712 |
| Borrowings | 5f | - | 1,747 | 1,747 |
| Contingent Consideration - Earnout provision | | 345 | - | 345 |

The Group's exposure to various risks associated with the financial instruments is discussed in Note 11. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

a) Current financial assets

| | Consolidated | |
|-------------------------------|--------------|-----------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Trade receivables | 5,463 | 5,521 |
| Loan receivable | 433 | 272 |
| Receivable - Sale of Business | 189 | - |
| Loss allowance | (1,070) | (183) |
| | 5,015 | 5,610 |

| | Consolidated | |
|-----------------|--------------|-----------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Contract assets | 401 | 1,785 |
| Loss allowance | (3) | (19) |
| | 398 | 1,766 |

i. Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. In general, trade receivables are due for settlement within 30 days, however in some circumstances the Group has granted extended terms of up to 90 days and for one particular customer a six-month term has been granted. Accordingly, all trade receivables are all classified as current. The Group's accounting policies in relation to trade receivables are outlined in Note 22 and further details on the expected credit loss are outlined in note 11b.

ii. Fair value of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

iii. Impairment and risk exposure

The Group routinely assesses the collectability of its current financial assets and has recorded an expected credit loss of \$1,073k for the reporting period.

b) Non-current financial assets

| | Consolidated | |
|-------------------------------|--------------|-----------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Trade receivables | - | 40 |
| Receivable - sale of business | 997 | - |
| Loan receivable | 212 | 633 |
| Loss Allowance | (9) | (27) |
| Total non-current receivables | 1,200 | 646 |

| | Consolidated | |
|-----------------------------------|--------------|-----------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Contract assets | 719 | 842 |
| Loss Allowance | (12) | (24) |
| Total non-current contract assets | 707 | 818 |

i. Fair value of contract assets

Due to the short-term nature of the majority of the Group's contract assets, their carrying amount is considered to be the same as their fair value. These contracts are classified as contracts without significant financing components.

In addition to contract assets without significant financing the Group carries several contract assets that due to their long-term nature their fair value is not equivalent to their carrying value. These contracts are classified as contract assets with significant financing components.

ii. Impairment and risk exposure

The Group routinely assesses the collectability of its non-current financial assets and has included an estimated credit loss of \$21k for the reporting period.

c) Cash and cash equivalents

i. Reconciliation to cash flow statement

The figures in the table shown below reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year, as follows:

| | Consolidated | |
|---------------------------|--------------|--------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Cash and cash equivalents | 3,806 | 2,284 |
| Overdrafts | - | (154) |
| | <u>3,806</u> | <u>2,130</u> |

ii. Classification as cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest. Refer to Note 22 for the Group's other accounting policies on cash and cash equivalents.

d) Trade and other payables

| | Consolidated | |
|----------------|--------------|--------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Current | | |
| Trade payables | 1,429 | 2,593 |
| Other payables | 1,934 | 2,119 |
| | <u>3,363</u> | <u>4,712</u> |

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to the short-term nature.

e) Lease liability

| | Consolidated | |
|--------------------|--------------|-----------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Current | | |
| Lease liability | 414 | - |
| Non-Current | | |
| Lease liability | 2,601 | - |
| | <u>3,015</u> | <u>-</u> |

Lease liabilities have arisen due to the adoption of AASB16 and are measured at the present value of the remaining lease payments discounted at the Group's incremental borrowing rate.

| | 30 Jun 20 | 30 Jun 19 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Commitments for minimum lease payments in relation to non-cancellable leases are as follows: | | |
| Within one year | 414 | 789 |
| Later than one year but not later than five years | 954 | 3,355 |
| Later than five years | 1,647 | 2,768 |
| | <u>3,015</u> | <u>6,912</u> |

The Group leases various offices under non-cancellable leases expiring within 6 months to five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

f) Borrowings

| | Consolidated | |
|---|--------------|--------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Current | | |
| Secured | | |
| Bank overdraft - unsecured | - | 154 |
| Bank bill loan - secured | 543 | 667 |
| Lease liabilities - secured | - | 12 |
| Total secured current borrowings | 543 | 833 |
| Non-current | | |
| Secured | | |
| Bank bill loan - secured | 554 | 914 |
| Total secured non-current borrowings | 554 | 914 |
| Total borrowings | 1,097 | 1,747 |
| Finance lease - non-cancellable | | |
| Payable: | | |
| Within one year | - | 13 |
| Later than one year but not later than 5 years | - | - |
| Total future minimum lease payments | - | 13 |
| Total future finance charges | - | (1) |
| Lease liabilities | - | 12 |
| Lease liabilities are represented in the financial statements as follows: | | |
| Current | - | 12 |
| | - | 12 |

i. Bank bill loan

The Company put in place a \$2m facility with Westpac in October 2018, with an indicative interest rate of 6.6% and amortisation of the limit over 36 months. There are no financial covenants and the facility is secured by a general securities agreement over the Australian entities of the MSL Group. The Company has received approval from Westpac under the banks COVID-19 relief to defer monthly amortisation payments for 6 months. During this period, interest will continue to accrue and be capitalised against the loan balance. The facility term will extend a further 6 months to April 2022 to maintain the monthly amortisation payments.

The loan is a variable rate, Australian-dollar denominated loan which is carried at amortised cost. It therefore did not have any impact on the Group's exposure to foreign exchange and cash flow interest rate risk.

7. Non-financial assets and liabilities

a) Property, plant and equipment

| | Leasehold improvements | Plant and equipment | Furniture Fixtures & Fittings | Motor Vehicle | Total |
|---------------------------------|---------------------------|------------------------|----------------------------------|---------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 1 July 2018 | | | | | |
| Cost or fair value | 60 | 1,462 | 364 | 24 | 1,910 |
| Accumulated depreciation | (14) | (1,346) | (280) | (21) | (1,661) |
| Net book amount | 46 | 116 | 84 | 3 | 249 |
| Year ending 30 June 2019 | | | | | |
| Opening net book amount | 46 | 116 | 84 | 3 | 249 |
| Exchange differences | - | - | 6 | - | 6 |
| Additions | - | 80 | 4 | - | 84 |
| Depreciation charge | (7) | (64) | (45) | (1) | (117) |
| Closing net book amount | 39 | 132 | 49 | 2 | 222 |
| At 30 June 2019 | | | | | |
| Cost or fair value | 60 | 1,542 | 374 | 24 | 2,000 |
| Accumulated depreciation | (21) | (1,410) | (325) | (22) | (1,778) |
| Net book amount | 39 | 132 | 49 | 2 | 222 |
| Year ending 30 June 2020 | | | | | |
| Opening net book amount | 39 | 132 | 49 | 2 | 222 |
| Exchange differences | - | - | (1) | - | (1) |
| Additions | - | - | 29 | - | 29 |
| Disposals | - | - | - | (2) | (2) |
| Depreciation charge | (11) | (39) | (9) | - | (59) |
| Closing net book amount | 28 | 93 | 68 | - | 189 |
| At 30 June 2020 | | | | | |
| Cost or fair value | 60 | 1,542 | 402 | 24 | 2,028 |
| Accumulated depreciation | (32) | (1,449) | (334) | (24) | (1,839) |
| Net book amount | 28 | 93 | 68 | - | 189 |

i. Revaluation, depreciation methods and useful lives.

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets and capitalised leased assets is depreciated on a diminishing value basis over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset

- Plant and equipment 27% - 50%
- Furniture, fixtures and fittings 20% - 30%
- Leasehold improvements 7.5% - 30%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Refer to Note 22 for all other accounting policies relevant to property, plant and equipment.

b) Intangible assets

| | Goodwill | Computer software, other | Formation expenses | Contracts and customer relationships | Total |
|-----------------------------------|----------|--------------------------|--------------------|--------------------------------------|----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 1 July 2018 | | | | | |
| Cost or fair value | 21,789 | 9,910 | 2 | 24,132 | 55,833 |
| Accumulated amortisation | - | (5,145) | - | (7,361) | (12,506) |
| Net book amount | 21,789 | 4,765 | 2 | 16,771 | 43,327 |
| Period ending 30 June 2019 | | | | | |
| Opening net book amount | 21,789 | 4,765 | 2 | 16,771 | 43,327 |
| Disposals | - | - | - | - | - |
| Exchange differences | 225 | 43 | - | 186 | 454 |
| Additions | - | 448 | - | - | 448 |
| Amortisation | - | (1,378) | - | (3,377) | (4,755) |
| Impairment | (11,500) | - | - | - | (11,500) |
| Closing net book amount | 10,514 | 3,878 | 2 | 13,580 | 27,974 |
| As at 30 June 2019 | | | | | |
| Cost or fair value | 22,014 | 10,401 | 2 | 24,318 | 56,735 |
| Accumulated impairment | (11,500) | - | - | - | (11,500) |
| Accumulated amortisation | - | (6,523) | - | (10,738) | (17,261) |
| Net book amount | 10,514 | 3,878 | 2 | 13,580 | 27,974 |
| Period ending 30 June 2020 | | | | | |
| Opening net book amount | 10,514 | 3,878 | 2 | 13,580 | 27,974 |
| Disposals | - | - | - | - | - |
| Exchange differences | 158 | (169) | - | (28) | (39) |
| Additions | - | 1,110 | - | - | 1,110 |
| Amortisation | - | (1,486) | - | (3,344) | (4,830) |
| Impairment | (10,672) | - | - | - | (10,672) |
| Closing net book amount | - | 3,333 | 2 | 10,208 | 13,543 |
| As at 30 June 2020 | | | | | |
| Cost or fair value | 22,172 | 11,342 | 2 | 24,290 | 57,806 |
| Accumulated impairment | (22,172) | - | - | - | (22,172) |
| Accumulated amortisation | - | (8,009) | - | (14,082) | (22,091) |
| Net book amount | - | 3,333 | 2 | 10,208 | 13,543 |

i. Amortisation methods and useful lives.

The Group amortises intangible assets with a limited useful life using the straight-line method over the following period/rates:

- Software – 2.5 to 6 years
- Customer contracts – 3 to 11 years

See Note 22 for the other accounting policies relevant to intangible assets and for the Group's policy regarding impairments.

ii. Customer contracts

The customer contracts were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis on the timing of projected cash flows of the contracts over their estimated useful lives.

iii. Significant estimate: useful life of Software acquired

Software was acquired as part of a business combination and was recognised at fair value at the date of acquisition and is subsequently amortised on a straight-line basis over an eight-year period from date of acquisition. This has been estimated as the weighted average of the expected obsolescence of the acquired software.

iv. Significant estimate: capitalised development

Costs that are directly associated with the development of software are recognised as an intangible asset when the following criteria are met:

- a) The technical feasibility of completing the intangible asset is achieved so that it will be available for use or sale;
- b) The Company intends to complete the intangible asset and then use or sell it;
- c) The Company has the ability to use or sell the intangible asset;
- d) The Company knows how the intangible asset will generate probable economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- e) Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- f) The Company is able to measure reliably the expenditure attributable to the intangible asset during its development.

The relevant costs include personnel and other directly attributable costs incurred in the development of software. Capitalised software development costs are recognised as an intangible asset and amortised over their estimated useful lives, which is considered to be 60 months. Capitalised software development costs are amortised from when the products to which they relate become available to use. Research costs are expensed as incurred and are largely made up of employee labour which is included in research and development costs in the statement of comprehensive income. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

The Group capitalised \$1,110k in FY20 for the development of software that satisfied the conditions above and commenced amortization during the year.

v. Impairment tests for goodwill

As part of the ongoing annual assessment of goodwill by management the Group considers the relationship between its net recoverable amount of its cash generating units based upon discounted cash flows of 5-year forecast EBITDAs and its book value, among other factors, when reviewing for indicators of impairment. As at the half-year ended 31 December 2019, present values of the future values of the MPower Venue and MPower Golf CGUs was below aggregate book value of its intangible assets and net tangible assets excluding cash, indicating a potential impairment of goodwill for these CGUs. Based on this shortfall an impairment charge of \$10.7m is included in the statement of profit or loss under impairment charges.

A segment-level summary of the goodwill allocation is presented below with the associated allocation of the Group impairment charge to the relevant segment.

| | Consolidated | |
|--------------|--------------|-----------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Mpower Golf | - | 4,648 |
| Mpower Venue | - | 5,866 |
| Total | - | 10,514 |

vi. *Significant estimate: key assumptions used for fair value calculations*

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The recoverable amount of a subsidiary is determined based on fair value calculations that require the use of assumptions. The calculations use cash flow projections based on a one-year financial budget approved by the Board and cash flow projections by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions for those segments that have significant goodwill allocated to them:

| | Consolidated | | | |
|------------------------|--------------|-------|-------|-------|
| | 2020 | | 2019 | |
| | Range | | Range | |
| Long term growth rate | 2.0% | 3.5% | 2.0% | 2.0% |
| Post tax discount rate | 16.0% | 16.0% | 16.0% | 16.0% |

Management has determined the values assigned to key assumptions as follows:

| Assumption | Approach used to determine values |
|----------------------------|--|
| Revenue | Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development. |
| EBITDA | Based on past performance and management's expectations for the future. |
| Annual capital expenditure | Expected cash costs in the CGUs. This is based on the historical experience of management. No incremental revenue or cost savings are assumed in the fair value model as a result of this expenditure. |
| Long-term growth rate | Above forecast inflation in each of the countries the Group operates. |
| Post-tax discount rates | Reflect specific risks relating to the relevant segments and the countries in which they operate. This rate is derived from the Group's Weighted Average Cost of Capital (WACC) that takes into account both debt and equity. The cost of equity is derived from expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. The segment and geographic specific risk is incorporated by applying individual beta factors. |

As at the reporting date, the Group, based on the information available, does not consider that any reasonable change in the key assumptions (growth rates and discount rates), after allowing for any consequential impacts on other key assumptions of any such change, would cause the carrying value of the segments to exceed their recoverable amounts.

vii. *Significant estimate: impairment charge*

The impairment charge of \$10.7m was split \$6.0m in the Venue segment and \$4.7m in the Golf segment. Both impairment charges were due to a softening in demand for the Group's products and services in these segments that has led to the restructuring of the Group's operations. No class of asset other than goodwill was impaired.

c) Right-of-use asset

| | Right-of-use Asset \$'000 |
|-------------------------------|---------------------------------|
| Right-of-use asset | 3,381 |
| Less Accumulated amortisation | (741) |
| | <u>2,640</u> |

d) Deferred tax balances

i. *Deferred tax assets*

| | 30 Jun 20 \$'000 | 30 Jun 19 \$'000 |
|---|---------------------|---------------------|
| The balance comprise temporary differences attributable to: | | |
| Tax losses & offsets | - | 1,395 |
| Employee benefits | - | 282 |
| Property, plant & equipment | 3 | 640 |
| IPO and transaction related expenditure | - | 307 |
| Other | 174 | 502 |
| Total deferred tax asset | 177 | 3,126 |
| Set off against deferred tax liability | (177) | (1,637) |
| Set off from deferred tax liability | - | (175) |
| Net deferred tax asset | - | 1,314 |

| Movements | Tax losses & offsets \$'000 | Employee benefits \$'000 | Property, plant & equipment \$'000 | IPO and transaction related \$'000 | Other \$'000 | Total \$'000 |
|--|--------------------------------|-----------------------------|---------------------------------------|---------------------------------------|-----------------|-----------------|
| As at 1 July 2018 | 1,648 | 288 | - | 491 | 209 | 2,636 |
| (Charged)/Credited | | | | | | |
| To profit or loss as deferred tax benefit/(expenses) | 555 | (6) | 640 | (184) | (90) | 915 |
| To profit or loss as research and development expenses | 171 | - | - | - | - | 171 |
| To equity | - | - | - | - | 52 | 52 |
| Acquisition | - | - | - | - | - | - |
| Utilisation of tax losses | - | - | - | - | - | - |
| True up as prior period deferred tax | (979) | - | - | - | 331 | (648) |
| As at 30 June 2019 | 1,395 | 282 | 640 | 307 | 502 | 3,126 |

| Movements | Tax losses & offsets \$'000 | Employee benefits \$'000 | Property, plant & equipment \$'000 | IPO and transaction related \$'000 | Other \$'000 | Total \$'000 |
|--|--------------------------------|-----------------------------|---------------------------------------|---------------------------------------|-----------------|-----------------|
| As at 1 July 2019 | 1,395 | 282 | 640 | 307 | 502 | 3,126 |
| (Charged)/Credited | | | | | | |
| To profit or loss as deferred tax benefit/(expenses) | (1,395) | (282) | (637) | (307) | (328) | (2,949) |
| To profit or loss as research and development expenses | - | - | - | - | - | - |
| To equity | - | - | - | - | - | - |
| Acquisition | - | - | - | - | - | - |
| Utilisation of tax losses | - | - | - | - | - | - |
| True up as prior period deferred tax | - | - | - | - | - | - |
| As at 30 June 2020 | 0 | 0 | 3 | 0 | 174 | 177 |

ii. *Deferred tax liabilities*

| | 30 Jun 20 \$'000 | 30 Jun 19 \$'000 |
|--|---------------------|---------------------|
| The balance comprises temporary differences attributable to: | | |
| Intangible assets | (893) | (3,856) |
| Financial assets | - | - |
| Property, plant & equipment | - | - |
| Other | - | (7) |
| Total deferred tax asset | (893) | (3,863) |
| Set off against deferred tax asset | 177 | 175 |
| Set off from deferred tax asset | - | 1,637 |
| Net deferred tax liability | (716) | (2,051) |

| Movements | Intangibles \$'000 | Financial Assets \$'000 | Property, plant & equipment \$'000 | Other \$'000 | Total \$'000 |
|--------------------------------------|-----------------------|-------------------------------|--|-----------------|-----------------|
| As at 1 July 2018 | (4,212) | (569) | (63) | (3) | (4,847) |
| (Charged)/Credited | | | | | |
| To profit or loss | 182 | 569 | 63 | (4) | 810 |
| To equity | - | - | - | - | - |
| True up as prior period deferred tax | - | - | - | - | - |
| Foreign currency translation | 174 | - | - | - | 174 |
| Acquisition | - | - | - | - | - |
| As at 30 June 2019 | (3,856) | - | - | (7) | (3,863) |

| Movements | Intangibles \$'000 | Financial Assets \$'000 | Property, plant & equipment \$'000 | Other \$'000 | Total \$'000 |
|--------------------------------------|-----------------------|-------------------------------|--|-----------------|-----------------|
| As at 1 July 2019 | (3,856) | - | - | (7) | (3,863) |
| (Charged)/Credited | | | | | |
| To profit or loss | 2,963 | - | - | 7 | 2,970 |
| To equity | - | - | - | - | - |
| True up as prior period deferred tax | - | - | - | - | - |
| Foreign currency translation | - | - | - | - | - |
| Acquisition | - | - | - | - | - |
| As at 30 June 2020 | (893) | - | - | - | (893) |

Offsetting within tax consolidated group

MSL Solutions Limited and its wholly owned Australian subsidiaries form a consolidated tax group, whereby the entities are taxed as a single entity. Accordingly, the deferred tax assets and deferred tax liabilities have been offset in the consolidated financial statements.

e) Employee benefit obligations

Employee benefit obligations

| 30 Jun 20 | Current \$'000 | Non-current \$'000 | Total \$'000 |
|--------------------|-------------------|-----------------------|-----------------|
| Annual leave | 1,099 | - | 1,099 |
| Long-service leave | 295 | 96 | 391 |
| | <u>1,394</u> | <u>96</u> | <u>1,490</u> |

| 30 Jun 19 | Current \$'000 | Non-current \$'000 | Total \$'000 |
|--------------------|-------------------|-----------------------|-----------------|
| Annual leave | 921 | - | 921 |
| Long-service leave | 310 | 127 | 437 |
| | <u>1,231</u> | <u>127</u> | <u>1,358</u> |

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

Employee benefit obligations are disclosed on the statement of financial position through inclusion of the annual leave and long service leave obligation within the provisions liability.

Other employee benefit obligations

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the reporting period. They are recognised as part of the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

f) Provisions

| | Consolidated | |
|--------------------|---------------------|---------------------|
| | 30 Jun 20 \$'000 | 30 Jun 19 \$'000 |
| Current | | |
| Long service leave | 295 | 310 |
| Annual leave | 1,099 | 921 |
| Earmout provision | - | 180 |
| | <u>1,394</u> | <u>1,411</u> |
| Non-Current | | |
| Long service leave | 96 | 127 |
| Earmout provision | - | 165 |
| | <u>96</u> | <u>292</u> |

8. Equity

a) Share capital

| | Consolidated | | Consolidated | |
|----------------------|--------------------|---------------|--------------------|---------------|
| | 30 June 2020 | 30 June 2019 | 30 June 2020 | 30 June 2019 |
| | Shares | \$'000 | Shares | \$'000 |
| Share capital | | | | |
| Fully paid | 322,258,160 | 66,186 | 249,840,362 | 61,003 |
| | <u>322,258,160</u> | <u>66,186</u> | <u>249,840,362</u> | <u>61,003</u> |

During FY20, the Group completed two successful capital raisings via a share placement to institutional and sophisticated investors and a share purchase plan to eligible shareholders which raised a combined \$5.431 m less costs associated with the capital raisings of \$248k.

i. Movements in ordinary shares

| | Number of shares | Issue price | \$'000 |
|---|--------------------|-------------|---------------|
| Opening Balance 1 July 2018 | 249,248,965 | | 60,988 |
| Shares issued as part of contingent consideration of Pricap | 591,397 | \$0.186 | 110 |
| less: Transaction costs | | | (95) |
| Closing Balance 30 June 2019 | <u>249,840,362</u> | | <u>61,003</u> |
| Shares issued on placement to Sophisticated and Institutional Investors | 36,427,987 | \$0.075 | 2,732 |
| Shares issued under Share Purchase Plan | 35,989,811 | \$0.075 | 2,699 |
| less: transaction costs arising on shares issued | | | (248) |
| Closing Balance 30 June 2020 | <u>322,258,160</u> | | <u>66,186</u> |

ii. Ordinary shares

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

iii. Options

Information relating to the MSL Solutions Limited Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period is set out in Note 18.

iv. Share Performance Rights

Information relating to the MSL Performance Rights Plan, including details of rights issued, vested and lapsed during the financial year and rights outstanding at the end of the reporting period is set out in Note 18.

b) Other reserves

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

| | Consolidated | |
|--------------------------------------|--------------|--------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Share based payment reserve | 385 | 288 |
| Foreign currency translation reserve | <u>2,538</u> | <u>2,442</u> |
| | <u>2,923</u> | <u>2,730</u> |

Share-based payments

The share-based payments reserve is used to recognise:

- The grant date fair value of options issued to employees but not exercised
- The grant date fair value of performance rights issued to employees

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income as described in Note 22 and accumulated in a separate reserve with equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

c) Accumulated losses

Movement in retained earnings were as follows:

| | \$'000 |
|--|-----------------|
| As at 1 July 2019 | (38,822) |
| Total comprehensive income for the period | |
| Profit/(loss) for the year | (16,402) |
| Total comprehensive income for the period | (16,402) |
| Transactions with owners in their capacity as owners | |
| Contribution of equity net of transaction costs | |
| As at 30 June 2020 | (55,224) |

9. Cash flow information

a) Reconciliation of profit after income tax to net cash inflow from operating activities

| | Consolidated | |
|---|----------------|----------------|
| | Jun-20 | Jun-19 |
| | \$'000 | \$'000 |
| Profit after tax | (16,402) | (17,942) |
| Adjustments for: | | |
| Depreciation and amortisation | 5,629 | 4,873 |
| Impairment of Goodwill | 10,672 | 11,500 |
| Gain on disposal of investment | (1,498) | (3,071) |
| Realised FX loss/(gain) | 13 | 58 |
| Expected credit loss | 1,063 | - |
| Finance costs | 212 | - |
| Tax | - | (550) |
| Change in operating assets and liabilities | | |
| Movement in current assets | | |
| (Increase)/ decrease in trade receivables | 41 | (793) |
| (Increase)/ decrease in other receivables | 1,368 | 1,569 |
| (Increase)/ decrease in prepayments | (230) | (182) |
| Movement in current liabilities | | |
| Increase/(decrease) in trade payables | (1,164) | 714 |
| Increase/(decrease) in other payables | (185) | 163 |
| Increase/(decrease) in deferred revenue | (1,173) | 85 |
| Increase/(decrease) in deferred tax | (21) | (1,474) |
| Increase/(decrease) in provisions | (213) | - |
| Increase/(decrease) in tax provisions | (256) | - |
| Movement in non-current assets | | |
| (Increase)/ decrease in other receivables | 21 | (845) |
| Cashflow generated from operations | (2,123) | (5,895) |

10. Critical estimates, judgements and errors

The preparation of financial statement requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions that may be incorrect. Detailed information about each of these estimates and judgments is included in notes 1 to 9 together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there has been actual adjustment this year as a result of an error and of changes to previous estimates.

a) Significant estimates and adjustments

The areas involving significant estimates or judgements are:

- Recognition of revenue
- Collection of long-term receivables
- Estimation of current tax payable and current tax expense
- Estimation of research and development tax credits
- Estimation of capitalised software development expenditure
- Estimated goodwill impairment
- Estimated useful life of intangible asset
- Estimation of contingent purchase consideration in a business combination
- Estimation of right-of-use asset for leases on transition
- Recognition of deferred tax asset for carried forward tax losses

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

b) Sources of estimation uncertainty

Revenue recognition

Multiple element contracts entered into by the Group require judgement in the identification and separation of contract components related to software licence fees, post sales customer support and other services. The Group assesses each customer contract individually into its components and considers if any components should be aggregated where they cannot be separately determined. Revenue is assigned to each component based upon the stand-alone fair value of the component relevant to the total contract value.

The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver installation and consultancy services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customer, supply chain, staffing and geographical regions in which the consolidated entity operates. Estimation is also required in relation to government subsidies and in regard to forecasting their continued impact. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

11. Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group's finance function has been delegated responsibility by the Board for among other issues, managing financial risk exposure within the Group. The Groups' risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material.

a) Market risk

i. Foreign exchange risk

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

With the acquisition of both GolfBox and Verteda, there are now multiple customers and suppliers in the following currencies:

- Pound Sterling (Verteda's functional currency)
- Danish Krone (GolfBox's functional currency)

The Group's remaining subsidiaries have a functional currency of Australian dollars. The Group's presentation currency is Australian dollars.

As suppliers in any of the above currencies are expected to be repaid in the respective entity's functional currencies from local sales, the foreign currency exposure of these suppliers the Group is not exposed to foreign currency risk.

Exposure

The Groups exposure to foreign currency risk is only relation to transactions in foreign currency that differ from the respective entity's functional currencies. The Group's exposure to foreign currency risk at the end of the reporting period is expressed in Australian dollar, was as follows:

| 2020 | USD \$'000 |
|---------------------|---------------|
| Trade payables | (28) |
| Net exposure | (28) |

| 2019 | USD \$'000 |
|---------------------|---------------|
| Trade payables | (52) |
| Net exposure | (52) |

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------|----------------|----------------|
| Realised FX gain (loss) | 8 | (81) |
| Unrealised FX gain (loss) | (21) | 23 |

Sensitivity

As at the reporting date, the Group is no longer materially exposed to currency movements compared to prior years.

| | Impact on post tax profit | | Impact on other components of equity | |
|------------------------------------|------------------------------|----------------|---|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| KRR/\$ exchange rate - increase 5% | - | - | - | - |
| KRR/\$ exchange rate - decrease 5% | - | - | - | - |

The Group's exposure to other foreign exchange movements is not material.

ii. Price risk

The Group does not have exposure to equity securities price risk arising from investments held by the Group and classified in the balance sheet as held-for-sale as at 30 June 2020.

b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers including outstanding receivables.

i. Risk management

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such as processes for the approval of customers and regular monitoring of counterparty financial stability), ensuring to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the cash generating unit within the Group, credit terms are generally immediate payment to 30 days from invoice date.

The maximum exposure to credit risks by class of recognised financial asset at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets as presented in the financial statements.

The Group holds no collateral nor has any significant concentrations of credit risk with any single counterparty or Group of counterparties.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality.

Credit risk related to balance with banks and other financial institutions is managed by the finance function. Current policy is that surplus funds are only invested with counterparties with a rating of A. The following table provides information regarding the credit risk relating to cash holdings:

| Cash at bank and short-term bank deposits | 30 Jun 20 \$'000 | 30 Jun 19 \$'000 |
|---|---------------------|---------------------|
| AA | 2,957 | 2,254 |
| A | 849 | 27 |
| BBB | - | 3 |
| Total Cash | 3,806 | 2,284 |

ii. Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables for sales from all revenue streams;
- Contract assets for sales from all revenue streams; and
- Debt investments carried at amortised cost

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

Trade receivables and contract assets

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

To measure the expected credit losses, trade receivables and other receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and unbilled software and hardware sales and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

On that basis, the loss allowance as at 30 June 2020 and 30 June 2019 was determined as follows for both trade receivables and contract assets. The ECL percentage is applied to the receivables and the contract assets in their functional currency with the loss allowance then translated to presentation currency.

| | Consolidated | |
|--|--------------|------------|
| | 30 Jun 20 | 30 Jun 19 |
| | \$'000 | \$'000 |
| Current loss allowance | | |
| Trade receivables | 1,050 | 172 |
| Loan receivable current | 20 | 11 |
| Contract assets without significant financing components | 2 | 4 |
| Contract assets with significant financing components | 1 | 15 |
| | 1,073 | 202 |
| Non-current loss allowance | | |
| Loan receivable non-current | 9 | 27 |
| Contract assets with significant financing components | 12 | 24 |
| | 21 | 51 |
| | 1,094 | 253 |

Included in the current loss allowance for trade receivables is an amount of \$616k provided as at 31 December 2019 in relation to sales contracts and revenue recorded in prior periods which are showing risk of recovery.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of fund through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions.

Management monitors rolling forecasts of the Group's liquidity reserve as well as cash and cash equivalents on the basis of expected cash flows. This is generally carried out at the local level in the operating companies of the Group in accordance with practice set by the Group. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal requirements and maintaining debt financing plans.

i. Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

| | 30 Jun 20 | 30 Jun 19 |
|--|-----------|-----------|
| | \$'000 | \$'000 |
| Floating rate | | |
| - Expiring withing one year (bank overdraft) | 488 | 335 |

ii. Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| Contractual maturities of financial liabilities As at 30 June 2020 | Less than 6 months | 6-12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount (assets) |
|---|--------------------|-------------|-----------------------|-----------------------|--------------|------------------------------|--------------------------|
| Non-derivatives | | | | | | | |
| Trade payables | 1,429 | - | - | - | - | 1,429 | 1,429 |
| Other payables | 1,934 | - | - | - | - | 1,934 | 1,934 |
| Total | 3,363 | - | - | - | - | 3,363 | 3,363 |

| Contractual maturities of financial liabilities As at 30 June 2019 | Less than 6 months | 6-12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount (assets) |
|---|--------------------|-------------|-----------------------|-----------------------|--------------|------------------------------|--------------------------|
| Non-derivatives | | | | | | | |
| Trade payables | 2,593 | - | - | - | - | 2,593 | 2,593 |
| Finance lease liabilities | 13 | - | - | - | - | 13 | 12 |
| Other payables | 2,119 | - | - | - | - | 2,119 | 2,119 |
| Total | 4,725 | - | - | - | - | 4,725 | 4,724 |

| Contractual maturities of financial assets As at 30 June 2020 | Less than 6 months | 6-12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount (assets) |
|--|--------------------|--------------|-----------------------|-----------------------|--------------|------------------------------|--------------------------|
| Non-derivatives | | | | | | | |
| Trade debtors | 5,463 | - | - | - | - | 5,463 | 5,463 |
| Contract assets | 401 | 719 | - | - | - | 1,120 | 1,120 |
| Receivable - Sale of business | 97 | 92 | 178 | 819 | - | 1,186 | 1,186 |
| Loan to related parties | - | 433 | 212 | - | - | 645 | 645 |
| Total | 5,961 | 1,244 | 390 | 819 | - | 8,414 | 8,414 |

| Contractual maturities of financial assets As at 30 June 2019 | Less than 6 months | 6-12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount (assets) |
|--|--------------------|-------------|-----------------------|-----------------------|--------------|------------------------------|--------------------------|
| Non-derivatives | | | | | | | |
| Trade debtors | 5,522 | 40 | - | - | - | 5,562 | 5,562 |
| Contract assets | 1,494 | 261 | - | 767 | 105 | 2,627 | 2,627 |
| Loan to related parties | - | 272 | - | 633 | - | 905 | 905 |
| Total | 7,016 | 573 | - | 1,400 | 105 | 9,094 | 9,094 |

12.Capital management

a) Risk management

The Group's objectives when managing capital are to:

- Safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group does not currently have any loan covenants that it is required to meet. However, review of the current ratio is performed monthly to ensure that it is managed and remains at a reasonable level. This current ratio is assessed as per normal accounting practices with an adjustment made to take into account the large deferred revenue balance that the Group carries on an on-going basis.

Group structure

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole.

A list of significant subsidiaries is provided in Note 13(a).

13. Interests in other entities

a) Subsidiaries

The Group's principal subsidiaries at 30 June 2020 are set out below. Unless otherwise stated they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

| Name | Country of incorporation | Equity Holding | |
|--------------------------------|--------------------------|----------------|-------------|
| | | Jun 20 % | Jun 19 % |
| Parent Entity: | | | |
| MSL Solutions Limited | Australia | | |
| Subsidiaries of parent entity: | | | |
| Micropower Pty Ltd | Australia | 100% | 100% |
| Astra South Pty Ltd | Australia | - | 50% |
| iSeekgolf Pty Ltd | Australia | 100% | 100% |
| Simbient Golfink Pty Ltd | Australia | 100% | 100% |
| Golfink Partners Pty Ltd | Australia | 100% | 100% |
| GolfTime International Pty Ltd | Australia | 100% | 100% |
| MarkeTown Media Pty Ltd | Australia | 100% | 100% |
| Rockit Pty Ltd | Australia | 100% | 100% |
| InfoGenesis Pty Ltd | Australia | 100% | 100% |
| Golf Group International | Australia | 100% | 100% |
| Verteda Holdings Limited | England | 100% | 100% |
| Verteda Limited | England | 100% | 100% |
| MpowerMSL UK Limited | England | 100% | - |
| Rebel Thinking Limited | England | 100% | 100% |
| GolfBox A/S | Denmark | 100% | 100% |
| PriCap Services Pty Ltd | Australia | 100% | 100% |

*Verteda Limited, a 100% owned subsidiary of Verteda Holdings Limited, established a branch (DMCC Branch), Dubai, U.A.E. on 13 December 2018, Licence Number DMCC-582137.

*MpowerMSL UK Limited was incorporated 30 December 2019

*Astra South Pty Ltd was de-registered during FY20

b) Interests in associates

There were no interests in associates in FY20 or FY19.

14. Contingent liabilities and contingent assets

There are no contingent assets or liabilities at 30 June 2020

15. Commitments

a) Bank guarantee

The Group hold a number of bank guarantees in relation to office bonds

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------|----------------|----------------|
| Bank guarantee - MSL Solutions | 209 | 209 |
| Bank guarantee - Micropower | 145 | - |
| Bank guarantee - Infogensis | 30 | 30 |
| Bank guarantee - Golfink | - | 90 |
| | 384 | 329 |

16. Events occurring after the reporting period

The following matter has arisen since the end of the financial year which may materially affect operations of MSL, the results of those operations, or the state of affairs of MSL in future financial years.

Post year-end, in August 2020, MSL signed a three year revenue sharing Merchant Agreement with leading 'buy now pay later' (BNPL) payment solution provider Openpay Group Ltd (ASX: OPY, 'Openpay').

Openpay is a well-established player in the fast-growing global market for BNPL payment solutions and partners with merchants to provide repayment plans to customers in-store, in-app and online, allowing customers to make purchases while spreading repayments over time with no interest costs.

The agreement will see MSL integrate Openpay's BNPL offering with MSL's golf and membership products in Australia. This allows participating golf clubs to include Openpay's BNPL plans as a payment option for member subscription fees whilst enhancing golf clubs' operating cashflows.

MSL agreed to partner during this period with Openpay on a basis that excludes Openpay's competitors in the Australian market. Openpay will pay for the platform functionality to be established, and the parties agreed to revenue sharing terms which will see Openpay pay MSL an annual rebate of fees payable to Openpay during each preceding year.

The Openpay payments and commissions from Tyro emphasize the opportunity MSL has with its customer base to drive increased revenue. MSL has over 1220 customers but those customers also have customers reaching into the thousands. The ability for MSL to leverage the transactional value being used in their systems is only at its infancy.

No further matters have arisen since the end of the financial year which may materially affect operations of MSL, the results of those operations, or the state of affairs of MSL in future financial years.

Other disclosures

This section of the notes includes other disclosures that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

17. Related party transactions

a) Key management personnel compensation

| | 2020 \$AUD | 2019 \$AUD |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 1,005,789 | 854,145 |
| Other long-term benefits | 31,886 | 3,240 |
| Superannuation | 48,555 | 49,552 |
| Share based payments | 77,204 | 45,381 |
| Total | 1,163,434 | 952,318 |

Detailed remuneration disclosures are provided in the remuneration report.

b) Transactions with other related parties

i. Loans receivable from related parties

Zuuse Limited is no longer a related party.

18. Share-based payments

Options

On 14 January 2020, 1,019,440 options were issued with an exercise price of \$0.1125 and a term of 3 years expiring on 14 January 2023 as part compensation for the Share Placement dated 11 November 2019. The fair value of these options of \$27,321 has been calculated using the Black Scholes method using a share price (based on the value of the Share Placement) of \$0.075, an expected volatility of 70.5% and a risk free interest of 0.83%.

No options expired during the period ending 30 June 2020.

All other options have been issued under an Employee Option Plan which was established to provide remuneration to key management personnel.

Options carry no dividend or voting rights until exercised.

When exercisable, each option is convertible into one ordinary share of MSL Solutions Limited.

The exercise price for options granted under the Employee Option Plan on 18 December 2015, was approved by shareholders at the AGM held November 2015 and related to grants of options to Directors as reward for their significant financial support and contributions over many years and as an incentive for future performance.

The exercise price of all other option grants to date under the Employee option Plan, was based on a 40% uplift over the previous traded price at the time of granting the option. The Board deemed that this was a reasonable estimate of achievable growth as an unlisted entity.

The following table summarises the share options outstanding at the end of the year:

| Grant Date | Balance at the start of the year | Granted | Exercised | Balance at the end of the year | Vested and exercisable | Expiry date | Exercise Price |
|-----------------------------|----------------------------------|-----------|-----------|--------------------------------|------------------------|-------------|----------------|
| 18-Dec-15 | 2,357,142 | - | - | 2,357,142 | 2,357,142 | 18-Dec-20 | \$ 0.217 |
| 22-Oct-15 | 1,250,000 | - | - | 1,250,000 | 1,250,000 | 21-Oct-20 | \$ 0.308 |
| 30-May-16 | 1,071,430 | - | - | 1,071,430 | 1,071,430 | 30-May-21 | \$ 0.308 |
| 15-May-17 | 300,000 | - | - | 300,000 | 300,000 | 15-May-22 | \$ 0.350 |
| 14-Jan-20 | - | 1,019,440 | - | 1,019,440 | 1,019,440 | 14-Jan-23 | \$ 0.1125 |
| | 4,978,572 | 1,019,440 | - | 5,998,012 | 5,998,012 | | |
| Weighted avg exercise price | \$ 0.267 | \$ 0.1125 | \$ - | \$ 0.2411 | \$ 0.2411 | | |

Share Performance Rights

During September 2019, 3,100,000 Share Performance Rights were issued as detailed in the below table.

2,388,000 Share Performance Rights expired during the period ending 30 June 2020.

The following table summarises the share performance rights issued either under the MSL Performance Rights Plan approved by Shareholders at the Company's AGM on 29 November 2019 or as otherwise stated and outstanding at the end of the year:

| Grant Date | Vesting Date | Balance at the start of the year | Vesting Conditions | Granted | Fair value of current year grant | Forfeited | Balance at the end of the year | Vested and exercisable | Term | Expiry Date | Exercise Price |
|-----------------------------|--------------|----------------------------------|--------------------|-----------|----------------------------------|-----------|--------------------------------|------------------------|-----------|-------------|----------------|
| 6-Dec-18 | 30-Jun-20 | 4,328,000 | See Note 1 below | - | - | 2,388,000 | 1,940,000 | - | 3.6 years | 30-Jul-22 | \$ - |
| 24-Sep-19 | 13-Dec-22 | - | See Note 2 below | 1,500,000 | 166,800 | - | 1,500,000 | - | 5 Years | 1-Sep-24 | \$ - |
| 23-Sep-19 | 19-Aug-21 | - | See Note 3 below | 1,000,000 | 74,000 | - | 1,000,000 | - | 4 years | 23-Sep-23 | \$ - |
| 23-Sep-19 | 23-Sep-23 | - | See Note 3 below | 600,000 | 78,000 | - | 600,000 | - | 4 years | 23-Sep-23 | \$ - |
| | | 4,328,000 | | 3,100,000 | 318,800 | 2,388,000 | 5,040,000 | - | | | |
| Weighted avg exercise price | | \$ - | | \$ - | | \$ - | \$ - | \$ - | | | |

Note 1

A Total Shareholder return of 10% Compound Average Growth Rate (CAGR) to be achieved over the vesting period

Note 2

As approved at the Company's AGM on 27 November, 2019, the Performance Rights were issued to the Chairman and Executive Director, Mr Tony Toohey, with the following conditions:

| Tranche | Number | Performance Condition by expiry date |
|---------|---------|---|
| 1 | 225,000 | MSL's share price (30d VWAP) equals or exceeds \$0.25 |
| 2 | 425,000 | MSL's share price (30d VWAP) equals or exceeds \$0.30 |
| 3 | 425,000 | MSL's share price (30d VWAP) equals or exceeds \$0.35 |
| 4 | 425,000 | MSL's share price (30d VWAP) equals or exceeds \$0.40 |

The fair value of these Share Performance Rights were calculated as follows:

| Input | Assumption |
|---|-------------------------|
| Assumed Grant Date (Date of calculation) | 24-Sep-19 |
| Contract Life (To determine Gross Remuneration Value) | 5 years |
| Estimated Life (To determine Accounting Value) | 3 years |
| Estimated Volatility (Standard Deviation – 12 months) | 91.90% |
| Estimated Dividend Yield | 0% |
| Estimated Risk Free Rate (3/5 year average bond rate) | 0.71% |
| Exercise Price (As advised) | \$0.00 |
| Estimated Contract Life Value – Total and (per Right) | \$187,500 (\$0.125) |
| Estimated Accounting Value – Total and (per Right) | \$166,800 (\$0.1112) |

Note 3

No Performance Hurdles are required apart from employment as at the vesting dates.
The fair value of these Share Performance Rights are calculated using the closing price of the quoted MSL ordinary share on day of grant.

19. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | 2020 \$AUD | 2019 \$AUD |
|--|----------------|----------------|
| Audit and review of financial statements | 174,528 | 395,790 |
| Other assurance services | - | 20,000 |
| Total remuneration for audit and other assurance services | 174,528 | 415,790 |
| Total Remuneration Australia | 174,528 | 415,790 |

Network firms

1. Audit and other assurance services

United Kingdom

| | 2020 \$AUD | 2019 \$AUD |
|--|---------------|---------------|
| Audit and review of financial statements | 56,604 | 60,548 |
| Total remuneration for audit and other assurance services | 56,604 | 60,548 |

Denmark

| | 2020 \$AUD | 2019 \$AUD |
|--|---------------|---------------|
| Audit and review of financial statements | 18,868 | 19,000 |
| Tax and filing fees | - | 6,000 |
| Total remuneration for audit and other assurance services | 18,868 | 25,000 |
| Total Remuneration of network firms | 75,472 | 85,548 |

Grant Thornton were appointed as the company's auditor for the FY20 year (FY19: PricewaterhouseCoopers Australia).

20. Earnings per share

a) Basic earnings per share

| | 30 Jun 20 | 30 Jun 19 |
|--|-----------|-----------|
| Total basic earnings per share attributable to the ordinary equity | (5.6) | (7.2) |

b) Diluted earnings per share

| | 30 Jun 20 | 30 Jun 19 |
|--|-----------|-----------|
| Total diluted earnings per share attributable to the ordinary equity | (5.6) | (7.2) |

c) Reconciliations of earnings used in calculating earnings per share

| | 30 Jun 20 | 30 Jun 19 |
|--|-----------|-----------|
| <i>Basic earnings per share</i> | | |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share: | | |
| From continuing operations | (16,402) | (17,942) |
| <i>Diluted earnings per share</i> | | |
| Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | (16,402) | (17,942) |

d) Weighted average number of shares used as the denominator

| | 30 Jun 20 | 30 Jun 19 |
|--|-------------|-------------|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 292,323,026 | 249,840,362 |
| Adjustments for calculation of diluted earnings per share: | | |
| - Options | - | - |
| - Share Performance Rights | - | - |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 292,323,026 | 249,840,362 |

* Information concerning the classification of securities

Options and Share Performance Rights

5,998,112 options over ordinary shares and 5,040,000 share performance rights are not included in the calculation of diluted earnings per share as they are anti-dilutive for the year-ended 30 June 2020. These options and share performance rights could potentially dilute basic earnings per share in the future.

21. Parent entity financial information

a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

| | 30-Jun-20 \$'000 | 30-Jun-19 \$'000 |
|---|---------------------|---------------------|
| Current assets | 540 | 9,104 |
| Non-current assets | 13,610 | 26,408 |
| Total assets | 14,150 | 35,512 |
| Current liabilities | 264 | 712 |
| Non-current liabilities | - | - |
| Total liabilities | 264 | 712 |
| Contributed equity | 65,938 | 61,003 |
| Retained losses | (52,470) | (26,251) |
| Reserves | 418 | 49 |
| Total Equity | 13,886 | 34,801 |
| Profit/(loss) for the year | (26,219) | (9,973) |
| Total comprehensive income for the year | (26,219) | (9,973) |

b) Determining the parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

i. Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost in the financial statements of MSL Solutions Limited.

ii. Tax consolidation legislation

MSL Solutions Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, MSL Solutions Limited, and the controlled entities in the tax consolidated group account for tax on a consolidated basis.

MSL Solutions Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

22. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of MSL Solutions Limited and its subsidiaries.

a) Corporate information

MSL Solutions Limited (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are privately owned. The principal activities of the Group during the financial year were the investment in development, sale and support of software in the provision of integrated solutions for membership organisations.

MSL Solutions Limited is a for-profit entity for the purposes of preparing these financial statements.

The financial statements are presented in the Australian currency.

i. Historical cost convention

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs except where stated.

b) Going Concern assumption

In August 2019, the Group announced a strategic review to return the Group to profitability and positive cash flow by reducing costs in line with recurring revenue. Progress has seen costs reduced, improved EBITDA from prior corresponding period and improved cash outcomes from operating activities prior to restructuring costs.

In the six months to 31 December 2019, the Group completed two successful capital raisings via a share placement to institutional and sophisticated investors and a share purchase plan to eligible shareholders which raised a combined \$5.431 m.

As at 30 June 2020, the Group had net cash of \$3.8 million (30 June 2019: \$2.284 million). The Group recorded a loss after tax of \$16.402 million and operating cash outflows of \$2.123 million for the year ended 30 June 2020 (30 June 2019: \$17.942 million loss after tax and operating cash outflows of \$5.895 million). Importantly, the Company has reported an EBITDA loss for the year ended 30 June 2020 of \$0.94 million which is a \$4.652 million or 83% improvement from the year ended 30 June 2019. Furthermore, the EBITDA and operating cashflows were both positive for the six months ended 30 June 2020.

The Directors have approved cash flow forecasts that indicate the Group will manage its operating cash flow requirements beyond 12 months from the date of these financial statements. As with any forecasts there are uncertainties within the assumptions required to meet the Group's expectation, however, the Directors consider the revenue and expense assumptions are achievable given the focus of new management and the strategic direction the business is taking. Furthermore, given the recent success in raising capital, the Directors believe that, if required, further capital could be accessed.

On the above basis, the Directors are of the view that the Group continues to be a going concern and that it will be able to pay its debts as and when they fall due for a period of at least 12 months from the date of this report and that the basis of preparation of this financial report is appropriate.

c) Principles of consolidation and equity accounting

i. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 3).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

ii. Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of these policies. Investments in associates are accounted for in the consolidated financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost (including transaction costs) and adjusted thereafter for post-acquisition change in the Group's share of net assets of the associate. In addition, the Group's share of the profit or loss of the associate is recognised in the profit or loss in the period in which the investment is acquired.

Profits and losses resulting from the transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share for the losses not recognised.

iii. Joint ventures

Interests in joint ventures are accounted for in the consolidated financial statements using the equity method. Under the equity method of accounting, the Group's share of profits or losses of joint ventures are recognised in consolidated profit or loss and the Group's share of the movements in other comprehensive income of joint ventures are recognised in consolidated other comprehensive income. The cumulative movements are adjusted against the carrying amount of the investment.

iv. Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

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

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of Directors monitor the business have identified 2 reportable segments, based on the type of customer serviced and products sold to those customer bases. Refer Note 2.

e) Foreign currency translation

i. Function and presentation currency

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using functional currency. The consolidated financial statements are presented in Australia dollar (\$), which is MSL Solutions Limited functional and presentation currency.

ii. Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit and loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are

recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in Other Comprehensive Income (OCI).

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

iii. *Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates averaged over the reporting period. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisitions of a foreign operation and any fair value adjustments to the carrying amounts of assets or liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date

f) *Revenue recognition*

The Group recognises revenue from either individual or multiple element arrangements such as hosting and installation, an assessment is made as to whether these give rise to separate performance obligations which are accounted for using the methods outlined below for each individual element contained within the contract.

Customer contracts annuities

Timing of recognition: The Group recognises the revenue from customer care and support contracts over the period of time governed by the contract, as the customer is receiving and consuming the benefit provided over that time. Customers are invoiced prior to the commencement of the support period with this invoiced amount deferred until support has been provided.

Measurement of revenue: Revenue is measured per supported license module. Various modules have differing support prices. The Group has a cancellation policy of 90 days.

Subscription annuities

Timing of recognition: The Group recognises the revenue from SaaS or subscription contracts over the period of time governed by the contracts from which the customer is receiving and consuming benefits. Customers receive several products or services that are not distinct from each other and as such are recognised as a bundled arrangement. Customers are invoiced prior to the commencement of the subscription period with this invoiced amount deferred until the service has been provided.

Measurement of revenue: Revenue is measured for each subscription license module. Various modules have differing subscription prices.

Booking fees/referral fees

Timing of recognition: The Group accounts for booking and referral revenue when the booking or referral has been completed. This revenue is recognised at a point in time when all obligations have been met.

Measurement of revenue: Booking and referral revenue is based on commission charged for products and services to be provided by a third party, this is an agency arrangement where MSL is acting as an agent for these providers. As such the net revenue of the agency arrangement is recognised.

System installations/professional services –

Timing of recognition: Revenue from system installations is recognised over a period of time governed by when the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. Depending on the billing arrangements with customers MSL either holds a contract liability or contract asset for this revenue.

Measurement of revenue: Estimates of revenues, cost or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in the estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Judgements: The Group has determined that it is a separate performance obligation where:

- the services are generic;
- they could be provided by a third party; and
- they do not significantly modify the software or hardware provided to the customer.

Software fees and royalties

Timing of recognition: The Group sells a range of software applications on a perpetual license basis. Sales are recognised when control of the software has been transferred to the customer enabling them to direct the use of the transferred asset. As such revenue is recognised at a point in time once this obligation is complete. The software license is provided as a distinct service that can be individually measured.

Measurement of revenue: Revenue from sales is based on the price specified in the fixed price agreement, net of any discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for discounts and returns.

Hardware fees

Timing of recognition: The Group sells a large range of hardware applications. Sales are recognised when control of the hardware has been transferred to the customer enabling them to direct the use of the transferred asset. As such revenue is recognised at a point in time once this obligation is complete. The hardware is provided as a distinct service that can be individually measured.

Measurement of revenue: Revenue from sales is based on the price specified in the fixed price agreement, net of any discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for discounts and returns.

Advertising

Timing of recognition: The Group recognises revenue over a period of time governed by when the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. Depending on the billing arrangements with customers MSL either holds a contract liability or contract asset for this revenue.

Measurement of revenue: Revenue is measured in line with the executed insertion orders.

g) Government subsidies in relation to COVID19

Government subsidies received from various government agencies in response to the COVID19 pandemic have been recognised as a reduction against employment costs.

h) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current assets and liabilities are offset where a legally enforceable right of set off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

MSL Solutions Limited and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'standalone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and

The net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the parent entity.

i. Research and Development Tax Incentive

Companies with the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. At each reporting period, the Group accounts for such allowances as tax credits. The benefit in excess of the Australian Corporate tax rate of 30% has been recognised as a reduction to research and development expenses. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

i) Leases

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are amortised on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the amortisation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

The Group recognised leases under AASB117 for the prior period. On this basis, leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recognising 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.

Leased assets are depreciated at the rate applicable to the class of fixed assets that the asset has been added to. This is done over the shorter of their estimated useful life and the lease term.

Leases that are classified as operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

j) Business Combinations

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred, and equity interests issued by the Group on acquisition date.

Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the Group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the Group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable.

Acquisition-related costs are expensed when incurred

Where the Group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or joint venture, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the Group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the Group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the Group's incremental borrowing rate as the discount rate.

Contingent consideration is classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently remeasured to fair value at the end of each reporting period, with changes in fair value recognised in profit or loss.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the Group's controlling shareholder's consolidated financial statements.

k) Impairment of assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. An excess of the asset's carrying amount is written off immediately to its recoverable amount if the assets carrying amount is greater than its recoverable amount, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). An impairment loss or a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

m) Investments and other financial assets

i. Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to contractual provisions of the instruments. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

ii. Financial assets at fair value through profit and loss

A financial asset is classified at fair value through profit and loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Right-of-use assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- They are held within the business model whose objective is to hold the financial assets and collect its contractual cash flows.
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method.

n) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

i. Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed based on the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

ii. Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets is depreciated on a diminishing value basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

iii. Depreciation rates

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset

| | |
|----------------------------------|----------|
| Plant and Equipment | 27% 50% |
| Furniture, Fixtures and Fittings | 20% 30% |
| Leasehold Improvements | 7.5% 30% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

o) Intangible assets

i. Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investment in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

ii. Software

Software used in the business and that is not integral to the computer hardware owned by the Group, is carried at cost less, where applicable, any accumulated depreciation and impairment losses. The depreciable amount of software is depreciated on a straight-line basis at a rate between 12.5% and 40%.

Cost includes the direct costs of acquiring the software. Internal costs incurred in further developing the software are expensed.

In previous financial years all research and development costs were expensed as incurred. As the Group transitions to a SaaS based company, it will provide access to products via a SaaS platform over a prolonged term meaning that, the technical feasibility of products can be established at an earlier phase through pre-defined roadmaps. Costs that are directly associated with the development of this software are recognised as an intangible asset when the following criteria are met:

- a) The technical feasibility of completing the intangible asset is achieved so that it will be available for use or sale;
- b) The Company intends to complete the intangible asset and then use or sell it;
- c) The Company is able to use or sell the intangible asset;
- d) The Company knows how the intangible asset will generate probable economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- e) Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- f) The Company can reliably measure the expenditure attributable to the intangible asset during its development.

The relevant costs include personnel and other directly attributable costs incurred in the development of software.

Capitalised software development costs are recognised as an intangible asset and amortised over their estimated useful lives, which is considered to be 60 months. Capitalised software development costs are amortised from when the products to which they relate become available to use. Research costs are expensed as incurred and are largely made up of employee labour which is included in research and development costs in the statement of comprehensive income. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

Amortisation of intangibles is included in the line 'amortisation' in the profit or loss.

iii. Customer Contracts

Customer contracts recognised on acquisition are amortised on a straight-line basis over the life of the contract, being between 3-11 years. Where a contract holds multiple extension periods, MSL Solutions recognises these only to the extent where MSL Solutions has the control over whether the contract is extended, and it is more than probable that the extension will be utilised.

Amortisation of customer contracts is included in the line 'depreciation and amortisation' in the profit or loss.

iv. Amortisation

Refer to Note 7(b) for details about amortisation methods and periods used by the Group for intangible assets.

p) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the entity remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within terms of payment as detailed on invoices received.

q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measure at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is possible that some or all the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

r) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

s) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

t) Employee benefits

i. Short-term employee benefit obligations

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

ii. Other long-term employee benefit obligations

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the reporting period. They are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

iii. Equity-settled compensation

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting period. Share-based payments to non-employees are measured at the fair value of the instruments issued and are recorded at the date the goods or services are received.

The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

u) 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.

v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

w) Earnings per share

i. Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

ii. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

x) Rounding

Amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

y) Goods and Services Tax (GST) and Value Add Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST and VAT, except where the amount of GST and VAT incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST and VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are shown inclusive of GST.

Cash flows are presented in the statement of cashflow on a gross basis, except for the GST and VAT component of investing and financing activities, which are disclosed as operating cash flows.

z) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Directors Declaration


In the Directors' opinion:

- a) the financial statements and notes set out on pages 30 to 82 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - ii. giving a true and fair view of the consolidated Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- c) at the date of this declaration, there are reasonable ground to believe that the members of the extended closed group identified in Note 13(a) will be able to meet any obligation or liabilities.

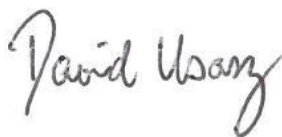
Note 22 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declaration by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Tony Toohey
Executive Director and Chairman



David Usasz
Director

Dated at Brisbane this 15th day of September 2020.

Independent Auditor's Report

To the Members of MSL Solutions Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of MSL Solutions Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Key audit matters

Key audit matters are those matters that, in our professional 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.

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 the key audit matter

Revenue recognition – Note 3

The Group recognises revenue across eight separate revenue streams. The revenue recognition process and policies differ for each stream depending on the nature of the products and services provided to the customer. Estimation and judgement are used regarding timing and amount of revenue to be recognised.

We have determined that revenue is a key audit focus area due to the material nature of the balance, the volume of transactions and the importance of the revenue balance to the current stakeholders.

Our procedures included, amongst others:

- Obtaining an understanding of the key processes and controls used in recording revenue, and appropriately documenting these in our workings;
- Reviewing the recognition policies to ensure compliance with accounting standards;
- Analytically reviewing revenue values;
- Sampling revenue transactions statistically and testing whether revenue recognition is appropriate by agreeing through to a sales contract or other support, assessing the identification of performance obligations, and evaluating the timing of revenue recognition; and
- Evaluating the adequacy of related disclosures in the financial report.

Intangibles impairment – Note 7 b)

The Group has \$13.5m of intangible assets primarily consisting of contacts, customer relationships, and internally and externally developed software. The goodwill balances historically valued at \$10.7m were written off as at 31 December 2019.

AASB 136 Impairment of Assets requires that an entity shall assess at the end of each reporting period where there is any indication that an asset may be impaired.

This area is a key audit matter due to the inherent subjectivity involved in Management's judgements estimating the recoverable amount as part of evaluating for impairment.

Our procedures included, amongst others:

- Obtaining Management's impairment model;
- Assessing the methodology used by Management against the requirements of Australian Accounting Standard AASB 136;
- Assessing Management's determination of the Group's CGUs based on our understanding of the business;
- Evaluating the appropriateness of key assumptions and inputs used in the calculations, by obtaining corroborating evidence
- Undertaking a sensitivity analysis on key inputs;
- Testing the mathematical accuracy of the model; and
- Evaluating the adequacy of the disclosures relating to intangible assets in the financial report.

Net current liability position and basis of preparation – Note 22 b)

The Group's use of the going concern basis of accounting is a key audit matter due to the high level of judgement required in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on its ability to continue as a going concern. These conditions events and conditions (which are outlined in Note 22 b)) include:

- The Group incurred a loss for the year ended 30 June 2020 of \$16.4m;
- The Group incurred net cash flows from operations of \$2.1m for the year; and
- The Group had a net current asset deficiency of \$0.5m at 30 June 2020.

The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was focused on the Group's Cash Flow Forecast, and the key assumptions contained therein.

Our procedures included, amongst others:

- Obtaining and evaluating management's position paper that documents their assessment of the Group's ability to continue as a going concern;
- Assessing the cash flow forecasts provided by management and challenging the assumptions therein;
- Considering the timing and quantum of cash flows including operational revenues, operational expenditure and financing costs;
- Evaluating the reliability of the underlying data used to prepare the forecast; and
- Evaluating the adequacy of the disclosures that have been made regarding Going Concern in the financial report.

Key audit matter

How our audit addressed the key audit matter

The Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.

Information other than the financial report and auditor's report thereon

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 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless 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: https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.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 13 to 26 of the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of MSL Solutions Limited, for the year ended 30 June 2020 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



CDJ Smith
Partner – Audit & Assurance

Brisbane, 15 September 2020

Shareholder information

The shareholder information set out below was applicable as at 10 September 2020.

Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| Range | Total holders | Units | % Units |
|------------------|---------------|--------------------|---------------|
| 1 - 1,000 | 27 | 1,477 | 0.00 |
| 1,001 - 5,000 | 34 | 123,347 | 0.04 |
| 5,001 - 10,000 | 80 | 654,910 | 0.20 |
| 10,001 - 100,000 | 335 | 14,327,742 | 4.45 |
| 100,001 Over | 294 | 307,150,684 | 95.31 |
| Total | 770 | 322,258,160 | 100.00 |

There were 92 holders of less than a marketable parcel of ordinary shares, totalling 324,775.

Equity security holders

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

| | Name | Ordinary Shares | % |
|----|---|--------------------|--------------|
| 1 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 37,844,925 | 11.74 |
| 2 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 23,871,520 | 7.41 |
| 3 | PORTFOLIO SERVICES PTY LTD | 13,333,333 | 4.14 |
| 4 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 12,731,528 | 3.95 |
| 5 | HOLZGREFE HOLDINGS PTY LTD <HOLZGREFE FAMILY SUPER A/C> | 10,913,566 | 3.39 |
| 6 | CCK WEALTH PTY LTD <CCK FAMILY A/C> | 10,498,271 | 3.26 |
| 7 | GAILFORCE MARKETING & PR PTY LIMITED <HALE AGENCY SUPER FUND A/C> | 8,859,744 | 2.75 |
| 8 | LOVAT PTY LTD | 8,754,131 | 2.72 |
| 9 | THE DALY FT PTY LTD <RUPERT & SONIA DALY FAM A/C> | 6,206,044 | 1.93 |
| 10 | WALLIS-MANCE PTY LIMITED <WALLIS-MANCE FAMILY A/C> | 5,884,725 | 1.83 |
| 11 | PORTFOLIO SERVICES PTY LTD | 5,475,750 | 1.70 |
| 12 | INDCORP CONSULTING GROUP PTY LIMITED <SUPERANNUATION FUND A/C> | 4,400,000 | 1.37 |
| 13 | CHARLOTTE B PTY LTD <CHARLOTTE B SUPER FUND A/C> | 4,000,000 | 1.24 |
| 14 | GLG HOLDINGS PTY LTD <GLG SUPERANNUATION FUND A/C> | 3,428,571 | 1.06 |
| 15 | POLDING PTY LTD | 3,333,333 | 1.03 |
| 16 | ARK INTEGRATED RISK SOLUTIONS PTY LTD <E4 FAMILY A/C> | 3,096,622 | 0.96 |
| 17 | MORBRIDE PTY LTD <MORBRIDE SUPER FUND A/C> | 3,000,000 | 0.93 |
| 18 | BROOKFIELD S/F PTY LTD <BROOKFIELD S/F A/C> | 2,821,429 | 0.88 |
| 19 | JAMBET DOWNS PTY LIMITED | 2,799,680 | 0.87 |
| 20 | V P INVESTMENTS PTY LTD <THE VINCE GAUCI FAMILY A/C> | 2,257,143 | 0.70 |
| | | 173,510,315 | 53.84 |

Restricted equity securities

The Company does not currently have any shares subject to escrow.

Unquoted equity securities

There are 12 option holders with total accumulated holdings of 5,998,012 options over fully paid ordinary shares.

There are 9,315,000 performance rights issued to various employees under the Company's Performance Rights Plan, which are subject to specified vesting conditions.

Substantial holders

Substantial holders in the Company are set out below:

| | Name | Ordinary Shares | % |
|---|----------------------------------|-----------------|------|
| 1 | FORAGER FUNDS MANAGEMENT PTY LTD | 24,726,794 | 7.67 |
| 2 | PORTFOLIO SERVICES PTY LIMITED | 18,809,083 | 5.84 |
| 3 | DAVID PENNER | 17,455,584 | 5.42 |
| 4 | DR RICHARD HOLZGREFE | 16,790,364 | 5.21 |

Voting rights

The voting rights attaching to each class of equity securities are as follows:

- Ordinary shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote; and
- Options and Performance Rights: No voting rights.

Other information

There is currently no on-market buy-back of the Company's securities.

The Company has used its cash (and assets in a form readily convertible to cash) that it had at the time of listing in a way consistent with its stated business objectives.

Corporate Directory

Registered Address

MSL Solutions Limited
ACN 120 815 778
Level 1, 307 Queen Street
Brisbane, QLD 4000

MSL Information Line

1800 679 701 (Within Australia)
+61 7 3512 3510 (Outside Australia)
<http://www.mpowermsl.com>

Directors

Tony Toohey
Earl Eddings
Dr Richard Holzgrefe
David Trude
David Usasz

Chief Executive Officer

Patrick Howard

Company Secretary

Andrew Ritter

Assistant Company Secretary

David Marshall

Legal Advisor

Talbot Sayer Lawyers
ABN 93 168 129 075
Level 27, Riverside Centre
123 Eagle Street
Brisbane, QLD 4000
GPO Box 799, Brisbane QLD 4001
T: +61 7 3160 2900

Auditor

Grant Thornton Audit Pty Ltd
ABN 91 130 913 594
King George Central
Level 18
145 Ann Street
Brisbane, QLD 4000
GPO Box 1008 Brisbane QLD 4001
T: +61 7 3222 0200

Share Registry

Computershare
GPO Box 2975, Melbourne Vic 3001
T: 1300 552 270
F: +61 3 9473 2500
<https://www-au.computershare.com/Investor>