



MSM CORPORATION INTERNATIONAL LIMITED

ABN 51 002 529 160

UNAUDITED PRELIMINARY REPORT
30 JUNE 2018

	2018 \$	2017 \$	Change	
Revenues from ordinary activities	33,099	67,363	decreased	51%
Loss from ordinary activities after tax attributable to the owners	18,921,838	12,696,655	increased loss	49%
Loss for the year attributable to the owners	18,921,838	12,969,655	Increased loss	49%

	2018	2017
NET TANGIBLE ASSETS PER SECURITY (cents)	(0.05)	(0.07)

DIVIDENDS

No dividends have been provided for or paid by the consolidated entity in respect of the year ended 30 June 2018 (2017 – nil).

BASIS OF FINANCIAL REPORT PRESENTATION

This financial report is for the year ended 30 June 2018 and has been prepared in accordance with the Australian Securities Exchange Listing Rules as they relate to Appendix 4E and in accordance with the Corporations Act 2001. The accounting policies adopted with the contents of this report are consistent with those of the previous financial year and corresponding interim reporting period. Comments are for the twelve months ended 30 June 2018 with comparatives for the twelve months ended 30 June 2017. All amounts are measured in Australian dollars.

AUDIT STATUS

The financial statements contained within this Appendix 4E are in the process of being audited and, as such, the accounts are presented unaudited.

HIGHLIGHTS

- Appointment of eight-time Grammy Award winning superstar Usher as Chief Creative Officer and Judge.
- Successful Global Launch of the first Megastar competition, with the App live in the US, Australia, Great Britain, Canada, South Africa and New Zealand.
- Comprehensive marketing program, delivering outstanding results with appearances on Ellen, Extra, The Late Late Show with James Corden and Sky Business News.
- Jeb Corliss, one of the world's foremost and best-known BASE jumpers and wingsuit pilots, signed as a Judge.
- Megastar WWT1 achieved more than 435,000 installs in 10 weeks with more than 23 minutes per session for voting users (Fans), greater than 75 minutes for live streaming users and exceptional retention statistics.
- Megastar ranked as high as number 4 in entertainment apps from over 2 million apps in the Apple Store.
- Binding HoA with Riva Digital FZ LLC (Riva) to plan the launch of Megastar India.

OPERATIONAL

With eight-time Grammy Award winning superstar Usher as Chief Creative Officer and Judge, MSM launched the first Megastar competition Worldwide Tournament 1 (WWT1) in September 2017, with the App live in the US, Australia, Great Britain, Canada, South Africa and New Zealand.

Following a comprehensive marketing program, delivering outstanding results with appearances on Ellen, Extra, The Late Late Show with James Corden and Sky Business News and appointment of Jeb Corliss, one of the world's foremost and best-known BASE jumpers and wingsuit pilots, signed as a Judge, Megastar WWT1 culminated in a Grand Finale in December 2017.

Megastar WWT1 achieved more than 435,000 installs in 10 weeks with more than 23 minutes per session for voting users (Fans), greater than 75 minutes for live streaming users, more than 58% aggregate Day 1 retention and greater than 38% Day 14 retention.

Following its release, the Megastar App rapidly hit number 6 in the weekly entertainment App rankings in the US App store and has seen peaks in hourly rankings at number 4.

WWT1 Grand Finale

On 15 December 2017, Singer/songwriter Andie Case of the United States was announced Winner, Megastar WWT1. Users across the US, UK, Australia, Canada and South Africa watched the WWT1 Finale via the Megastar App for a combined total of more than 351,000 minutes (244 days).

There were over 4,000 organic installs on the day of the Finale as Chief Creative Officer, Usher and fellow Judge, Jeb Corliss met with the final 5 Megastars who travelled to Los Angeles for the WWT1 Live Stream Finale to provide mentoring, review the final 5 videos and announce the prize winners. Usher and winner, Andie Case, were interviewed on Extra TV (viewership of more than 6.4 million and social media reach of more than 9 million) and Andie Case was interviewed by Australia's Channel 7 morning show.

Key Insights from WWT1 Data Analysis

Following the completion of WWT1, the Company embarked on an in-depth data analysis to determine what worked and what didn't work. The analysis revealed a clear and significant demand for a mobile-app platform for discovering and amplifying emerging talent. Megastar has created an opportunity to establish a talent discovery, promotion, monetisation and management ecosystem that will enable fans to participate in the value created by talent discovery and promotion on the Megastar platform.

MSM has now developed and proven a new model for operating talent competitions globally via a mobile app platform. Megastar's talent competition platform is significantly lower cost to operate and scale than equivalent television formats.

Monthly Megastar Spotlight Tournaments

As announced on 12 December 2017, many of the top 50 performers from WWT1 that did not make the final 5 competed in Monthly Megastar Spotlight Tournaments (MMST) representing a shortened version of WWT1.

Megastar India

In December 2017, the Company also announced it had signed a Binding Memorandum of Understanding ("Agreement") with The Riva Group LLC ("The Riva Group") to negotiate definitive agreements for the launch of Megastar in India and on 4 and 5 June 2018, the Company announced it had executed a binding heads of agreement with Riva.

The Agreement is a major milestone in further expanding the global footprint of Megastar across non-English speaking territories and draws on the highly popular culture and following of Bollywood globally. The Agreement provides an exclusive framework for the parties to negotiate and execute the required license and associated agreements to allow The Riva Group to operate an Indian version of Megastar. This licensing model has historically been highly successful and commonly used by other media and talent competitions (e.g. Voice, Idol, X-Factor & Got Talent) when entering in to new territories.

Following expansive research of various territories and globally popular genres, MSM decided on Bollywood as the most culturally diverse and exciting opportunity to enter in the next phase of Megastar's growth strategy.

The key to expanding the Megastar brand and footprint is finding the right partners for selected territories and ensuring the principles and values of both organisations are aligned. MSM are proud to partner with The Riva Group who have a highly successful track record of delivering excellence in media, leisure, entertainment and cutting-edge technology.

The Riva Group have vast experience specialising in licensing agreements where they most notably hold license agreements for world class entertainment Intellectual Property with; DreamWorks, Marvel, Sony Pictures, Electronic Arts, Lionsgate, Square Enix, Microsoft Studios, Cartoon Network. In October 2017, The Riva Group in partnership with Los Angeles-based Firefly Games developed and launched the cutting-edge DreamWorks Universe of Legends Mobile Game where Shrek meets Kung-Fu Panda in a DreamWorks Hero mashup.

CORPORATE & FINANCIAL

The Company incurred a loss after tax of \$18,921,838 (30 June 2017 – loss of \$12,969,655). The result included Project expenditure of \$9,960,911 (2017: \$7,908,036), share-based payments expenses for options, performance rights and shares issued as remuneration and payment of services of \$2,803,410 (2017: \$2,778,554).

The Group had cash on hand of \$303,875 at the end of the year (30 June 2017: \$720,307).

MSM was suspended from quotation on ASX pending the finalisation of legal advice regarding its 2018 strategy and the finalisation of consultation with the ASX for most of the second half of the year.

On 15 January 2018, the Company requested a trading halt to be placed on the Company's securities, effective immediately, pending an announcement regarding Data Analysis of World Wide Tournament 1, 2018 Strategy and a capital raise. Ms Sophie McGill also resigned as a director of the Company.

On 17 January 2018, the Company requested a voluntary suspension in the Company's securities until completion, and announcement of Data Analysis of World Wide Tournament 1, 2018 Strategy and capital raising.

On 8 February 2018, the Company announced:

- Binding commitments received for the placement of 40,000,000 shares to raise \$1,720,000 before costs and the intention to undertake an entitlements issue to eligible shareholders on similar terms to the placements.
- Key insights from the WorldWide Tournament 1 Data Analysis.
- The Company's development of its 2018 strategy designed to accelerate organic acquisition of performers and fans by establishing discovery, promotion, and monetisation and management ecosystem around the Megastar Video Competition Platform.
- The progress of the Monthly Megastar Spotlight Competition.
- Three patents relating to the Megastar platform have progressed to non-provisional filings. Five Prime Advisors LLC have been engaged to provide independent valuations.

On 21 February 2018, the Company announced the completion of a placement to raise \$1,720,000 by the issue of 40,000,000 fully ordinary shares at \$0.043 per share, with a 1 for 2 free attaching listed option expiring at \$0.10 on 7 November 2019. On 18 June 2018, a further \$139,774 was raised by the issue of 3,250,559 fully ordinary shares at \$0.043 per share under the same 1 for 2 free attaching listed option terms.

On 22 May 2018 the Company finalised discussions with ASX regarding its 2018 strategy and resumed trading on ASX upon lodgement of the Entitlement Offer to eligible shareholders to raise A\$3,670,000 at \$0.043 per share on a 1 for 5 basis together with a free attaching listed \$0.10 option expiring 7 November 2019, for every 4 new shares issued.

The Company confirmed that it had entered into a number of agreements with strategic investors to subscribe for approximately A\$3,397,000 of any shortfall in the Entitlement Offer and an undertaking pursuant to which Eligible Shareholders will apply for approximately A\$276,000 of their entitlements (Agreements). On 5 July 2018, the Company announced A\$2,082,000 had been received through the issue of shares and options per the Agreements. The Company is continuing to settle the shortfall pursuant to these Agreements.

The funds raised are intended to be used primarily for the following purposes:

- ongoing optimisation of the marketing and operation of existing competitions being operated by the Megastar platform
- establishing the Megastar India joint venture with Riva Digital FZ LLC;
- establishing Megastar joint ventures in additional markets;
- establishing content distribution agreements;
- legal and accounting costs to qualify MSM-US under Reg A+ of the US Securities Act;
- marketing in connection with the proposed strategic capital raisings within MSM-US;
- researching, partnering/acquiring and developing products that will drive users and or revenue to the Megastar platform; and
- general working capital and the costs of the Entitlements Offer.

On 22 June 2018, shareholders approved all resolutions relating to the issue of February Placement Securities (refer ASX announcement dated 8 February 2018) and Committed Placement Securities (refer ASX announcement released 22 May 2018).

During the quarter, the Company entered into a series of loan arrangements pursuant to which an aggregate of A\$303,650 (Note 7) of interim loan funding from several parties has been advanced to date, including a loan amount of US\$50,000 advanced by Dion Sullivan, a Director and A\$236,000 received from other investors. A flat interest rate of 10% is payable on these loans, which are unsecured. The maturity date for the loans is the earlier of completion of a capital raising by the Company of at least A\$3,000,000, six months after drawdown or at the lender's request in the event of default.

2019 OUTLOOK

US Capital Raise

As announced on 22 May 2018, the Company is intending to undertake a two-stage capital raising through its wholly-owned US subsidiary, MSM Music Inc ("MSM-US").

The present strategy is to raise between US\$3 million and US\$5 million pursuant to rule 506(c) of Regulation D under the US Securities Act of 1933 to 'accredited investors' (as defined in Regulation D) who are considered to be strategic to the MSM Group. The Company will retain a controlling shareholding in MSM-US and the funds raised are intended to cover the costs of the US-arm of the business.

Please refer to the announcement released on 22 May 2018 and Entitlement Offer Prospectus dated 21 May 2018 and Supplementary Prospectus dated 31 May 2018 for further details regarding the proposed capital raising, including the associated risks.

Commercialisation of Megastar through licensing strategy

The Company has confirmed its strategy to enter into agreements with a view to commercialising the Megastar brand, Platform, data and content in all markets outside North America under licensing arrangements (refer announcement dated 21 May 2018).

The licensing strategy is intended to:

- Expand the reach of the Megastar Platform
- Reduce the operating costs of the Company as the intention is for the costs associated with the operation of the platform and the competitions to be borne by the licensees

As announced on 4 and 5 June 2018, the Company has already entered into a binding heads of agreement with The Riva Group ("Riva") committing the parties to work together to launch Megastar as the premier digital talent discovery platform in India.

The Board is continuing to consider other potential similar licensing arrangements in respect of other jurisdictions and the Company may enter into further licensing arrangements in the future. The Board will update the market as and when any such additional arrangements are executed.

Megastar India Joint Venture

On 4 and 5 June 2018, the Company announced it had executed a binding heads of agreement with Riva, pursuant to which:

- MSM and Riva intend to incorporate a new joint venture entity, which will enter into a license agreement with the MSM Group for the use of the Platform and the Megastar brand to operate talent competitions in India
- The joint venture must pay MSM an annual royalty of 5% of gross revenue, with a minimum annual guarantee of US\$500,000. Regardless of actual revenue generated by the joint venture, MSM is entitled to receive a minimum of US\$500,000 per annum. The minimum payment guarantee is intended to drive the rapid mobilisation and monetisation of Megastar in India by MSM's joint venture partners. The first royalty payment is due to be paid to MSM by 30 June 2019 (regardless of actual revenue generated) and subsequent payment due annually thereafter
- MSM will have a 15% shareholding in the joint venture which entitles MSM to 15% of profit distributions paid by the Megastar India joint venture to its shareholders. This 15% is free-carried and non-dilutable in perpetuity. For the avoidance of doubt, this non-dilutable, 15% free-carried shareholding is in addition to the 5% revenue royalty entitlement described above
- The joint venture will pay all the costs of any building, testing and deployment of changes to the current Platform as specified by the joint venture for Megastar India.

Megastar Studios

The MSM Group also announced its intention to incorporate a wholly owned subsidiary in the US, "Megastar Studios".

Megastar Studios' business is intended to comprise:

- talent identification, management, monetisation; and
- original content production.

It is intended that Megastar Studios will enter into contracts with successful performers identified through the Megastar competitions, and thereby generate an ongoing stream of revenue, as well as ensure the ongoing engagement of performers with the Platform. MSMCI cautions that there is no certainty that Megastar Studios will become revenue generating and the above is a statement of intention at this time.

MSMCI will hold a controlling interest in Megastar Studios which will initially be funded by MSM-US.

WWT2

During the period, the development team continued with the optimisation of the Megastar platform in preparation for WWT2. The Live Lightening and Spotlight competitions have been temporarily suspended to focus resources on delivering a new competition format. The new format is intended to feature greater functionality and re-engage with performers and fans in new ways.

Significant Reduction in Expenditures

The Company has been highly focused upon optimising expenditure on platform development, marketing and distribution whilst progressing toward the launch of the WWT2 competition, to generate maximum value for shareholders.

As part of this process, during the quarter, Ms Danika Mullins was contracted as an interim Chief Marketing Officer (CMO) based in MSM's San Francisco office to deliver a flexible, cost effective, and multi-dimensional approach to leveraging MSM's significant existing IP and technical capabilities, for the benefit of all users, both Performers and Fans.

Ms Mullins has held numerous senior marketing, communications, human resources, business development and investor relations focused roles inside significant ASX listed companies, over the last eighteen years including: iiNet Ltd (ASX: IIN), Programmed Maintenance Services Ltd (ASX: PRG) incorporating both Integrated Group Ltd and subsidiary Total Marine Services, Humanis Group Ltd (ASX: HUM), Iluka Resources (ASX: ILU) and Adcorp Ltd (ASX: AAU).

In addition, as part of a far reaching overall operational review process, Software Developers Inc (SDI), a Silicon Valley based company specialising in app and online development and engineering projects, were appointed to perform an independent review of MSM's ongoing IP management and prompt a move toward a more flexible, low-cost, outsourced model to allow MSM to scale up when needed to execute and adapt quickly, while minimising costs.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
Revenue from continuing operations			
In App Purchases		13,463	102
Interest Income		19,636	67,261
	3	33,099	67,363
Expenses			
Finance cost	3	60,349	40,382
Administration expenses		1,588,603	983,168
Employee benefits and directors fees		2,928,497	1,326,878
Marketing expenses		1,613,167	-
Share-based payments - options, shares, performance rights	2	2,803,410	2,778,554
Project expenditure		9,960,911	7,908,036
Loss from continuing operations before income tax expense		(18,921,838)	(12,969,655)
Income tax expense		-	-
Net loss from continuing operations for the period		(18,921,838)	(12,969,655)
Other comprehensive loss			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on foreign operations		62,012	(326,438)
Total comprehensive loss for the period		(18,859,826)	(13,296,093)
Loss for the period attributable to owners of the Company		(18,859,826)	(13,296,093)
Total comprehensive loss for the period attributable to owners of the Company		(18,859,826)	(13,296,093)
Loss per share from continuing operations attributable to owners of the Company			
Basic and diluted loss per share	10	0.05	0.04

This statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents		303,875	720,307
Other current assets	4	337,944	281,803
Total Current Assets		641,819	1,002,110
Non-Current Assets			
Other non-current assets	4	75,887	92,362
Financial assets		657,556	604,402
Total Non-Current Assets		733,443	696,764
TOTAL ASSETS		1,375,262	1,698,874
LIABILITIES			
Current Liabilities			
Trade and other payables	6	3,043,959	609,199
Borrowings	7	303,650	-
Provisions	8	58,838	1,297,708
Total Current Liabilities		3,406,447	1,906,907
TOTAL LIABILITIES		3,406,447	1,906,907
NET LIABILITIES		(2,031,185)	(208,033)
EQUITY			
Issued capital	9	31,903,556	17,430,292
Reserves	11	7,574,220	4,948,798
Accumulated losses		(41,508,961)	(22,587,123)
TOTAL EQUITY		(2,031,185)	(208,033)

This statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2017	17,430,292	4,948,798	(22,587,123)	(208,033)
<i>Comprehensive loss</i>				
Net loss for the period	-	-	(18,921,838)	(18,921,838)
Other comprehensive income	-	62,012	-	62,012
Total comprehensive income/(loss) for the period	-	62,012	(18,921,838)	(18,859,826)
Transactions with owners in their capacity as owners				
Issue of shares - prospectus	15,331,774	-	-	15,331,774
Share-based payments - <i>Shares, options and performance rights</i>	240,000	2,563,410	-	2,803,410
Shares issued on conversion of options	18,207	-	-	18,207
Capital raising expenses	(1,116,716)	-	-	(1,116,716)
Total transactions with owners and other transfers	14,473,265	2,563,410	-	17,036,675
Balance at 30 June 2018	31,903,556	7,574,220	(41,508,961)	(2,031,185)

For the year ended 30 June 2017

	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2016	11,249,100	2,496,682	(9,617,468)	4,128,314
<i>Comprehensive loss</i>				
Net loss for the period	-	-	(12,969,655)	(12,969,655)
Other comprehensive loss	-	(326,438)	-	(326,438)
Total comprehensive loss for the period	-	(326,438)	(12,969,655)	(13,296,093)
Transactions with owners in their capacity as owners				
Issue of shares - prospectus	4,882,000	-	-	4,882,000
Share-based payments - <i>options and performance rights</i>	-	2,778,554	-	2,778,554
Shares issued on conversion of options	1,555,112	-	-	1,555,112
Capital raising expenses	(255,920)	-	-	(255,920)
Total transactions with owners and other transfers	6,181,192	2,778,554	-	8,959,746
Balance at 30 June 2017	17,430,292	4,948,798	(22,587,123)	(208,033)

This statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	\$	\$
Cash flows from operating activities		
Cash receipts from customers	13,463	102
Interest received	19,636	61,043
Project development payments	(10,840,390)	(6,578,652)
Payments to suppliers and employees	(4,144,604)	(2,822,740)
Net cash outflows from operating activities	(14,951,895)	(9,340,247)
Cash flows from investing activities		
Payments for investments	-	(204,867)
Net cash outflows from investing activities	-	(204,867)
Cash flows from financing activities		
Proceeds from issue of shares	15,349,986	6,437,112
Capital raising costs	(1,116,717)	(255,920)
Proceeds from short term loan	302,194	-
Net cash inflows from financing activities	14,535,463	6,181,192
Net decrease in cash and cash equivalents	(416,432)	(3,363,922)
Cash and cash equivalents at the beginning of the financial period	720,307	4,084,229
Cash at the end of the financial period	303,875	720,307

This statement should be read in conjunction with the accompanying notes.

NOTE 1: BASIS OF PREPARATION

This preliminary final report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the financial report for the year ended 30 June 2017 and any public announcements made by MSM during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Statement of compliance

The preliminary final report is a general-purpose financial report and has been prepared in accordance with applicable Australian Accounting Standards, other pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The preliminary final report is also in compliance with ASX listing Rule 4.3.A and the disclosure requirements of ASX Appendix 4E. Australian Accounting Standards include Australian equivalents of International Reporting Standards ("AIFRS").

The preliminary financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

NOTE 2: SHARE-BASED PAYMENTS

The total movement arising from share-based payment transactions recognised during the reporting period were as follows:

	2018	2017
	\$	\$
Recognised as a share-based payment expense:		
Options issued to employees - Note 2(d)	226,173	116,675
Options, performance rights and shares issued to key management personnel Note 2(a), 2(d), 2(c)	109,495	375,029
Options issued for services - Note 2(b)(i), 2(b)(iii)	146,733	2,286,850
Shares issued for services - Note 2(b)(ii)	240,000	-
Performance Rights issued for services - Note 2(c)	2,081,009	-
Total share-based payment expense	2,803,410	2,778,554

(a) Options issued to Key Management Personnel

As announced on ASX, on 15 January 2018, Sophie McGill resigned as an executive director. As part of her remuneration package, Ms McGill was issued 2,000,000 unlisted options on 29 November 2016. These options vested over six equal instalments over a 3 year period and were exercisable at \$0.125 on or before 18 March 2020.

The Company had internally measured the fair value of options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of grant	29/11/2016
Exercise price	\$0.125
Underlying share price (at issue date)	\$0.235
Risk free interest rate	1.80%
Volatility	95%
Date of expiry	18/03/2020
Years to expiry	3.9 years
Number of options granted	2,000,000
Fair value of options	\$345,628

As at 15 January 2018, three of these instalments were yet to vest and accordingly were eligible for reversal. This resulted in a reversal of \$83,713 to share-based payment expense in the Statement of Profit or Loss and Other Comprehensive Income for the current year.

(b) Fair Value of Options and Shares issued for services

(i) Options issued for services (Prior period)

On 1 February 2017, the Company issued a total of 6,000,000 options to Cadmon Advisory Pty Ltd for advisory services. Management could not reliably determine the fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of grant	01/02/2017	01/02/2017	01/02/2017
Underlying share price (at issue date)	\$0.220	\$0.220	\$0.220
Risk free interest rate	1.81%	1.94%	1.94%
Volatility	95%	95%	95%
Numbers of options granted	2,000,000	2,000,000	2,000,000
Date of expiry	19/09/2018	19/09/2019	19/09/2019
Exercise price	\$0.350	\$0.400	\$0.450
Years to expiry	0.22 years	1.22 years	1.22 years
Fair Value of Options	\$149,319	\$191,780	\$180,163

The options above vested on 31 July 2017 and have therefore been expensed over the vesting period. As a result, a share-based payment expense for the total of \$89,773 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018 (30 June 2017: \$431,489).

(ii) Shares issued for services

On 18 August 2017, MSM issued 1,000,000 ordinary shares in lieu of cash for services rendered. In accordance with AASB 2 *Share-Based Payment*, as the fair value of the services was unable to be reliably measured, the fair value of the services was by reference to the fair value of the equity instruments granted.

As a result, a share-based payment expense of \$240,000 was recognised based on the share price of the equity instruments on grant date of \$0.24 per share.

(iii) Options issued for services

On 2 May 2018, the Company issued a total of 1,500,000 options to Mr Douglas Barry for services. Management could not reliably determine the fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of grant	02/05/2018
Exercise price	\$0.043
Underlying share price (at issue date)	\$0.043
Risk free interest rate	2.54%
Volatility	95%
Date of expiry	02/05/2028
Years to expiry	10.0 years
Number of options granted	1,500,000
Fair value of options	\$56,960

The options above vested immediately. As a result, a share-based payment expense for the total of \$56,960 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018.

(c) Fair Value of Performance Rights issued for services

During the period, the Company issued a total of 16,500,000 performance rights as detailed below:

- 2,500,000 Class D Performance Rights on 02/08/2017;
- 5,000,000 Class E Performance Rights on 17/08/2017;
- 5,000,000 Class F Performance Rights on 17/08/2017; and
- 4,000,000 Class G Performance Rights on 20/11/2017.

Class D Performance Rights (Celebrity Judge)

Class D performance rights were issued in three equal tranches, each with different market based performance milestones. Each performance share will convert into 1 ordinary share of MSM upon achievement of the performance milestone by the milestone expiry date. These performance rights have no service condition attached.

The performance rights were valued using the barrier trinomial valuation method. Details for each tranche are tabled below:

Tranche	Number	Grant Date	Exercise Price	Volatility	Expiry Date of Milestone Achievements	Fair value per Right	Total Fair Value
1	833,333	02/08/2017	Nil	95%	29/12/2021	\$0.19	\$157,500
2	833,333	02/08/2017	Nil	95%	29/12/2021	\$0.18	\$147,500
3	833,334	02/08/2017	Nil	95%	29/12/2021	\$0.17	\$140,000

Performance Milestones:

1. Vest upon achieving a market capitalisation of \$150 million, for a period of 30 consecutive days.
2. Vest upon achieving a market capitalisation of \$200 million, for a period of 30 consecutive days.
3. Vest upon achieving a market capitalisation of \$250 million, for a period of 30 consecutive days.

As a result, a share-based payment expense of \$445,000 was recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018.

Class E & F Performance Rights (Various)

On 17 August 2017, Class E and F performance rights were issued with different market and non-market based performance milestones. Each performance share will convert into 1 ordinary share of MSM upon achievement of the performance milestone by the milestone expiry date. These performance rights have no service condition attached.

The performance rights were valued using the barrier trinomial valuation method. Details for each class are tabled below:

Class	Number	Grant Date	Exercise Price	Volatility	Expiry Date of Milestone Achievements	Fair value per Right	Total Fair Value
E	5,000,000	17/08/2017	Nil	95%	29/12/2018	\$0.13	\$640,000

Performance Milestones:

- i. The Company \$5,000,000 in earnings before interest, tax, depreciation and amortisation (EBITDA);
- ii. The MSM Platform achieves a number of unique registered users of at least 1,000,000 as determined by Google Analytics; and
- iii. The Company achieves a market capitalisation of \$150 million for a period of 30 consecutive days.

Class	Number	Grant Date	Exercise Price	Volatility	Expiry Date of Milestone Achievements	Fair value per Right	Total Fair Value
F	5,000,000	17/08/2017	Nil	95%	29/12/2020	\$0.16	\$805,000

Performance Milestones:

- i. MSM achieves \$15,000,000 in earnings before interest, tax, depreciation and amortisation (EBITDA);
- ii. The MSM Platform achieves a number of unique registered users of at least 2,000,000 as determined by Google Analytics; and
- iii. MSM achieves a market capitalisation of \$250 million for a period of 30 consecutive days.

As a result, a share-based payment expense of \$1,445,000 was recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018.

Class G Performance Rights (Managing Director)

On 20 November 2017, at the Company's 2017 Annual General Meeting, the Company approved the issue of 4,000,000 performance rights to Mr Dion Sullivan, Managing Director of the Company. These performance rights will convert into 1 ordinary share of MSM upon completion of the performance milestone as per the below. These performance rights contain attached service conditions, whereby Mr Dion Sullivan must be employed at the date of the performance milestone is achieved for the performance rights to vest.

Class	Number	Grant Date	Exercise Price	Volatility	Expiry Date of Milestone Achievements	Fair Value per Right	Total Fair Value
G	4,000,000	20/11/2017	Nil	95%	20/11/2022	\$0.11	\$428,000

Performance Milestone:

- i. Vest upon achieving a market capitalisation of \$270 million, for a period of 30 consecutive days. This milestone expires on 20 November 2022.

As a result, a share-based payment expense of \$53,035 was recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018.

The total share-based payment expense arising from performance rights issued during the year was \$1,942,035, of which \$52,035 related to those issued to key management personnel.

Fair Value of Performance Rights (Prior period)

On 28 and 29 December 2016, the Company issued 7,800,000 performance rights. Of these performance rights, 6,000,000 were approved at the Company's 2016 annual general meeting on 29 November 2016 and were issued to executive and non-executive directors. The remaining rights were issued to corporate advisors.

These performance rights were issued in three classes, each with different market based performance milestones. Each performance share will convert into 1 ordinary share of MSM upon achievement of the performance milestone.

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The performance rights were valued using the barrier trinomial valuation method. The details of each class are tabled below:

	Class	Number	Grant Date	Exercise Price	Volatility	Expiry Date of Milestone Achievements	Fair value per Right \$	Total Fair Value \$
EXECUTIVE AND NON-EXECUTIVE DIRECTORS	A	1,600,000	29/11/2016	Nil	40%	29/12/2021	0.18	280,000
	B	1,600,000	29/11/2016	Nil	40%	29/12/2021	0.12	190,400
	C	1,600,000	29/11/2016	Nil	40%	29/12/2021	0.08	124,800
CORPORATE ADVISORS	A	600,000	28/12/2016	Nil	40%	29/12/2021	0.17	100,800
	B	600,000	28/12/2016	Nil	40%	29/12/2021	0.11	67,800
	C	600,000	28/12/2016	Nil	40%	29/12/2021	0.07	43,800

Performance Milestones:

- A. Vest upon achieving a market capitalisation of \$120 million, for a period of 30 consecutive days. This milestone expires on 29 December 2021.
- B. Vest upon achieving a market capitalisation of \$150 million, for a period of 30 consecutive days. This milestone expires on 29 December 2021.
- C. Vest upon achieving a market capitalisation of \$250 million, for a period of 30 consecutive days. This milestone expires on 29 December 2021.

The total expense arising from share-based payment transactions recognised during the year in relation to the prior period performance rights issued was \$290,983 of which \$99,975 relates to those issued to key management personnel.

(d) Equity options issued to Employees and KMP (MSM Music Inc.) – Stock Incentive Plan

During 2018, the Company issued various 'option equity' components as part of the remuneration package offered to employees and KMP appointed by MSM Music Inc. The component entitles the employee to a fixed percentage of the total shares in MSM Corporation International Limited at grant date, which vests over periods of 12, 24, 36 and 48 months, in equal instalments. The employee must remain in employment with the Company at each vesting date.

Under the 'option equity' agreements, eligible employees and KMP are entitled to 5,517,700 shares (30 June 2017: 4,792,252) in the Company.

The fair value of equity instruments granted is valued by direct reference to the total equity contributed in the Company at grant date and the respective share price on grant date.

As the equity option vests over 12, 24, 36 and 48 months, the share-based payment expense has been expensed over this vesting period. As a result, a share-based payment expense of \$249,001 (30 June 2017: \$190,910) has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year, of which \$41,198 relates to KMP.

The weighted average remaining contractual life of the options outstanding as at 30 June 2018 is 2.71 years (30 June 2017: 2.86 years).

NOTE 3: REVENUE AND EXPENSES

	2018	2017
	\$	\$
(a) Revenue and other income		
In App purchases	13,463	102
Interest and other income	19,636	67,261
	<u>33,099</u>	<u>67,363</u>
(b) Expenses		
Wages, salaries, director's fees and other remuneration expenses	2,928,497	1,326,878
Administration expense	1,588,603	983,168
Marketing expenses	1,613,167	-
Finance costs – short term loans	30,063	-
Finance costs – other	30,286	40,382
	<u>6,190,616</u>	<u>2,350,428</u>

NOTE 4: OTHER ASSETS

	2018	2017
	\$	\$
Current other assets		
Other receivables	25,168	85,818
GST recoverable	39,052	167,311
Prepayments	273,724	28,674
	<u>337,944</u>	<u>281,803</u>
Non-current other assets		
Other receivables	<u>75,887</u>	<u>92,362</u>

NOTE 5: FINANCIAL ASSETS

	2018	2017
	\$	\$
Balance at 1 July	604,402	538,003
New investments during the year	-	133,476
Foreign exchange movements	53,154	(67,077)
Unlisted investments at cost	<u>657,556</u>	<u>604,402</u>

On 7 July 2016, the Company made a strategic investment of US\$100,000 (A\$135,300) into Influential, a Los-Angeles based, mobile-first influencer marketing technology company which works with more than 7,000 top influencers on Facebook, Instagram, Snapchat, Twitter, Vine and YouTube, representing more than 4.4 billion followers and is expected to enhance the Company's social media capabilities ahead of the launch of the Megastar Millionaire competition platform.

On 5 April 2016, Megastar purchased 7,178,007 shares in WinWin Holdings Pty Ltd under Tranche 1 of a private placement agreement for US\$36,000 (A\$48,708).

On 3 August 2015, Megastar agreed to acquire a 5% equity interest in ToneDen, Inc. The consideration comprised:

- The payment of US\$100,000 (A\$135,300) on 7 August 2015;
- The payment of US\$50,000 (A\$67,650) on 8 December 2016; and
- US\$150,000 (A\$202,950) in the form of either cash or MSM shares, at MSM's election. This is accounted for under Trade and Other Payables (Note 6).

On 12 July 2015, Megastar entered into an unsecured convertible promissory note agreement with Digital Riot Media, LLC for the principal sum of US\$50,000 (A\$67,650).

The carrying amount of the unlisted investments is at cost as their fair value cannot be reliably measured at year end as the companies do not have quoted market prices.

Management have determined there is no objective evidence of impairment which would suggest the investments are impaired.

NOTE 6: TRADE AND OTHER PAYABLES

	2018	2017
	\$	\$
Trade creditors	2,529,474	395,655
Share subscription account ¹	172,000	-
Accruals	139,536	27,000
Investment loan	202,950	186,544
Total trade and other payables	3,043,960	609,199

Note 1: Share application funds received and not yet issued by the Company at 30 June 2018.

NOTE 7: BORROWINGS

	2018	2017
	\$	\$
Short term loans	303,650	-
Total borrowings	303,650	-

NOTE 8: PROVISIONS

	2018	2017
	\$	\$
Provision for prize money	-	1,243,626
Provision for employee benefits	58,838	54,082
Total provisions	58,838	1,297,708

NOTE 9: CONTRIBUTED EQUITY

Share capital at 30 June 2018	\$	No. of Shares	Amount per share
Balance at beginning of period	17,430,292	311,135,662	
Proceeds from shares issued	10,072,000	50,360,000	\$0.200
Proceeds from shares issued	3,400,000	22,666,667	\$0.150
Proceeds from shares issued	1,859,774	43,250,559	\$0.043
Shares issued for services <i>Note 2(b)(ii)</i>	240,000	1,000,000	\$0.240
Shares issued under 'equity option' agreement	-	1,823,637	-
Shares issued on conversion of options	18,207	182,066	\$0.100
Capital raising costs	(1,116,716)	-	
Total issued and paid up capital at the end of the period	31,903,556	430,418,591	

Share capital at 30 June 2017	\$	No. of Shares	Amount per share
Balance at beginning of period	11,249,100	276,802,110	-
Proceeds from shares issued under the public offer	4,882,000	17,435,715	\$0.28
Share issued under 'equity option' agreement (Note 3(c))	-	1,346,721	-
Shares issued on conversion of options	1,555,112	15,551,116	\$0.10
Capital raising costs	(255,920)	-	-
Total issued and paid up capital at the end of the period	17,430,292	311,135,662	

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

For information relating to options, shares and performance rights issued to employees, advisors, vendors and key management personnel during the financial year, refer to Note 2.

NOTE 10: BASIC LOSS PER SHARE

	2018 \$	2017 \$
Basic loss per share	0.05	0.04
Diluted loss per share	0.05	0.04

Basic loss per share

The loss and weighted average number of ordinary shares used in the calculation of the basic and diluted loss per share are as follows:

Net loss	(18,921,838)	(12,969,655)
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	384,615,658	301,558,520

NOTE 11: RESERVES

Share-Based Payment Reserve

	2018 \$	2017 \$
Opening Balance	5,089,753	2,311,199
Options, shares and performance rights issued to key management personnel	68,297	375,029
Options issued to other employees	267,371	116,675
Options issued for consulting and advisory services	146,733	2,286,850
Performance rights issued	2,081,009	-
	2,563,410	5,089,753

Foreign Exchange Translation Reserve

Opening Balance	(140,955)	185,483
Exchange differences on foreign operations	62,012	(326,438)
	(78,944)	(140,955)
Total Reserves	7,574,220	4,948,798

NOTE 12: COMMITMENTS

Under the terms of the agreement to acquire an equity interest in WinWin Holdings Pty Ltd (Note 5), the Company has committed to provide services under the terms of a software development agreement to the value of AUD\$152,146. Upon completion of these services, the Company will receive a further 12.4% equity interest in WinWin Holdings Pty Ltd.

The second part of the payment of US\$150,000 (A\$202,950) for the acquisition of 5% equity interest in ToneDen, Inc. which may be paid in either cash or shares and as referred to in Note 6 is yet to be settled.

As part of the acquisition transaction with Minerals Corporation Limited, the Company continues to be liable for payment of tenement expenditure in relation to EPM 4068 until such time as the Queensland Department of Natural Resources and Mines grant the Mineral Development Licence. The quarterly commitment is \$12,500.

Operating Lease Commitments

	2018	2017
	\$	\$
Non-cancellable operating leases contracted for but not recognised in the financial statements		
Payable – minimum lease payments		
• Not later than 12 months	182,070	173,369
• Later than 12 months	478,696	647,786
	660,766	821,156

There have been no other changes in commitments requiring disclosure since the last annual reporting date, 30 June 2017.

NOTE 13: CONTINGENT LIABILITIES

Contingent Payments

	2018	2017
	\$	\$
Contingent Payments	23,001	311,831

During the year the Company entered into various contracts for the promotion of the Megastar brand, payment of contracts are contingent on the achievement of certain milestones including measured audience reach, social media posts, number of public appearances and media interviews.

There have been no other changes in contingent liabilities or payments requiring disclosure since the last annual reporting date, 30 June 2017.

NOTE 14: SUBSEQUENT EVENTS

On 5 July 2018, the Company announced:

- The allotment of 42,000,000 ordinary shares and 10,500,000 listed \$0.10 options expiring 7 November 2019 on a 1 for 4 basis in relation to the shortfall on the Entitlement Issue as announced 14 June 2018 and 20,000,000 listed \$0.10 options expiring 7 November 2019 on a 1 for 2 basis to participants pursuant to the placement announced 8 February 2018, following shareholder approval at the general meeting held 22 June 2018.
- Ms Danika Mullins was contracted as an interim Chief Marketing Officer to deliver a flexible, cost effective and multi-dimensional approach to leveraging MSM's significant existing IP and technical capabilities.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- a) the Group's operations in future financial years, or
- b) the results of those operations in future financial years, or
- c) the Group's state of affairs in future financial years.