Mach7 Technologies Limited

ABN 26 007 817 192

and Controlled Entities (Mach7 Technologies Group)

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

For the year ended 30 June 2019

(Previous corresponding period: year ended 30 June 2018)

Provided to the ASX in accordance with listing rule 4.3A

Mach7 Technologies Limited
(ACN 007 817 192 ABN 26 007 817 192)
Level 2 | 20 Collins St | Melbourne
VIC 3000 Australia

Mach7 Technologies Limited

ASX Appendix 4E
Preliminary Final Report
YEAR ENDED 30 JUNE 2019

Results for announcement to the market

Current reporting period 1 July 2018 to 30 June 2019
Previous corresponding period 1 July 2017 to 30 June 2018

		% Change		$'000
Revenue from continuing operations	up	8%	to	9,347
Net loss for the year	up	43%	to	7,059
Net loss for the year attributable to members	up	43%	to	7,059
Dividends				
Interim dividend		–		–
Final dividend		–		–

Consolidated accumulated losses	Current period $'000	Previous Corresponding period $'000
Accumulated losses at the beginning of the financial period	(44,765)	(39,812)
Net loss attributable to equity holders	(7,059)	(4,953)
Accumulated losses at the end of the financial period	(51,824)	(44,765)

Earnings per share (EPS)	Current period	Previous Corresponding period
Basic EPS	Loss 5.1 cents	Loss 3.9 cents
Diluted EPS	Loss 5.1 cents	Loss 3.9 cents
Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	138,531,632	126,365,875
Net tangible asset (NTA) backing		
Net tangible asset backing per ordinary share	1 cent	2 cents

Comments by directors
Please refer to the "Operating and Financial Review" in the directors' report for a detailed explanation and analysis of the Group's performance for the 12 months ended 30 June 2019.

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

Mach7 Technologies Limited

Directors' Report

YEAR ENDED 30 JUNE 2019

Your directors submit their report for the year ended 30 June 2019.

Directors and Company Secretary

The following persons were Directors or Company Secretary of the Company at any time during the current financial year, or since 30 June 2019 up to the date of this report:

Mr David Chambers	Chairman (Appointed Director 3 August 2018 and Chair 24 June 2019)
Mr Damien Lim	Non-Executive Director (Resigned as Chair on 24 June 2019)
Mr Nigel Finch	Non-Executive Director (Resigned 3 August 2018)
Mr Nobuhiko Ito	Non-Executive Director (Resigned 3 August 2018)
Mr Michael Jackman	CEO, Managing Director (Resigned 10 March 2019)
Mr Michael Lampron	Managing Director (Appointed 24 June 2019)
Eliot Siegel, MD	Non-Executive Director (Appointed 3 August 2018)
Mr A. Wayne Spittle	Non-Executive Director
Ms Jennifer Pilcher	Company Secretary

Information of directors

Directors' and the Company Secretary qualifications, experience, special responsibilities and period in office are set out in the section of this document entitled "Board of Directors and Company Secretary" on pages 73-74.

Directors' relevant interest in Mach7 Technologies Limited securities

The directors' interests in the shares and options of Mach7 Technologies Limited at 30 June 2019 were:

Director	Ordinary Shares No.	Options No.
Mr David Chambers	-	225,000
Mr Michael Lampron	-	700,000
Mr Damien Lim#	350,000	308,333
Eliot Siegel, MD	-	225,000
Mr A. Wayne Spittle	250,000	308,333

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

Committee membership

As at the date of this Report, the Group had an Audit & Risk Management Committee and a Remuneration & Nomination Committee. Members acting on the committees of the Board during the year were:

	Audit & Risk Management	Remuneration & Nomination
Mr Damien Lim	Member	Chair
Mr A. Wayne Spittle	Chair	Member
Eliot Siegel, MD	-	Member
Mr David Chambers	Member	-

Mach7 Technologies Limited

Directors’ Report

YEAR ENDED 30 JUNE 2019

Directors’ meetings

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

	Board		Audit & Risk Management Committee		Remuneration & Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
David Chambers	10	10	2	2	1	1
Nigel Finch	1	0	0	0	0	0
Nobuhiko Ito	1	0	0	0	0	0
Michael Jackman	7	7	na	2*	0	1*
Michael Lampron	0	0	na	2*	0	0
Damien Lim	10	10	2	2	1	1
Eliot Siegel	10	9	0	0	1	1
Wayne Spittle	10	9	2	2	1	1

**attended by invitation*

Dividends

Mach7 Technologies Limited did not declare or pay any dividends during the financial year (2018: nil).

Principal activities

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

Operating and financial review

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

- Financial position
- Review and results of operations
- Business strategies and prospects for future years
- Business risks to achieving corporate strategy

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

Financial position

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

CONSOLIDATED	As at 30 June 2019	As at 30 June 2018	Movement
	$	$	%
Cash (including all cash deposits)	**2,267,448**	2,504,587	(9%)
Deferred revenue – yet to be recognised	**(3,478,189)**	(2,715,538)	28%
Net current assets / (liabilities)	**729,013**	2,503,373	(71%)
Net tangible assets	**1,982,836**	2,995,615	(34%)
Intangible assets net of associated deferred tax liability	**8,382,384**	11,251,185	(25%)
Deferred tax liability arising on intangible assets	**(2,202,642)**	(2,966,622)	(26%)
Net assets	**10,365,222**	14,246,800	(27%)

Operating and financial review (continued)

Cash & cashflows

The Group reported cash balances as at 30 June 2019 of $2.3 million (2018: $2.5 million), largely unchanged. During the current year, the Group spent a net $2.9 million on operations (2018: $2.2 million). This cash deficit for the year was funded from a capital raise, which generated $2.8 million (net of fees) of cash for the Company. The increase in net cash outflows compared to the prior year can be attributable to the sales mix for the current year, which included a significant portion of third-party product licences sold to Hospital Authority of Hong Kong. This resulted in a large cash payment to our supplier. In the current year, the Company paid a contract deposit of $0.7 million as a performance bond to Hospital Authority of Hong Kong. The Company funded this deposit by obtaining a loan of $0.6 million from certain Company directors and one third party.

Deferred revenue

The Group's deferred revenue balance increased by $0.8 million or 28% to $3.5 million from the prior year (2018: $2.7 million). Deferred revenue represents cash amounts that have been collected from customers that will be recognised as revenue as and when the professional services and/or support services are performed. This balance is a non-cash item and does not form part of the Company's working capital.

Net current assets

The Group reported positive net current assets at 30 June 2019 of $0.7 million (2018: $2.5 million). The decrease in net current assets of $1.8 million or 71% can be attributed to the increase in deferred revenue discussed above, together with the loan of $0.6 million obtained to fund the Hospital Authority of Hong Kong customer deposit.

Net tangible assets (NTA)

The Group reported positive net tangible assets at 30 June 2019 of $2.0 million (2018: $3.0 million). The decrease in NTA of $1.0 million or 34% is a result of the decrease in net current assets of $1.8 million explained above, offset by the Hospital Authority of Hong Kong customer deposit of $0.7 million which is recorded as a non-current asset.

Net assets

The Group reported positive net assets balance at 30 June 2019 of $10.4 million (2018: $14.2 million). The decrease in net assets of 27% can be attributed to the amortisation of intangible assets and associated deferred tax liability. These balances will be fully amortised by 30 June 2023.

Review and results of operations

Revenue from continuing operations

The Group reported revenue from operations for the current year of $9.3 million (2018: $8.6 million), an increase in revenues of $0.7 million or 8%.

Asia-Pacific

The increase in revenues can be attributed to the growth in the Asia-Pacific region as a result of the Hospital Authority of Hong Kong won in October 2018. This contract is worth at least $15 million over five years, the Group's largest contract to date. In FY2019, the Group has recognised $1.5 million from this contract, and is expecting to recognise at least a further $13.5 million over the remaining contract period.

Directors' Report

YEAR ENDED 30 JUNE 2019

Operating and financial review (continued)

United States

Revenue for the United States region was down by $2.1 million to $5.5 million (2018: $7.6 million) compared to the prior year. The Group had a similar level of growth in terms of new customers added as the prior year, however these new customers were generally smaller healthcare institutions and therefore the average deal size was much lower than the prior year, which included contracts with University of Vermont and Sentara Healthcare – which are both sizable health care institutions.

A breakdown of revenues by category and region can be found in note 6 to the financial statements.

Sales Orders

From a sales order value perspective, the Group achieved 62% growth over the prior year, generating $21 million (2018: $13.0 million) in new sales orders (total contract revenue value, assuming a five-year contract period). This significant growth is validating the Group's commercial strategy for the enterprise imaging market.

Contracted Annual Recurring Revenue (CARR)

CARR is a very important indicator for the Group, representing the amount of annual recurring support and maintenance fees, and subscription fees, that are currently under contract. CARR has increased by 49% from $5.3 million to $7.9 million at 30 June 2019. This means, once all customers reach "first productive use" (FPU) stage, the Group will recognise $7.9 million annually in support fees from its existing customers. Typically, every new sales order has a support contract component and will add to this CARR balance.

Operating expenses from continuing operations

The Group reported operating expenditure for the year of $13.1 million (2018: $11.6 million), an increase of $1.5 million or 13% over the prior year. Operating expenses for the current year included $1.6 million (2018: $0.4 million) for licenses to third party software which Mach7 has resold, which accounts for the increase in operating expenses. All other categories of operating expenditure were largely in line (movements of 5% or less) with the prior year.

Net loss after tax

The Group reported a net loss after tax of $7.1 million for the year (2018: net loss of $5.0 million), an increase of $2.1 million or 43% over the prior year. The current year included a significant reduction of $1.6 million to the income tax benefit (non-cash) recorded, as a result of the United States federal tax rate cuts.

Operating and financial review (continued)

Table 3. EBITDA (adjusted) and net loss after tax

CONSOLIDATED	2019	2018	Movement
	$	$	%
Revenues	**9,347,146**	8,644,345	8%
Operating expenses (including distributor fees)	**(13,113,385)**	(11,577,916)	13%
Other income / (expenses) net	**(108,458)**	296,318	(137%)
EBITDA loss (adjusted)	**(3,874,697)**	(2,637,253)	47%
Share-based payments expense (non-cash)	**(195,538)**	(967,138)	(80%)
Interest expense	**(45,246)**	(11,348)	299%
Depreciation and amortisation charges (non-cash)	**(3,707,228)**	(3,700,467)	0%
Net loss before tax	**(7,822,709)**	(7,316,206)	7%
Income tax benefit (non-cash)	**763,980**	2,362,810	(68%)
Net loss after tax	**(7,058,729)**	(4,953,396)	43%

Business strategies and prospects for future years
The Group continues to focus on gaining market share in the enterprise imaging market. Regionally, it is focused on the United States, Asia and the Middle East markets where Mach7 has an established brand. During the year, Mach7 has invested in additional sales & operational resources to take advantage of the sales momentum the Group is experiencing.

The Group continues to invest in internal product development and innovation, with a major focus on enterprise imaging and interoperability. Mach7 prides itself on providing a leading-edge product to its customers and product development remains a core focus of the Group.

During the year, the Group announced a free cashflow breakeven target for the 12 months ending 29 February 2020. The Group remains on track to meet this target. Becoming cash flow breakeven is an important milestone for the Group, which will ultimately lead to the Group becoming profitable.

Key business risks
The Group's operations are subject to a number of risks. The Board, through its Audit and Risk Management Committee, regularly reviews the possible impact of these risks and seeks to minimise this impact through a commitment to its corporate governance principles and its various risk management functions. A number of specific risk factors that may impact the future performance of the Company are described below.

Shareholders should note that this list is not exhaustive, and only includes risks that could affect the Group's financial prospects, taking into account the nature and business of the Group and its business strategy.

(a) Commercialisation and new technology risk

The principal activity of the Group is the provision of enterprise imaging data storage sharing, storage and interoperability for healthcare enterprises. There is a risk that the Group will be unable to attract sufficient customers to be sufficiently profitable to fund future operations. In addition, commercial success of new technology is subject to inherent uncertainty due to unknown variables.

Directors' Report

YEAR ENDED 30 JUNE 2019

Operating and financial review (continued)

(b) Competition and new technologies

The industry in which the Group is involved is subject to increasing domestic and global competition which is fast-paced and fast-changing. Whilst the Group will undertake all reasonable due diligence in its business decisions and operations, it will have no influence or control over the activities or actions of its competitors, whose activities or actions may positively, or negatively affect the operating and financial performance of its business. For instance, the image management platform may be superseded by new and cheaper technology creating competitive pressures, in which case, the Group's revenues and profitability could be adversely affected.

(c) Risks associated with the regulatory environment

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

Risk management

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

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group.

Events occurring after balance date

There have been no significant events occurring after balance date that would materially impact these financial statements.

Likely developments and expected results from operation

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

Environmental regulation

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

Directors' Report

YEAR ENDED 30 JUNE 2019

Remuneration Report (Audited)

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

This report has been divided into the following sections:

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

Key Management Personnel (KMP) covered in this report:

Non-executive Directors (NED)	Role	Period covered for remuneration
David Chambers	Non-Executive Chairman*	From 3 August 2018
Dr Nigel Finch	Non-Executive Director	To 3 August 2018
Nobuhiko Ito	Non-Executive Director	To 3 August 2018
Damien Lim	Non-Executive Director*	Full year
Eliot Siegel	Non-Executive Director	From 3 August 2018
A. Wayne Spittle	Non-Executive Director	Full year
Executives		
Michael Jackman	Managing Director, CEO	To 10 March 2019
Ravi Krishnan	Founder, Chief Strategy Officer	Full year
Mike Lampron	Managing Director (formerly Chief Operating Officer)^	Full year
Jenni Pilcher	Chief Financial Officer	Full year
J. Eric Rice	Chief Technology Officer	To 15 March 2019

*David Chambers replaced Damien Lim as Chair of the board on 24 June 2019.

^Mike Lampron was promoted from Chief Operating Officer to Interim CEO on 10 March 2019, and appointed to the board as Managing Director on 24 June 2019.

Remuneration report (continued)

Service agreements

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

Component	Requirement	Applicable to
Fixed remuneration	$521,340	Michael Jackman, CEO
Fixed remuneration	Range $280,000 to $325,000	All executives other than M.Jackman
Contract duration	Ongoing	All executives
Termination of employment (without cause) by Company or by individual	3 – 6 months' notice	All executives
Termination of employment (for cause)	Terminated immediately	All executives
Change of control*	At least (30) days' notice, and one year's base salary	CSO and Founder, CTO and COO

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

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward.

The Board of Directors ('the **Board**') ensures that executive reward satisfies the following key criteria for good reward governance practices:

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

The Board, through its Nomination and Remuneration Committee, is responsible for determining and reviewing remuneration arrangements for the Group's directors and executives. The performance of the Group depends on the quality of its directors and executives. The Group's remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

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

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

Remuneration report (continued)

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

Non-executive directors' remuneration framework

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

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, seek advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with market standards. Remuneration for Non-Executive Directors (NEDs) may contain any or all of the following:

- Annual fees, reflecting the value of the individual's personal performance, time commitment and responsibilities of the role;
- Equity based remuneration, issues of shares or securities, reflecting the contribution of the Director toward the Group's medium and long term performance objectives (each award is subject to shareholder approval);
- Other benefits required by law, for example, superannuation payments.

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

The fees awarded to Directors are as follows:

	From 1 November 2017	From 1 May 2017	From 1 April 2016
Base fee			
Chair	$25,000	$80,000	$100,000
Director*	$20,000	$40,000	$50,000
Chair of a committee	Nil	Nil	$5,000

*Applies to A.W.Spittle only. E.Siegel and D.Chambers are not paid directors fees at the date of this report.

Executive remuneration framework and link to performance

The Consolidated Entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components. The executive remuneration and reward framework has six main components all of which constitute the executive's total remuneration:

Fixed remuneration:

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

Remuneration report (continued)

Performance-based remuneration:

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

Fixed remuneration

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

Performance-based remuneration

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

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

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

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

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

Statutory performance indicators

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

Directors' Report

YEAR ENDED 30 JUNE 2019

Remuneration report (continued)

	30 June 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Loss for the year	(7,058,729)	(4,953,396)	(17,659,098)	(12,629,483)	(6,909,809)
Basic loss per share (cents)	(5.1)	(3.9)	(16.3)	(24.1)	(36.0)
Improvement in basic loss cents per share	(1.2)	12.4	7.8	11.9	–
Dividend payments	–	–	–	–	–
Dividend payout ratio (%)	–	–	–	–	–
Share price (cents)	47.5	21	16	34	94
% change in share price	126%	+31%	-53%	-64%	–
ASX symbol	M7T	M7T	M7T	M7T	3DM

Short-Term Incentive Program (STIP)

Description of the plan

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

Appropriate STIP incentive

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

Performance period

1 July 2018 to 30 June 2019.

Performance conditions

No specific performance conditions were set for the current financial year.

Choice of performance conditions

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

Remuneration report (continued)

Assessment of performance conditions

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

Delivery of the STIP

Two executives have the following delivery conditions for STI payments:

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

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

Cessation of employment

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

All other senior executives must remain employed with the Group in a full-time or permanent part-time position for the duration of the performance period to be eligible to receive the STI Payment. The Board reserves the right to determine the treatment of any award that is granted to an Executive under the STI Plan rules.

STI outcomes in the current year

No STI were awarded during the current financial year.

Remuneration report (continued)

Long-Term Incentive Program (LTIP)

Description of the plan

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

Performance period

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

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

Cessation of employment

If a senior executive or non-executive director ceases to be employed or engaged by the Group for any reason other than as a result of a Qualifying Event, any performance rights and equity options held by the participant, whether vested or not, will lapse immediately on the participant ceasing to be employed.

A Qualifying Event means:

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

Where a participant in the LTIP scheme ceases to be employed by the Group as a result of a Qualifying Event, the Board may, in its absolute discretion, make a determination as to whether some or all of those performance rights or equity options become vested at the time of the cessation of employment of the participant or another date determined by the Board.

Restrictions on dealing in company securities

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

Mach7 Technologies Limited

Directors' Report

YEAR ENDED 30 JUNE 2019

Remuneration report (continued)

Amounts of remuneration

Table 1: Remuneration for KMP for the years ended 30 June 2019 and 30 June 2018

	Short term				Post-employment	Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other	Superannuation Contributions	Options	Shares		
	$	$	$	$	$	$	$	$	%
Directors (non-executive)									
David Chambers - Chairman[1]									
2019	–	–	–	–	–	**10,399**	–	**10,399**	–
2018	–	–	–	–	–	–	–	–	–
Nigel Finch[2]									
2019	**6,666**	–		–	–	–	–	**6,666**	–
2018	10,000	–	–	–	–	29,089	–	39,089	–
Nobuhiko Ito[3]									
2019	**1,863**	–		–	–	–	–	**1,863**	–
2018	10,000	–	–	–	–	29,089	11,003	50,092	–
Damien Lim									
2019	**25,000**	–	–	–	–	**9,389**	–	**34,389**	–
2018	10,000	–	–	–	–	29,089	22,006	61,095	–
Eliot Siegel[4]									
2019	–	–	–	–	–	**10,399**	–	**10,399**	–
2018	–	–	–	–	–	–	–	–	–
Wayne Spittle									
2019	**18,265**	–		–	**1,735**	**15,381**	–	**35,381**	–
2018	8,843	–	–	–	1,157	26,026	–	36,026	–
Sub-total Non-executive Directors									
2019	**51,794**	–	–	–	**1,735**	**45,568**	–	**99,097**	–
2018	38,843	0	0	0	1,157	113,293	33,009	186,302	–

1) David Chambers joined 3 August 2018, appointed Chair 24 June 2019

2) Nigel Finch departed 3 August 2018

3) Nobuhiko Ito departed 3 August 2018

4) Eliot Siegel joined 3 August 2018

(table 1 continues next page)

Directors' Report

YEAR ENDED 30 JUNE 2019

Remuneration report (continued)

Table 1: Remuneration for KMP for the years ended 30 June 2019 and 30 June 2018 (continued)

	Short term				Post-employment	Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Non-monetary Benefits	Other	Superannuation Contributions	Options/ Rights	Shares		
	$	$	$	$	$	$	$	$	%
Executives									
Mike Lampron – Managing Director[5]									
2019	**279,603**	**–**	**24,851**	**16,442**	**4,255**	**38,153**	**–**	**363,304**	**5%**
2018	261,763	–	22,411	8,314	–	15,272	–	307,760	3%
Mike Jackman – CEO, Managing Director[6]									
2019	**361,602**	**–**	**19,265**	**246,669**	**–**	**72,538**	**–**	**700,074**	**35%**
2018	430,886	38,780	16,079	–	–	610,006	–	1,095,751	–
Ravi Krishnan									
2019	**320,103**	**–**	**–**	**5,142**	**17,361**	**40,073**	**–**	**382,679**	**1%**
2018	301,003	–	–	–	15,735	46,446	–	363,184	–
Jenni Pilcher									
2019	**300,000**	**–**	**–**	**–**	**28,500**	**40,073**	**–**	**368,573**	**–**
2018	300,000	–	–	–	28,500	59,696	–	388,196	–
J. Eric Rice[7]									
2019	**216,233**	**–**	**19,835**	**17,142**	**4,677**	**10,744**	**–**	**268,631**	**6%**
2018	278,154	–	22,055	–	5,494	48,627	–	354,330	–
Sub-total Executives									
2019	**1,477,541**	**–**	**63,951**	**285,395**	**54,793**	**201,581**	**–**	**2,083,261**	**14%**
2018	1,571,806	38,780	60,545	8,314	49,729	780,047	0	2,509,221	3%
Grand totals									
2019	**1,529,335**	**–**	**63,951**	**285,395**	**56,528**	**247,149**	**–**	**2,182,358**	**13%**
2018	1,610,649	38,780	60,546	8,314	50,886	893,339	33,009	2,695,523	1%

5) Mike Lampron promoted to interim CEO on 10 March 2019, and to Managing Director 24 June 2019

6) Mike Jackman departed 10 March 2019

7) Eric Rice departed 15 March 2018

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

Remuneration report (continued)

Options provided as compensation

Tables 2 and 3 below discloses the number of share options granted to executives during the current and prior financial years. Share options are options over ordinary shares in Mach7 Technologies Limited, do not carry any voting or dividend rights, and only can be exercised once the vesting conditions have been met until their expiry date.

<u>Table 2: Compensation options: granted and vested during the year</u>

2019	Granted (No.)	Grant date	Fair value per option at grant date*	Exercise price*	Expiry date	Vesting date	Vested during year (No.)	% Vested of holding
Michael Jackman	1,870,000	01-Aug-18	$0.109	$0.195	01-Aug-22	01-Aug-18	1,870,000	100%
Michael Jackman	1,130,000	01-Aug-18	$0.114	$0.195	01-Aug-22	01-Sep-19	–	0%
Michael Jackman	300,000	01-Aug-18	$0.090	$0.400	01-Aug-22	01-Nov-19	–	0%
Michael Jackman	300,000	01-Aug-18	$0.083	$0.500	01-Aug-22	01-Mar-20	–	0%
Michael Jackman	300,000	01-Aug-18	$0.077	$0.600	01-Aug-22	01-May-20	–	0%
Michael Jackman	300,000	01-Aug-18	$0.059	$1.000	01-Aug-22	01-Sep-20	–	0%
Eliot Siegel	225,000	12-Nov-18	$0.153	$0.244	12-Nov-23	Note 2	–	0%
David Chambers	225,000	12-Nov-18	$0.153	$0.244	12-Nov-23	Note 2	–	0%
Ravi Krishnan	225,000	17-Oct-18	$0.131	$0.185	17-Oct-23	Note 2	–	0%
Michael Lampron	350,000	17-Oct-18	$0.131	$0.185	17-Oct-23	Note 2	–	0%
Jenni Pilcher	225,000	17-Oct-18	$0.131	$0.185	17-Oct-23	Note 2	–	0%
J. Eric Rice	500,000	17-Oct-18	$0.131	$0.185	17-Oct-23	Note 2	–	0%
	5,950,000						1,870,000	
2018								
Damien Lim	183,333	11-Dec-17	$0.148	$0.23	11-Dec-22	Note 1	33,333	11%
Dr Nigel Finch	183,333	11-Dec-17	$0.148	$0.23	11-Dec-22	Note 1	33,333	11%
Nobuhiko Ito	183,333	11-Dec-17	$0.148	$0.23	11-Dec-22	Note 1	33,333	11%
A. Wayne Spittle	183,333	11-Dec-17	$0.148	$0.23	11-Dec-22	Note 1	33,333	11%
Ravi Krishnan	200,000	03-Nov-17	$0.107	$0.17	03-Nov-22	Note 2	113,334	21%
Michael Lampron	350,000	03-Nov-17	$0.107	$0.17	03-Nov-22	Note 2	–	–
Jenni Pilcher	200,000	03-Nov-17	$0.107	$0.17	03-Nov-22	Note 2	213,334	29%
Eric Rice	250,000	03-Nov-17	$0.107	$0.17	03-Nov-22	Note 2	113,334	19%
Total	**1,733,332**						**573,334**	**18%**

Note 1: 33,333 vest 11 Dec. 2017, remaining 150,000 vest in equal instalments - being 1/3 each anniversary of grant date.

Note 2: Vest in equal instalments - being 1/3 each anniversary of grant date.

Remuneration report (continued)

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

	Value of options granted during the year[1]	Value of options exercised during the year[2]
	$	$
David Chambers	34,335	–
Eliot Siegel	34,335	–
Ravi Krishnan	29,430	–
Michael Lampron	45,780	–
Mr M Jackman	424,769	80,000
Jenni Pilcher	29,430	–
J. Eric Rice	65,400	417
Total	663,479	80,417

1. Value is calculated at the time the options are granted (in accordance with accounting standards)
2. Value is calculated at the time the options are exercised

Remuneration mix

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

Table 4: Relative percentages of remuneration and performance awards

	% Fixed		% Short-term Incentive (STI)		% Options/Shares		% STI Awarded	% STI Forfeited
	2019	2018	**2019**	2018	**2019**	2018	**2019**	**2019**
David Chambers	–	–	–	–	100%	–	–	–
Dr Nigel Finch	100%	26%	–	–	0%	74%	–	–
Nobuhiko Ito	100%	20%	–	–	0%	80%	–	–
Damien Lim	73%	16%	–	–	27%	84%	–	–
Eliot Siegel	–	–		–	100%	–	–	–
A. Wayne Spittle	57%	28%	–	–	43%	72%	–	–
Mike Lampron	84%	95%	5%*	–	11%	5%	–	–
Mike Jackman	90%	44%	–	–	10%	56%	–	–
Ravi Krishnan	88%	87%	1%*	–	11%	13%	–	–
Jenni Pilcher	89%	85%	–	–	11%	15%	–	–
Eric Rice	96%	86%	–	–	4%	14%	–	–

*sales commission

Remuneration report (continued)

Equity holdings of KMP

Options over ordinary shares held in Mach7 Technologies Limited by KMP as at 30 June 2019 are as follows:

Table 5: Option holdings of Key Management Personnel

	Balance	Granted as remuneration	Options exercised	Options lapsed	Grant year of options lapsed	**Balance**	**Vested & exercisable**
	No.	No.	No.	No.	FY	No.	No.
2019	01-Jul-18					**30-Jun-19**	**30-Jun-19**
David Chambers	-	225,000	-	-		**225,000**	**-**
Nigel Finch	308,333	-	-	(150,000)	FY2018	**158,333**	**158,333**
Nobuhiko Ito	308,333	-	-	(150,000)	FY2018	**158,333**	**158,333**
Michael Jackman	-	4,200,000	(500,000)	(2,330,000)	FY2018	**1,370,000**	**1,370,000**
Ravindran Krishnan	540,000	225,000	-	-		**765,000**	**293,334**
Michael Lampron	350,000	350,000	-	-		**700,000**	**116,667**
Damien Lim	308,333		-	-		**308,333**	**208,333**
Jenni Pilcher	740,000	225,000	-	-		**965,000**	**493,334**
J. Eric Rice	590,000	500,000	(83,334)	(1,006,666)*	Note 1	**-**	**-**
Eliot Siegel, MD	-	225,000	-	-		**225,000**	**-**
A. Wayne Spittle	308,333	-	-	-		**308,333**	**208,333**
	3,453,332	**5,950,000**	**(583,334)**	**(3,636,666)**		**5,183,332**	**3,006,667**

Note 1: Of 1,006,666 options lapsed - 340,000, 166,666 and 500,000 options were granted in FY2017, FY2018 and FY2019 respectively.

Ordinary shares held in Mach7 Technologies Limited (number) by KMP as at 30 June 2019 are as follows:

Table 6: Shareholding of Key Management Personnel

	Balance	Granted as remuneration	Issued on exercise of options/vesting performance rights	Purchased/ (sold) at market value	Balance
	No.	No.	No.	No.	No.
2019	01-Jul-18				**30-Jun-19**
Nigel Finch	682,598	-	-	(272,598)	410,000
Nobuhiko Ito	952,419	-	-	-	952,419
Mike Jackman	1,391,856	-	1,852,194	(250,000)	2,994,050
Ravi Krishnan	5,780,561	-	-	-	5,780,561
Damien Lim#	350,000	-	-	-	350,000
Jenni Pilcher	291,668	-	-	-	291,668
A. Wayne Spittle	250,000	-	-	-	250,000
J. Eric Rice	913,382	-	83,334	(389,746)	606,970

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

Remuneration report (continued)

Shares issued on exercise of compensation options

There were no shares issued on exercise of options granted as compensation during the period (2018: Nil).

Other transactions with key management personnel and their related parties

There have been no other transactions with KMPs during the year.

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

At the most recent AGM held by the Company on 12 November 2018, the remuneration report for the year ended 30 June 2018 was adopted by shareholders on a unanimous show of hands. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

This concludes the remuneration report which has been audited.

Shares under option

Unissued ordinary shares of Mach7 Technologies Limited under option at the date of this report, together with shares issued upon exercise of options, can be found in Note 22 to the financial statements. There has been no change in options outstanding since 30 June 2019 and the date of this report.

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

Insurance and indemnification of directors and officers

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

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

Indemnification of auditors

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

Directors' Report

YEAR ENDED 30 JUNE 2019

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 30 to the financial statements.

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

The directors are of the opinion that the services as disclosed in Note 30 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 21.

Proceedings on behalf of the Company

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

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

David Chambers
Chairman
Signed at Melbourne on 26 August 2019

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Mach7 Technologies Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM AUSTRALIA PARTNERS

R B MIANO
Partner

Dated: 26 August 2019
Melbourne, Victoria

Statement of Financial Position

AS AT 30 JUNE 2019

		CONSOLIDATED	
	Note	2019	2018
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	2,267,448	2,504,587
Trade and other receivables	12	1,886,509	1,447,282
Customer contract assets	13	1,605,371	2,346,484
Other current assets	14	173,955	197,519
TOTAL CURRENT ASSETS		5,933,283	6,495,872
NON-CURRENT ASSETS			
Plant and equipment	15	187,432	174,226
Investments	16	318,016	318,016
Contract deposits	6	748,377	-
Intangible assets	17	10,585,026	14,217,807
TOTAL NON-CURRENT ASSETS		11,838,851	14,710,049
TOTAL ASSETS		17,772,134	21,205,921
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	1,112,592	1,263,423
Customer contract liabilities	19	3,478,189	2,715,538
Interest bearing liabilities	20	613,489	13,538
TOTAL CURRENT LIABILITIES		5,204,270	3,992,499
NON-CURRENT LIABILITIES			
Deferred tax liability	21	2,202,642	2,966,622
TOTAL NON-CURRENT LIABILITIES		2,202,642	2,966,622
TOTAL LIABILITIES		7,406,912	6,959,121
NET ASSETS		10,365,222	14,246,800
EQUITY			
Contributed equity	22	58,845,390	55,557,122
Reserves	23	3,343,734	3,454,851
Accumulated losses		(51,823,902)	(44,765,173)
TOTAL EQUITY		10,365,222	14,246,800

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

Statement of Profit and Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019

		CONSOLIDATED	
	Note	2019	2018
		$	$
Continuing operations			
Revenue from sales	6	9,347,146	8,644,345
Other income	7	136,027	519,628
Employee benefits & staff related expenses	8	(9,432,876)	(10,036,886)
Distributor and license fees		(1,610,483)	(352,562)
General administration expenses		(806,921)	(736,093)
Marketing expenses		(526,425)	(499,029)
Professional fees and corporate expenses		(481,549)	(491,482)
Travel and related expenses		(450,669)	(429,001)
Other expenses	8	(244,484)	(223,310)
Finance costs		(45,246)	(11,348)
Depreciation and amortisation		(3,707,228)	(3,700,467)
Loss from continuing operations before income tax		(7,822,709)	(7,316,206)
Income tax benefit	9	763,980	2,362,810
Loss for the year		(7,058,729)	(4,953,396)
Other comprehensive income		70,331	16,090
Total comprehensive loss for the year, net of tax, attributable to equity holders of the parent		(6,988,398)	(4,937,306)
Earnings per share (cents per share)			
– Basic earnings/(loss) per share (cents)	10	(5.1)	(3.9)
– Diluted earnings/(loss) per share (cents)	10	(5.1)	(3.9)
Dividends per share (cents)		–	–

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

	Share Capital	Share Based Payments Reserve	Foreign Exchange Trans-lation Reserve	Accumulated Losses	Total Equity
CONSOLIDATED	$	$	$	$	$
Opening Balances at 1 July 2017	**53,090,510**	**2,351,762**	**308,283**	**(39,811,777)**	**15,938,778**
Loss for the year	-	-	-	(4,953,396)	(4,953,396)
Other comprehensive income for the year	-	-	16,090	-	16,090
Total comprehensive income for the year	-	-	16,090	(4,953,396)	(4,937,306)
Capital raising costs	(17,357)	-	-	-	(17,357)
Share based payments	-	967,138	-	-	967,138
Investment in Teleport Med, LLC (shares)	255,265	-	-	-	255,265
Issue of shares to Directors in lieu of fees	33,009	(33,009)	-	-	-
Repayment of employee loan (loan-funded shares)	56,370	-	-	-	56,370
Vesting of CEO performance rights	139,325	(139,325)	-	-	-
Foreign exchange on share-based payments	-	(16,088)	-	-	(16,088)
Issue of shares pursuant to capital raisings	2,000,000	-	-	-	2,000,000
Balances as at 30 June 2018	**55,557,122**	**3,130,478**	**324,373**	**(44,765,173)**	**14,246,800**
Loss for the year	-	-	-	(7,058,729)	(7,058,729)
Other comprehensive income for the year	-	-	70,331	-	70,331
Total comprehensive income for the year	-	-	70,331	(7,058,729)	(6,988,398)
Issue of shares pursuant to capital raisings	3,000,000	-	-	-	3,000,000
Capital raising costs	(203,856)	-	-	-	(203,856)
Issue of shares upon option exercises	111,666	-	-	-	111,666
Vesting of CEO performance rights	371,533	(371,533)	-	-	-
Transfers upon exercise of options/rights	8,925	(8,925)	-	-	-
Share based payments	-	195,538	-	-	195,538
Foreign exchange movements	-	3,472	-	-	3,472
Balances as at 30 June 2019	**58,845,390**	**2,949,030**	**394,704**	**(51,823,902)**	**10,365,222**

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

	Note	CONSOLIDATED 2019	2018
		$	$
Cash flows from operating activities			
Receipts from customers		10,339,251	9,543,805
Payments to suppliers and employees		(13,237,653)	(11,928,971)
Interest received		27,421	35,203
Interest and other costs of finance paid		(33,061)	(1,039)
Other receipts		–	163,930
Net cash (used in) operating activities	25	(2,904,042)	(2,187,072)
Cash flows from investing activities			
Payment for plant and equipment		(88,580)	(84,760)
Payment for other non-current assets		(5,220)	(15,202)
Proceeds from sale of equipment		–	965
Payment for customer contract performance deposits		(726,246)	–
Return of bank guarantee/funds held on deposit		–	43,470
Loans made to other entities		–	(62,751)
Cash transferred from deposits (maturity dates > 3 months)		–	100,000
Net cash flows provided by / (used in) investing activities		(820,046)	(18,278)
Cash flows from financing activities			
Proceeds from borrowings		621,530	–
Borrowings repaid		(35,000)	–
Payment for finance leases		(13,538)	(11,829)
Proceeds from issues of shares, options etc		3,111,666	2,056,371
Capital raising cost		(203,856)	(17,356)
Net cash flows provided by financing activities		3,480,802	2,027,186
Net increase/decrease) in cash and cash equivalents		(243,286)	(178,160)
Net foreign exchange difference relating to cash		6,147	(1,478)
Cash and cash equivalents at beginning of year		2,504,587	2,684,225
Cash and cash equivalents at end of year	9	2,267,448	2,504,587

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

TABLE OF CONTENTS

1. CORPORATE INFORMATION

The financial report of Mach7 Technologies Limited (the "Company" or the "Parent") for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on 26 August 2019.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) which are measured at fair value

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

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

(b) Going Concern

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

As disclosed in the financial statements, the Group incurred a net loss after tax of $7.0 million and net cash outflows from operating activities of $2.9 million for the year ended 30 June 2019. Despite this result, the Directors believe that it is reasonably foreseeable that the company and consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- as at year-end, the group's current assets exceeded current liabilities by $0.7 million;
- included in the year-end balance of current liabilities, is an amount of $3.5 million relating to deferred revenue. This amount will not result in a cash outflow other than associated costs for fulfilling performance obligations for the contracts this balance relates to. The $3.5 million will be transferred to revenue as it is earned during the next financial year; and
- new contracts secured since the end of the financial year are expected to deliver cash inflows of $1.8 million over the next 12 months from 30 June 2019.

(c) Compliance with IFRS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New accounting standards and interpretations

(i) Changes in Accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2018. The necessary disclosures have been updated to reflect amended accounting standards.

- AASB 9 Financial Instruments
- AASB 15 Revenue from Contracts with Customers
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. There has been no material impact on opening accumulated losses as a result of adopting these standards.

<u>Adoption of AASB 9 'Financial Instruments'</u>

There have been no material changes to the carrying values of investments and cash and cash equivalents as a result of adopting AASB 9. There was a change in measurement for investments from amortised cost under AASB 139 to fair value through other comprehensive income under AASB 9.

There was no change in measurement categories for financial liabilities.

The introduction of the expected credit losses model did not result in a material change to trade receivables as at 30 June 2018.

<u>Adoption of AASB 15 'Revenue from Contracts with Customers</u>

The application of AASB 15 did not have any material impact on revenue recognition policy of the Group, and hence, there was no adjustment required in this respect. Information regarding disaggregation of revenues are disclosed in note 6. All revenues earned are from customers within the healthcare industry. There was no significant judgment involved when applying this standard.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2019. These are outlined in the tables below.

Standard & Title	Application date of standard	Impact on Group financial report	Application date for Group
AASB 16 Leases	1 January 2019	Approximately $609,000 of operating leases will be brought onto the balance sheet as a non-current asset and lease liability at 1 July.	1 July 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right of use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.

e) Basis of consolidation

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Business combinations

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

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

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

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

g) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Translation of group companies' functional currency to presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Segment reporting

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

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

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

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

i) Revenue recognition

The Group recognises revenue as follows:

<u>Revenue from contracts with customers</u>

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised. The Group has two operating segments for which revenue is recognised based on a contract with a customer:

(i) Sale of software

Revenue from the sale of software licenses is recognised at the point in time when the customer obtains control of the software, which is generally at the time of delivery. The provision of the software licence is a distinct performance obligation as the customer can derive substantial benefits from the licence on its own when the licence is delivered and installed. Therefore, revenue from the sale of software is recognised when the software is delivered to the customer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Rendering of professional services

Revenue from a contract to provide professional services, such as implementation, training and annual support services, is recognised over time as the services are rendered. This is because the professional services price is based on either a fixed price or an hourly rate.

Interest

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

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

j) Cash and cash equivalents

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

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

k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit loss.

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An allowance for expected credit loss is recognised when there is objective evidence that the Group will not be able to collect the receivable.

l) Customer contract assets

Accrued revenue (unbilled receivables)

Customers are billed in accordance with certain milestones which are specified in the contract with the customer. Where revenue has been recognised (for example, software license fees recognised on delivery), but the milestone for payment associated with that revenue is not yet met, the Group recognises an unbilled receivable amount as a contract asset. That amount becomes a trade receivable when it is invoiced.

Customer acquisition costs

Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract with a customer and are expected to be recovered. Customer acquisition costs are amortised over the relevant performance obligations of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained, or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Investments and other financial assets

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

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

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses.

The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Plant and equipment

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

Asset class	Estimated life	Depreciation method
Computer equipment	3-5 years	Straight line
Furniture, fixtures & office equipment	5-7 years	Straight line
Software	2-3 years	Straight line

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

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

o) Intangibles

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

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

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

<u>Software development costs</u>

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

q) Trade and other payables

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

r) Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or provide services to a customer. Contract liabilities are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or provided the services to the customer.

s) Leases

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

Group as a lessee

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Provisions

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

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

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

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) Employee benefits

Wages, salaries, annual leave and sick leave

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

Superannuation expense

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

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Long service leave

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

The Company provides benefits to employees (including key management personnel) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). Details of the executive and staff incentive plan are set out in the Remuneration Report.

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

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

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

(i) the grant date fair value of the award;

(ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and

(iii) the expired portion of the vesting period.

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

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

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are settled. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

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

If an equity award is cancelled by forfeiture and the vesting conditions have not been met, any expense not yet recognised (i.e. unamortised) for that award, as at the date of forfeiture, is treated as if it had never been recognised. As a result, the expense recognised (i.e. amortised) on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Income tax and other taxes

Income taxes

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other taxes

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

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

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

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

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

x) Earnings per share

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

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

y) Current versus non-current classification

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

An asset is current when it is:

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

A liability is current when:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Comparatives

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

aa) Fair value measurement

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

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Risk exposure and responses

<u>Interest rate risk</u>

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

At 30 June 2019, the Group's cash and cash equivalents comprised of deposits on call and foreign currency accounts.

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated as cash flow hedges (other currencies, or non-interest bearing accounts, are not included):

	CONSOLIDATED	
	2019	2018
	$	$
Financial assets with interest rate risk		
Deposits at call (maturity date < 3 months after 30 June)	1,314,993	1,332,152
Term deposit (maturity date > 3 months after 30 June)	–	–
	1,314,993	1,332,152

Sensitivity analysis	Profitability (post-tax) higher/(lower)		Equity (excluding accumulated losses) higher/(lower)	
	2019	2018	2019	2018
Judgement of reasonably possible movements:	$	$	$	$
Consolidated				
Interest rate strengthens +0.25% or 25 basis points (2018: +0.25% or 25 basis points)	3,287	3,330	–	–
Interest rate weakens -1% or 100 basis points (2018: -1% or 100 basis points)	(13,150)	(13,322)	–	–

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

Significant assumptions used in the interest rate sensitivity analysis include:

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

Foreign currency risk

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Price risk
The Group does not consider it to have any material exposure to price risk.

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

	CONSOLIDATED	
	2019	2018
	$	$
Financial Assets		
Cash and cash equivalents – held in USD	863,306	1,062,562
Cash and cash equivalents – held in SGD	31,279	7,327
Cash and cash equivalents – held in INR	–	7,612
Total cash and cash equivalents held in foreign currency	894,585	1,077,501
Accounts receivable – denominated in USD	1,478,943	1,319,023
Accounts receivable – denominated in SGD	107,751	–
Accounts receivable – denominated in GBP	287,741	130,072
Total debtors denominated in foreign currency	1,874,435	1,449,095
Customer contract assets – denominated in USD	1,475,886	2,231,952
Financial Liabilities		
Trade and other payables – denominated in USD	709,589	1,057,768
Trade and other payables – denominated in SGD	117,150	43,711
Trade and other payables – denominated in INR	–	6,790
Total trade and other payables denominated in foreign currency	826,739	1,108,269
Net exposure – USD	3,108,546	3,555,769
Net exposure – SGD	21,881	(36,384)
Net exposure – INR	–	822
Net exposure – GBP	287,741	130,072
Net exposure	3,418,168	3,650,279

Based on the financial instruments held at 30 June 2019, had the Australian dollar strengthened/weakened by 10% against the above currencies, with all other variables held constant, the Group's post-tax loss for the year would have been (reduced)/increased by:

Sensitivity analysis	Profitability (post-tax) higher/(lower)		Equity (excluding accumulated losses) higher/(lower)	
Consolidated	2019	2018	2019	2018
	$	$	$	$
AUD strengthens +10% (2018: +10%)	(309,824)	(331,844)	–	–
AUD weakens -10% (2018: -10%)	378,674	405,587	–	–

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

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

Credit risk

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

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

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

Cash deposits are all held with Westpac Banking Corporation.

Liquidity risk

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

(ii) Impairment of intangibles with definite useful lives

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

(iii) Estimation of useful lives of assets

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

(iv) Share-based payment transactions

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

(v) Employee benefits provision

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

5. SEGMENT INFORMATION

Description of segments and principal activities
Mach7 Technologies is a global provider of medical imaging software and services for healthcare institutions, predominantly throughout the United States, Asia-pacific, and the Middle East region. The Group's executive team, and Board of Directors, monitors the Group's performance both from a product & service perspective and a geographical location perspective. Two reportable operational segments of the Group have been identified which are (i) sale of software licenses and (ii) provision of professional services such as implementation & training, data migration, support and maintenance services.

Segment Adjusted Earnings before Interest, Tax, Depreciation & Amortisation (Segment Adjusted EBITDA)
Segment Adjusted EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings such as restructuring costs, legal expenses, and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of equity-settled share-based payments and unrealised gains or losses on financial instruments. Interest income and finance costs are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group. Likewise, corporate/administration departments are not allocated to a particular operating segment, as results from these departments are reviewed by management separately.

	CONSOLIDATED	
	2019	2018
	$	$
Segment adjusted EBITDA		
Software licenses	(1,783,841)	(737,731)
Professional services	1,741,757	1,585,741
	(42,084)	848,010
Reconciliation to net loss after tax		
Segment adjusted EBITDA	(42,084)	848,010
Corporate and administration expenses (not allocated to segments)	(3,524,140)	(3,522,034)
Restructuring costs (not allocated to segments)	(332,923)	-
Interest revenue (not allocated to segments)	26,123	36,771
Group adjusted EBITDA	(3,873,024)	(2,637,253)
Share based payments expense	(195,538)	(967,138)
Depreciation & amortisation expense	(3,707,228)	(3,700,467)
Finance cost	(46,919)	(11,348)
Income tax benefit	763,980	2,362,810
Net loss after tax	(7,058,729)	(4,953,396)

Segment assets
Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

	CONSOLIDATED	
	2019	2018
	$	$
Software licenses	2,536,216	2,782,912
Professional services & maintenance services	1,646,935	1,000,284
Segment assets	4,183,151	3,783,196

5. SEGMENT INFORMATION (continued)

Reconciliation to group assets

Cash and financial related assets are not allocated to operating segments as they are managed centrally by the Group's treasury function. All non-current assets are also not allocated to operating segments unless they relate specifically to a customer.

	CONSOLIDATED	
	2019	2018
	$	$
Segment assets	4,183,151	3,783,196
Cash	2,267,448	2,504,587
Interest receivable	4,381	5,580
Prepayments & other receivables	226,680	202,509
Fixed assets	187,432	174,226
Intangible assets	10,585,026	14,217,807
Investments	318,016	318,016
Total assets per the balance sheet	17,772,134	21,205,921

Geographical non-current assets

The total of non-current assets, other than intangible assets and investments, broken down by location of the assets, is shown in the table below:

	CONSOLIDATED	
	2019	2018
	$	$
United States	889,055	257,806
Asia/Pacific	46,753	7,456
	935,808	265,262

Segment liabilities

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment. The group's deferred tax liabilities are not considered to be segment liabilities, and are excluded. In addition, trade payables associated with corporate and administration functions of the Group are also excluded from segment liabilities.

	CONSOLIDATED	
	2019	2018
	$	$
Software licenses	485,187	551,062
Professional services & maintenance services	3,656,200	2,910,803
Segment liabilities	4,141,387	3,461,865
Reconciliation to group liabilities		
Segment liabilities	4,141,387	3,461,865
Trade payables & accruals not allocated	449,394	517,096
Financial liabilities - current	613,489	13,538
Non-current liabilities	2,202,642	2,966,622
Total liabilities per the balance sheet	7,406,912	6,959,121

6. CONTRACTS WITH CUSTOMERS

(a) Disaggregation of revenue from contracts with customers

Mach7 is a provider of medical imaging software and related services. Every software sale, or provision of services, is subject to a software license agreement and/or a statement of work. 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:

	CONSOLIDATED	
	2019	2018
	$	$
Mach7 software license fees[1]	1,585,598	3,049,684
Third party viewer software license fees[1]	1,541,884	188,466
Subscription fees (recurring revenue)[2]	222,762	281,205
Software licenses (major segment)	3,350,244	3,519,355
Implementation & training services	913,471	874,118
Migration services	1,002,554	1,140,855
Other custom services	3,403	102,990
Support and maintenance fees (recurring revenue)	4,077,474	3,007,027
Professional services (major segment)[2]	5,996,902	5,124,990
Total Segment Revenues	**9,347,146**	**8,644,345**
Timing of revenue recognition		
[1]Revenue recognised at a point in time	3,127,483	3,238,150
[2]Revenue recognised over time	6,219,663	5,406,195
	9,347,146	8,644,345
Geographical segment revenues		
United States	5,471,097	7,641,678
Middle East	1,465,464	661,299
Asia/Pacific	2,343,846	236,298
Europe and other regions	66,739	105,070
Total revenue recognised from contracts with customers	**9,347,146**	**8,644,345**

Revenues of approximately $2.0m, 22% (2018: $1.1m, 13%) are derived from a single external customer, with $1.8m of these being included in the software licenses segment (2018: $0.4m).

(b) Assets and liabilities related to contracts with customers

Refer notes 13 and 19 for current assets and current liabilities (respectively) related to contracts with customers.

During the current year, the Group has provided a 5% contract deposit in cash to a customer, Hospital Authority of Hong Kong, as security for the due and faithful performance of Mach7's services under the contract. This contract deposit will be held throughout the term of the contract, which ends October 2023.

	CONSOLIDATED	
	2019	2018
	$	$
Non-current asset for contract deposit	748,377	-

6. CONTRACTS WITH CUSTOMERS (continued)

Revenue recognised in relation to contract liabilities

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

	CONSOLIDATED	
	2019	2018
	$	$
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Annual support fees	1,794,327	1,515,295
Professional services fees	601,916	1,103,168
	2,396,243	2,618,463

Revenue recognised from performance obligations satisfied in previous periods

There was no revenue recognised during the year from performance obligations satisfied in previous periods (2018: nil).

Unsatisfied performance obligations

The following table shows unsatisfied performance obligations resulting from fixed-price professional services and annual maintenance contracts.

	CONSOLIDATED	
	2019	2018
	$	$
Contracted annual support fees[1]	7,895,406	-*
Contracted professional services fees[2]	2,778,562	-*
	10,673,968	-*

* As permitted under the transitional provisions in AASB 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 30 June 2018 is not disclosed.

[1]As at 30 June 2019, the Group has $7,245,700 of annual support fees under contract. Annual support contracts commence on the first of the month following the customer being live on the Mach7 Platform (or other Mach7 software) and are typically billed to the customer one year in advance. At 30 June 2019, Mach7 had recognised as revenue 57% ($4,076,403) of the total annual support fees under contract. Management expects to recognise as revenue 73% ($5,320,099) during the year ended 30 June 2020, 76% ($5,496,520) during the year ended 30 June 2021, and 100% every year thereafter for as long as these contracts remain active (i.e. are not cancelled). In addition, Mach7 has one support contract with a guaranteed nine-year contractual term. This contract will result in support fees recognised of US$200,000 per year out to 13 June 2025. New contracts won after 30 June 2019 are not included in these amounts.

[2]Management expects that 72% ($2,004,903) of the transaction price allocated to the unsatisfied professional services contracts as of 30 June 2019 will be recognised as revenue during the next reporting period. Of the remaining 28% ($773,660), management expects to recognise 23% ($647,265) in FY 2021 and 5% (126,395) in FY2021.

7. OTHER INCOME

	CONSOLIDATED	
	2019	2018
	$	$
Other income		
Interest income	27,662	36,771
Doubtful debt recoveries	–	147,493
Cost recoveries	102,307	266,092
Other revenues	6,058	10,387
Foreign exchange gains (net of any losses during the year)	–	58,885
	136,027	519,628

8. EXPENDITURE

	CONSOLIDATED	
	2019	2018
	$	$
Other expenses		
Allowance for expected credit losses on contracts with customers	166,160	187,435
Losses (net of any gains during the year) on fixed asset disposals	6,147	35,875
Other expenses	1,673	–
Foreign exchange losses (net of any gains during the year)	70,504	–
	244,484	223,310
Depreciation and amortisation		
Amortisation of intangible assets	3,640,238	3,641,783
Depreciation of property, plant and equipment	66,990	58,684
	3,707,228	3,700,467
Employee salaries, benefit and staff related expenses		
Salaries, wages, commissions & bonuses	7,015,223	6,977,038
Restructuring costs	332,923	–
Contractors	700,517	714,002
Defined contribution plan expense (superannuation/401k)	159,353	155,828
Workers compensation costs	14,525	15,054
Annual leave provision movements	(46,814)	63,557
Payroll taxes (medicare, social security etc)	504,053	476,930
Other employee benefits expense	508,444	561,061
Other employment related expenses	49,114	106,278
Share-based payments (note 27)	195,538	967,138
	9,432,876	10,036,886

9. INCOME TAX

(a) Unused tax losses

The Group has gross tax losses of $47,082,669 (2018: $39,779,905) arising in Australia, US, India and Singapore that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules. The Group is investigating the potential to utilise prior year tax losses associated with all of its subsidiaries.

9. INCOME TAX (continued)

(b) Deferred tax liabilities

The Group has recognised a deferred tax liability of $2,202,642 (2018: $2,966,622) as a result of the acquisition of Mach7 Technologies Pte. Ltd in accordance with AASB112 Income Taxes.

	CONSOLIDATED	
	2019	2018
	$	$
(c) Income tax expense		
The major components of income tax expense are:		
Current income tax on profits	–	–
(Increase) / decrease in deferred tax assets	–	–
(Decrease) / increase in deferred tax liabilities	(763,980)	(2,362,810)
Income tax benefit	(763,980)	(2,362,810)
(b) Reconciliation of prima-facie tax payable to income tax expense		
Loss from continuing operations before income tax expense	(7,822,709)	(7,316,206)
Tax benefit at the Australian statutory income tax rate of 27.5% (2018: 27.5%)	(2,151,245)	(2,011,957)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible expenses/non-assessable income	(7,302)	2,912
Share-based payments expense	53,773	265,963
Unrealised foreign exchange (gains)/losses	17,880	(20,723)
Annual leave accruals	(12,874)	18,378
Sub-total	(2,099,768)	(1,745,013)
Tax losses not recognised	927,725	735,621
Change in tax rates affecting deferred tax liabilities^	–	(1,342,076)
Differences in local tax rates	408,063	(11,342)
Income tax expense/(benefit)	(763,980)	(2,362,810)

10. EARNINGS PER SHARE

	2019	2018
Loss per share – basic (cents)	5.1c	3.9c
Loss per share – diluted (cents)	5.1c	3.9c

Basic earnings per share is calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The income and share data used in the calculations of basic and diluted earnings per share is as follows:

	2019	2018
	$	$
Net loss used in calculating basic and diluted earnings per share	(7,058,729)	(4,953,396)
	Number of Shares	
Weighted average number of ordinary shares used in calculating basic earnings per share	138,531,632	126,365,875
Adjustments for calculation of diluted earnings per share	–	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	138,531,632	126,365,875

11. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2019	2018
	$	$
Cash at bank and on hand	952,455	1,172,435
Cash on call deposits	1,314,993	1,332,152
	2,267,448	2,504,587

Cash on call deposits are deposits for varying terms from at-call to three months, depending on the immediate cash requirement of the Group, and earn interest at the respective cash on call deposit rates.

12. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2019	2018
(a) Balances	$	$
Trade receivables[1]	1,999,688	1,596,172
Less allowance for expected credit losses	(170,283)	(196,185)
Other receivables	46,470	38,702
GST receivable	6,252	4,453
Interest receivable	4,381	4,140
	1,886,509	1,447,282

[1]Trade receivables typically have 30-45 day payment terms;

(b) Impaired balances

The consolidated entity has recognised a loss of $166,160 (2018: $187,435) in profit or loss in respect of expected credit losses for the year ended 30 June 2019. The ageing of the receivables net of expected credit losses are as follows:

	CONSOLIDATED	
	2019	2018
	$	$
Up to 3 months	–	–
3 to 6 months	67,400	32,472
> 6 months	102,883	163,713

(c) Movement in allowance for expected credit losses

	CONSOLIDATED	
	2019	2018
	$	$
Opening balance	196,185	231,188
Additional provisions recognised during the year	170,283	196,185
Amounts received during the year	–	(147,493)
Bad debts written off	(206,759)	(83,695)
FX impact	10,574	–
Closing balance	170,283	196,185

12. TRADE AND OTHER RECEIVABLES (continued)

(d) Past due but not impaired

The ageing of the past due but not allowed for are as follows:

	CONSOLIDATED	
	2019	2018
	$	$
Up to 3 months	1,000,870	193,772
3 to 6 months	67,400	110,682
> 6 months	40,819	249,279
	1,109,089	553,733

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

13. CUSTOMER CONTRACT ASSETS

	CONSOLIDATED	
	2019	2018
	$	$
Accrued revenue[1]	1,475,886	2,243,952
Deferred contract expenses[2]	129,485	102,532
	1,605,371	2,346,484

1 Accrued revenue represents software license fees which have been recognised as revenue which are yet to be invoiced to the customer. The customer will be invoiced when certain contract milestones have been met.

2 Deferred contract expenses include sales commission and distributor fees which will be recognised as expenses are regarded as costs to fulfil a customer contract. This asset will be recognised as an expense over the same period as the corresponding contract revenue.

Accrued software fee revenue can fluctuate from period to period, as these balances are impacted by the timing of when contracted sales occur and the payment milestones that are specified with each contract.

14. OTHER CURRENT ASSETS

	CONSOLIDATED	
	2019	2018
	$	$
Security deposits	19,259	10,471
Prepayments	154,696	187,048
	173,955	197,519

15. PLANT AND EQUIPMENT

	Office Equipment	Computer Hardware & Software	Leasehold Improve-ments	TOTAL
CONSOLIDATED	$	$	$	$
2018				
Cost	50,257	309,569	6,838	366,664
Accumulated depreciation	(22,872)	(164,934)	(4,632)	(192,438)
Net carrying value at 30 June 2018	27,385	144,635	2,206	174,226
Movement in carrying value				
At 1 July 2017	62,136	119,454	3,322	184,912
Additions	3,563	77,102	753	81,418
Disposals	(31,393)	(5,623)	-	(37,016)
Depreciation expense	(7,784)	(48,985)	(1,915)	(58,684)
Foreign exchange revaluations	863	2,687	46	3,596
Net carrying value at 30 June 2018	27,385	144,635	2,206	174,226
2019				
Cost	90,376	342,941	7,206	440,523
Accumulated depreciation	(32,611)	(213,453)	(7,027)	(253,091)
Net carrying value at 30 June 2019	57,765	129,488	179	187,432
Movement in carrying value				
At 1 July 2018	27,386	144,635	2,205	174,226
Additions	37,564	40,920	-	78,484
Disposals	-	(6,269)	-	(6,269)
Depreciation expense	(8,424)	(56,463)	(2,103)	(66,990)
Foreign exchange revaluations	1,239	6,665	77	7,981
Net carrying value at 30 June 2019	57,765	129,488	179	187,432

16. INVESTMENTS

	CONSOLIDATED	
	2019	2018
	$	$
Investment in Teleport Med, LLC (unlisted)	318,016	318,016

During the prior year, the Group made an investment in Teleport Med, LLC - known as "SirenMD". SirenMD is a U.S. based, private unlisted "start-up" company, which specialises in the commercialisation of care coordination technology. This was a strategic investment in support of a joint product development program. Mach7 is also a reseller of SirenMD's product. Directors have assessed the fair value of this investment, categorised as level 3 within the fair value hierarchy, and have concluded that cost is the best approximation of its fair value at 30 June 2019.

17. INTANGIBLE ASSETS

	Patents	Customer Contracts	Brand Names	Software Intellectual Property	TOTAL
CONSOLIDATED	$	$	$	$	$
2018					
Cost	992,512	8,824,764	1,557,974	14,465,116	25,840,366
Accumulated amortisation	(406,752)	(4,488,381)	(654,128)	(6,073,298)	(11,622,559)
Net carrying value	585,760	4,336,383	903,846	8,391,818	14,217,807
Movement in carrying value					
Balance at 1 July 2017	677,319	5,913,249	1,094,130	10,158,517	17,843,215
Amortisation expense	(107,934)	(1,576,866)	(190,284)	(1,766,699)	(3,641,783)
Additions	13,357	–	–	–	13,357
Foreign exchange	3,018	–	–	–	3,018
Balance at 30 June 2018	585,760	4,336,383	903,846	8,391,818	14,217,807
2019					
Cost	1,015,861	8,824,764	1,557,974	14,465,116	25,863,715
Accumulated amortisation	(529,033)	(6,065,247)	(844,412)	(7,839,997)	(15,278,689)
Net carrying value	486,828	2,759,517	713,562	6,625,119	10,585,026
Movement in carrying value					
Balance at 1 July 2018	585,760	4,336,383	903,846	8,391,818	14,217,807
Amortisation expense	(106,389)	(1,576,866)	(190,284)	(1,766,699)	(3,640,238)
Additions	2,595	–	–	–	2,595
Foreign exchange	4,862	–	–	–	4,862
Balance at 30 June 2019	486,828	2,759,517	713,562	6,625,119	10,585,026

Impairment Testing

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

Impairment charges

Based on a discounted cash flow valuation using the assumptions disclosed in this note, the recoverable amount exceeds the carrying amount of goodwill and other intangible assets and therefore there is no impairment charge for the current year (2018: nil).

17. INTANGIBLE ASSETS (continued)

Future value

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

Impairment testing assumptions

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

Item	Assumption	Rationale
Revenue Growth Rates	5% annual average growth for next five years + revenues from existing contracts	Conservative revenue growth for new deals that closely approximates market growth rates + existing contracts
Expenditure Growth Rates	2.0% CPI growth + 20% of new revenues	In line with expected margins
Years forecasted – software fees & implementation services	5 years	5 years as per recommended length of time per AASB136
Years forecasted – annual support fees	5 years from commencement of support	5 years is the Mach7 standard term for support fee contracts
Tax Rate	21.0%	USA corporate tax rate
Working Capital	30 day terms + specific phasing	Standard debtor terms + cash-phasing based on historical estimates
Discount Rate	15% post-tax	Management's estimate of the Group's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements

18. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2019	2018
	$	$
Trade creditors[1]	342,809	409,599
Accrued expenses[2]	128,974	126,310
Distributor/reseller commissions payable[3]	78,034	209,764
Employee entitlements and related costs[4]	551,641	517,750
Goods, Services Tax (GST)[1]	11,134	-
	1,112,592	1,263,423

[1] Trade creditors and GST are non-interest bearing and are normally settled on 30-day terms.

[2] Accrued expenses comprise general operating expenses where costs are incurred but have not yet been invoiced.

[3] Commission will become payable at the time the customer pays their invoice, usually within 30-45 days.

[4] Employee entitlements includes sales commissions, redundancy provisions, withholding taxes, superannuation and other employee related costs

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

19. CUSTOMER CONTRACT LIABILITIES

	CONSOLIDATED	
	2019	2018
	$	$
Professional service fees received in advance[1]	1,243,019	843,266
Annual support and maintenance fees received in advance[2]	2,235,170	1,872,272
	3,478,189	2,715,538

The above deferred revenue balances are expected to be recognised as revenue during the next financial year as the services are performed, and hence the carrying values are assumed to approximate the fair values for these balances. Annual support and maintenance fees received in advance are expected to grow year on year as the Group signs new customer contracts, i.e. every new support contract signed going forward, will add to this balance. Professional service fees received in advance are expected to fluctuate from year to year, as timing of sales orders and cash payment milestones will impact this balance.

20. CURRENT INTEREST-BEARING LIABILITIES

	CONSOLIDATED	
	2019	2018
	$	$
Current portion of finance lease[1]	–	13,538
Accrued interest payable	7,472	–
Loan (note 25)	606,017	–
	613,489	13,538

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

	CONSOLIDATED			
	2019		2018	
	$		$	
	Minimum payments	Present Value of payments	Minimum payments	Present Value of payments
Within one year	–	–	13,904	13,538
Total minimum lease payments	–	–	13,904	13,538
Less amounts representing finance charges	–	–	(366)	-
Lease payments recognised as a liability	–	–	13,358	13,538

21. DEFERRED TAX LIABILITY

	Note	CONSOLIDATED 2019 $	2018 $
Cost		6,303,066	6,303,066
Accumulated amortisation of deferred tax liability		(4,100,424)	(3,336,444)
		2,202,642	2,966,622
Carrying value at the beginning of the year		2,966,622	5,329,432
Cost written down due to change in tax rates	9	–	(1,342,077)
Amortisation credit for the year		(763,980)	(1,020,733)
Carrying value at the end of the year		2,202,642	2,966,622

22. CONTRIBUTED EQUITY

Ordinary shares on issue	CONSOLIDATED 2019 $	2018 $
Issued and fully paid	58,845,390	55,557,122
	No.	No.
Total ordinary shares on issue	148,642,734	131,707,206

Movements in ordinary shares on issue	No. of Ordinary Shares	$
At 30 June 2018	118,247,199	53,090,510
Issue of shares pursuant to capital raising, at 17.5 cents per share	11,428,571	2,000,000
Performance rights vested during the year (tranches 1, 2 and 3)	886,854	139,325
Shares issued to Teleport Med LLC (Siren MD investment)	994,579	255,265
Lapsing of performance shares (each class converting to 1 ordinary share)	3	–
Repayment of loan for employee loan-funded shares	–	56,370
Shares issued to Directors in lieu of board fees	150,000	33,009
Costs associated with issue of new shares during the year	na	(17,357)
At 30 June 2018	131,707,206	55,557,122
Issue of shares pursuant to capital raising, at 20 cents per share	15,000,000	3,000,000
Options exercised during the year	583,334	120,591
Performance rights vested during the year	1,352,194	371,533
Costs associated with issue of new shares during the year	na	(203,856)
At 30 June 2019	148,642,734	58,845,390

Performance rights

Upon commencement of employment, the Group issued the following performance rights to the CEO. During 2019, unvested rights were lapsed following the CEO's termination.

	Grant Date	Opening balance	Number Granted	Number Vested[1]	Number Lapsed	Closing balance
2018	1 August 2017	–	7,094,832	(886,854)	–	6,207,978
2019	na	6,207,978	–	(1,352,194)	(4,855,784)	–

1 Each right will convert to one fully paid share on the vesting date if the vesting conditions are met.

22. CONTRIBUTED EQUITY (continued)

Options outstanding

Options do not entitle the holders to voting rights, to participate in dividends or the proceeds on winding up of the Company. Each option entitles the holder to one ordinary share upon exercise of that option upon payment of the relevant exercise price prior to the date of expiry of the option. The following unlisted options to purchase fully paid ordinary shares in the Company were outstanding at balance date:

2018

Grant Date	Expiry Date	Exercise Price	Opening balance	Number Granted	Number Exercised	Number Lapsed	Closing balance
08 Apr 16	08 Apr 20	$1.00	100,000	–	–	–	100,000
08 Apr 16	08 Apr 21	$1.00	475,000	–	–	–	475,000
09 Dec 16	09 Dec 21	$1.00	125,000	–	–	–	125,000
27 Jan 17	27 Jan 22	$0.41	2,680,000	–	–	(340,000)	2,340,000
10 Mar 17	10 Mar 22	$0.41	200,000	–	–	(200,000)	–
03 Nov 17	03 Nov 22	$0.17	–	2,700,000	–	(100,000)	2,600,000
11 Dec 17	11 Dec 22	$0.23	–	733,332	–	–	733,332
12 Jan 18	12 Jan 23	$0.26	–	40,000	–	–	40,000
03 Apr 18	03 Apr 23	$0.30	–	150,000	–	–	150,000
Total			3,580,000	3,623,332	–	(640,000)	6,563,332

2019

Grant Date	Expiry Date	Exercise Price	Opening balance	Number Granted	Number Exercised	Number Lapsed	Closing balance
08 Apr 16	08 Apr 20	$1.00	100,000	–	–	–	100,000
08 Apr 16	08 Apr 21	$1.00	475,000	–	–	–	475,000
09 Dec 16	09 Dec 21	$1.00	125,000	–	–	–	125,000
27 Jan 17	27 Jan 22	$0.41	2,340,000	–	–	(499,999)	1,840,001
03 Nov 17	03 Nov 22	$0.17	2,600,000	–	(83,334)	(449,997)	2,066,669
11 Dec 17	11 Dec 22	$0.23	733,332	–	–	(300,000)	433,332
12 Jan 18	12 Jan 23	$0.26	40,000	–	–	(26,666)	13,334
03 Apr 18	03 Apr 23	$0.30	150,000	–	–	–	150,000
01 Aug 18	01 Aug 23	$0.195	–	3,000,000	(500,000)	(1,130,000)	1,370,000
01 Aug 18	01 Aug 23	$0.40	–	300,000	–	(300,000)	–
01 Aug 18	01 Aug 23	$0.50	–	300,000	–	(300,000)	–
01 Aug 18	01 Aug 23	$0.60	–	300,000	–	(300,000)	–
01 Aug 18	01 Aug 23	$1.00	–	300,000	–	(300,000)	–
17 Oct 18	17 Oct 23	$0.185	–	2,310,000	–	(500,000)	1,810,000
12 Nov 18	12 Nov 23	$0.244	–	450,000	–	–	450,000
02 May 19	02 May 24	$0.265	–	50,000	–	–	50,000
			6,563,332	7,010,000	(583,334)	(4,106,662)	8,883,336

22. CONTRIBUTED EQUITY (continued)

Options granted during the year

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

Grant Date	Expiry Date	Share price at grant date	Exercise price	Expected Volatility	Dividend yield	Risk-free interest	Fair value at grant date
01 Aug 18	01 Aug 23	$0.195	$0.195	87.80%	–	2.32%	$0.1092
01 Aug 18	01 Aug 23	$0.195	$0.195	87.80%	–	2.32%	$0.1135
01 Aug 18	01 Aug 23	$0.195	$0.40	87.80%	–	2.32%	$0.0895
01 Aug 18	01 Aug 23	$0.195	$0.50	87.80%	–	2.32%	$0.0826
01 Aug 18	01 Aug 23	$0.195	$0.60	87.80%	–	2.32%	$0.0765
01 Aug 18	01 Aug 23	$0.195	$1.00	87.80%	–	2.32%	$0.0591
17 Oct 18	17 Oct 23	$0.185	$0.185	90.65%	–	2.29%	$0.1308
12 Nov 18	12 Nov 23	$0.26	$0.244	89.94%	–	2.37%	$0.1526
02 May 19	02 May 24	$0.265	$0.265	66.55%	–	1.37%	$0.1481

23. RESERVES

	CONSOLIDATED		
	Options Reserve	Foreign Exchange Translation Reserve	Total
	$	$	$
At 30 June 2017	2,351,762	308,283	2,660,045
Share based payments	967,138	–	967,138
Foreign exchange on share-based payments	(16,089)	–	(16,089)
Transfers to share capital	(172,333)	–	(172,333)
Foreign exchange on translation of subsidiaries	–	16,090	16,090
At 30 June 2018	3,130,478	324,373	3,454,851
Share based payments	195,538	–	195,538
Foreign exchange on share-based payments	3,472	–	3,472
Transfers to share capital	(380,458)	–	(380,458)
Foreign exchange on translation of subsidiaries	–	70,331	70,331
At 30 June 2019	2,949,030	394,704	3,343,734

Nature and purpose of options reserve

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

24. CASH FLOW STATEMENT RECONCILIATION

	CONSOLIDATED	
	2019	2018
	$	$
Net loss after tax	(7,058,729)	(4,953,396)
Adjustments for financing/investing activities, and non-cash items, included in net loss after tax		
Income tax benefit	(763,980)	(2,362,810)
Amortisation	3,640,238	3,641,783
Depreciation	66,990	58,684
Net loss on fixed asset disposals	6,147	35,875
Share-based payments expense	195,538	967,138
Net foreign exchange differences relating to cash & non-operating items	65,016	228
Changes in current assets and current liabilities		
Decrease/(increase) in trade and other receivables	(439,226)	425,674
Decrease/(increase) in customer contract deposits	741,113	697,845
Decrease/(increase) in other current assets	23,564	(2,653)
Increase/(decrease) in trade and other payables	(150,834)	(492,023)
Increase/(decrease) in interest payable	7,471	-
Increase/(decrease) in deferred revenues	762,650	(139,942)
Other adjusting items		
Other items	-	(63,470)
Net cash used in operating activities	**(2,904,042)**	**(2,187,067)**

25. RELATED PARTY DISCLOSURE

Transaction with related parties

During the year, the Group entered into a loan agreement with four lenders, two of which were Directors of the Company. The loans from the two Directors had a value of $382,754 at the commencement of the loan. One of these loans, valued at $35,000, was repaid during the year. The other loan is still owing at 30 June 2019, however that person is no longer a Director of the Company. Consequently, there are no loans from related parties outstanding at 30 June 2019 (2018: nil). The loans are subject to 10% interest per annum (payable quarterly) and have a maturity date of 15 November 2019. The Directors consider the loans to have been obtained on arms-length commercial terms as non-related parties also participated, and the loan terms were benchmarked against other debt providers.

Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 26.

25. RELATED PARTY DISCLOSURE (continued)

Ultimate parent and subsidiaries

Mach7 Technologies Limited is the ultimate parent of the Group. The consolidated financial statements include the financial statements of Mach7 Technologies Limited and its direct/indirect subsidiaries listed below:

Name	Country of Incorporation	% of equity interest held by the consolidated entity	
		2019	2018
Direct subsidiaries			
Mach7 Technologies International Pty Ltd	Australia	100	100
Indirect subsidiaries			
Mach7 Technologies UK Ltd	UK	100	100
Mach7 Technologies Pte Ltd	Singapore	100	100
Mach7 Technologies, Inc.	U.S.	100	100
Mach7 Technologies Australia Pty Ltd	Australia	–	100
Mach7 Technologies Pvt Ltd	India	100	100

26. KEY MANAGEMENT PERSONNEL

Compensation for Key Management Personnel

	CONSOLIDATED	
	2019	2018
	$	$
Short-term employee benefits	1,614,870	1,718,288
Post-employment benefits	263,811	50,886
Termination benefits	56,528	–
Equity-based payment	247,149	926,348
	2,182,358	2,695,522

Shareholdings of key management personnel

Ordinary shares held in Mach7 Technologies Limited by key management personnel during 2019 are shown in table 1:

Table 1.

30 June 2019	Balance 1 July 2018	Granted as remuneration	Vesting of performance rights	On-market purchases/(sales)	Exercise Options	Balance 30 June 2019
Directors	3,626,873	–	1,352,194	(522,598)	500,000	4,956,469
Executives	6,985,611	–	–	(389,746)	83,334	6,679,199
Total	10,612,484	–	1,352,194	(912,344)	583,334	11,635,668

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

26. KEY MANAGEMENT PERSONNEL (continued)

Table 2.	Balance 1 July 2018	Additions	Disposals	Balance 30 June 2019
Mr N Ito~	952,419	–	–	952,419
Mr N Finch~	682,598	–	(272,598)~	410,000
Mr M Jackman*	1,391,856	1,852,194*	(250,000)*	2,994,050
Mr R Krishnan	5,780,561	–	–	5,780,561
Mr D Lim#	350,000	–	–	350,000
Mrs J Pilcher	291,668	–	–	291,668
Mr J Rice**	913,382	83,334**	(389,746)**	606,970
Mr W Spittle	250,000	–	–	250,000
Total	10,612,484	1,935,528	(912,344)	11,635,668

~ N. Ito and N. Finch resigned as Directors on 3 August 2018. Transactions listed occurred after this date.

**John (Eric) Rice left the Company on 15 March 2019, these transactions occurred after that date.

Damien Lim is also a Principal of BV Healthcare II Pte Ltd which holds 11,372,898 at 30 June 2019 (2018: 11,372,898).

*Michael Jackman left the Company on 11 March 2019, 500,000 additions, and 250,000 disposals occurred after this date.

Option holdings of Key Management Personnel

30 June 2019	Balance 1 July 2018	Granted as remuneration	Options exercised	Options forfeited/ lapsed	Balance at 30 June 2019	Not exercisable	Exercisable
Directors	1,233,332	4,650,000	(500,000)	(2,630,000)	2,753,332	650,000	2,103,332
Executives	2,220,000	1,300,000	(83,334)	(1,006,666)	2,430,000	1,526,665	903,335
	3,453,332	5,950,000	(583,334)	(3,636,666)	5,183,332	2,176,665	3,006,667

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

Directors/ Executives	Balance 1 July 2018	Options granted	Options forfeited/ lapsed	Options exercised	Balance 30 June 2019
Directors					
Dr N Finch	308,333	–	(150,000)	–	158,333
Mr N Ito	308,333	–	(150,000)	–	158,333
Mr M Jackman*	–	4,200,000	(2,330,000)	(500,000)	1,370,000
Mr D Lim	308,333	–	–	–	308,333
Mr W Spittle	308,333	–	–	–	308,333
Mr D Chambers	–	225,000	–	–	225,000
Dr E Siegel	–	225,000	–	–	225,000
Executives					
Mr R Krishnan	540,000	225,000	–	–	765,000
Mr M Lampron	350,000	350,000	–	–	700,000
Ms J Pilcher	740,000	225,000	–	–	965,000
Mr J Rice**	590,000	500,000	(1,006,666)	(83,334)	–
	3,453,332	5,950,000	(3,636,666)	(583,334)	5,183,332

*Managing Director, departed the Company on 11 March 2019, 2.33M options were lapsed and 0.5M options were exercised after this date.

**John (Eric) Rice departed the Company on 5 March 2019, 1.01M options were lapsed and 0.083M options were exercised after this date.

26. KEY MANAGEMENT PERSONNEL (continued)

Share options held by key management personnel under the Long-Term Incentive Plan (note 27) to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	2019 Number	2018 Number
08 Apr 16	08 Apr 21	$1.00	475,000	475,000
08 Apr 16	08 Apr 20	$1.00	100,000	100,000
09 Dec 16	09 Dec 21	$1.00	125,000	125,000
27 Jan 17	27 Jan 22	41c	680,000	1,020,000
03 Nov 17	03 Nov 22	17c	750,000	1,000,000
11 Dec 17	11 Dec 22	23c	433,332	733,332
01 Aug 18	01 Aug 23^	19.5c	1,370,000	-
17 Oct 18	17 Oct 12	18.5c	800,000	-
12 Nov 18	12 Nov 23	24.4c	450,000	-
			5,183,332	3,453,332

^CEO has 12 months from date of departure (11 March 2019) to exercise these options, else they will lapse.

27. SHARE-BASED PAYMENT PLAN

Recognised share-based payment expenses

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

	CONSOLIDATED	
	2019	2018
	$	$
Expenses arising from equity-settled share-based payment transactions	195,538	967,138

Types of share-based payment plans

Employee Share Option Plan, 'ESOP'

A Long-Term Incentive Plan has been established and approved by shareholders where Mach7 Technologies Limited may, at the discretion of the Board, grant options over the ordinary shares of Mach7 Technologies Limited to Directors, Executives, contractors and employees of the consolidated entity. The options, issued for nil consideration, are exercisable any time two to three years after the issue date and expire four to five years after the issue date.

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

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

27. SHARE-BASED PAYMENT PLAN (continued)

	2019		2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance at beginning of year	**6,563,332**	**$0.354**	3,580,000	$0.525
– granted	**7,010,000**	**$0.269**	3,623,332	$0.189
– exercised	**(583,334)**	**$0.170**	–	–
– forfeited/lapsed	**(4,106,662)**	**$0.346**	(640,000)	$0.373
Balance at end of year	**8,883,336**	**$0.302**	6,563,332	$0.354
Exercisable at end of year	**4,270,026**	**$0.387**	1,488,344	$0.622

Weighted average remaining contractual life
The weighted average remaining contractual life for the share options outstanding as at 30 June 2019 is 3 years 4 months (2018: 3 years 11 months).

Range of exercise price
The range of exercise prices for options outstanding at end of the year was $0.17 - $1.00 (2018: $0.17 - $1.00).

Weighted average fair value
The weighted average fair value of options granted during the year was $0.11 (2018: $0.12).

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

Options held as at the end of the reporting period
The following table summarises information about options held as at 30 June 2019:

Grant Date	Expiry Date	Vesting Date(s)	Exercise Price	Closing balance
08 Apr 16	08 Apr 20	08 Apr 17	$1.00	100,000
08 Apr 16	08 Apr 21	08 Apr 18	$1.00	475,000
09 Dec 16	09 Dec 21	09 Dec 18	$1.00	125,000
27 Jan 17	27 Jan 22	27 Jan 18-20*	$0.41	1,840,001
03 Nov 17	03 Nov 22	03 Nov 18-20*	$0.17	2,066,669
11 Dec 17	11 Dec 22	11 Dec 18-20*	$0.23	433,332
12 Jan 18	12 Jan 23	12 Jan 19-21*	$0.26	13,334
03 Apr 18	03 Apr 23	03 Apr 19-21*	$0.30	150,000
01 Aug 18	01 Aug 23	01 Aug 18	$0.195	1,370,000
17 Oct 18	17 Oct 23	17 Oct 19-21*	$0.185	1,810,000
12 Nov 18	12 Nov 23	12 Nov 19-21*	$0.244	450,000
02 May 19	02 May 24	02 May 20-22	$0.265	50,000
				8,883,336

*Options vest on this day/month over three years in three equal tranches.

28. EXPENDITURE COMMITMENTS

	CONSOLIDATED	
	2019	2018
	$	$
Lease expenditure commitments		
Operating leases (non-cancellable):		
Minimum lease payments		
- not later than one year	195,737	174,096
- later than one year and not later than five years	413,478	14,372
Aggregate lease expenditure contracted for at reporting date	609,215	188,468

Lease expenditure commitments are in respect of the lease of office premises in the U.S. and Malaysia.

Capital expenditure commitments

There are no capital expenditure commitments, other than finance leases disclosed in notes 19 and 20, as at 30 June 2019 (2018: nil).

29. CONTINGENT ASSETS AND LIABILITIES

The Group has no contingent liabilities at 30 June 2019 (2018: $140,242).

The Company has no contingent assets at 30 June 2019 (2018: nil).

30. AUDITORS' REMUNERATION

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

	CONSOLIDATED	
	2019	2018
	$	$
Amounts received or due and receivable by the auditor of the company for:		
Audit services - RSM Australia Partners		
Audit or review of the financial statements	58,813	55,000
Other services - RSM Australia Partners		
Taxation services	27,545	22,550
	86,358	77,550
Audit services - unrelated firms		
Audit or review of the financial statements	59,740	56,235

31. PARENT ENTITY DISCLOSURE

	PARENT	
	2019	2018
	$	$
Current assets	1,848,362	2,051,057
Non-current assets	28,979,635	25,342,652
TOTAL ASSETS	30,827,997	27,393,709
Current liabilities	939,519	151,287
Non-current liabilities	–	219,435
TOTAL LIABILITIES	939,519	370,722
Contributed equity		
Issued capital	58,845,391	55,557,122
Reserves	2,949,030	3,130,478
Retained earnings	(31,905,942)	(31,664,613)
TOTAL EQUITY	29,888,479	27,022,987
Total comprehensive income/(loss) attributable to equity	(314,371)	(198,719)

32. SUBSEQUENT EVENTS

The Company is not aware of any subsequent events that have occurred since 30 June 2019 that may materially affect the financial information in this report.

DIRECTORS' DECLARATION

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

1) In the opinion of the Directors:

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

      I. Giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

      II. Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and

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

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

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2019.

On behalf of the Board

David Chambers
Chairman
Signed on 26 August 2019

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

Opinion

We have audited the financial report of Mach7 Technologies Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

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

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.

Key Audit Matters (Continued.)

Key Audit Matter	How our audit addressed this matter
Going concern Refer to Note 2 in the financial statements	
We identified going concern as a key audit matter due to the Group's history of operating losses and negative operating cash flows. For the year ended 30 June 2019, Management performed an assessment of the Group's ability to continue as a going concern which resulted in: • The preparation of cash flow projections up to August 2020. The cash flow projections indicate that the Group can continue to pay its debts as and when they fall due; and • New contracts secured in the 2020 financial year.	Our audit procedures in relation to going concern included: • We reviewed management's forecasts including assessing the sensitivity and basis of the assumptions used; and • Obtained new contracts that were secured and reviewed the expected cash flows against those included in the forecasts.
Valuation of Intangible Assets Refer to Note 17 in the financial statements	
At 30 June 2019, the Group has intangible assets with a carrying value of $10.6 million. This primarily relates to separately identifiable intangible assets relating to the acquisition of Mach7 Technologies Pte. Ltd. in 2016. The recoverable amount of the intangibles has been determined by a value-in-use calculation using a discounted cash flow model. We identified this area as a Key Audit Matter due to the size of the intangible assets balance and because the directors' assessment of the 'value in use' of this cash generating unit ("CGU") incorporated significant judgment in respect of factors such as discount rate and assumptions underlying the cash flows of the business.	Our audit procedures in relation to management's impairment assessment included: • Updating our understanding of management's annual impairment testing process. • Assessing management's determination of the CGU based on the nature of the Group's business and the manner in which results are monitored and reported; • Checking the mathematical accuracy of the cash flow model, and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and • Challenging the reasonableness of key assumptions used, including those relating to forecast revenue, costs, working capital, projected cash flows, and discount rates.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf.
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 7 to 19 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Mach7 Technologies Limited, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

RSM

RSM AUSTRALIA PARTNERS

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R B MIANO
Partner

Dated: 26 August 2019
Melbourne, Victoria

Shareholder Information

MACH7 TECHNOLOGIES LIMITED ABN 26 007 817 192

Website: www.mach7t.com

Directors and Company Secretary
Mr Mike Lampron (Managing Director)
Mr David Chambers (Non-Executive Chairman)
Mr Damien Lim (Non-Executive Director)
Dr Eliot Siegel (Non-Executive Director)
Mr Wayne Spittle (Non-Executive Director)
Ms Jennifer Pilcher (Company Secretary)

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Share Registrar
Link Market Services Limited
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Telephone: 1300 554 474
Website: www.linkmarketservices.com.au

Stock Exchange Listing
Australian Securities Exchange (ASX)
Issuer Code: M7T

Solicitors
Gadens Lawyers
Level 25, Bourke Place, 600 Bourke Street, Melbourne, VIC 3000

Bankers
Westpac Banking Corporation
150 Collins Street, Melbourne, VIC 3000

Auditors
RSM Australia Partners
Level 21, 55 Collins Street, Melbourne, VIC 3000

Board of Directors and Company Secretary

Mike Lampron | Managing Director

Mr. Lampron is the Managing Director of Mach7 Technologies. With over 20 years of experience in business and operational management for Healthcare IT companies, Mike brings a broad experience ranging from private start-up organizations as well as long established companies such as IBM and GE. Mike was previously the Chief Executive Officer for a National Teleradiology Company and has a proven ability to drive results through a combination of astute analysis, innovative execution and cross-functional teamwork. Mike is responsible for our customers' success while driving excellence throughout Mach7.

David Chambers | Non-Executive Chairman

Mr. Chambers has more than 30 years' extensive experience in the Healthcare and Life Science industry and a proven track record in healthcare IT systems through a series of senior executive roles in Australia, North America, Europe, and Asia. Mr. Chambers is currently Managing Director, Asia-Pacific, of Allscripts Healthcare Solutions, a NASDAQ listed billion-dollar global leader in Healthcare Technology.

Damien Lim | Non-Executive Director

Mr. Lim is the co-founder and principal of Singapore-based BioVeda Capital. He has more than 22 years of experience in equity and investment banking with Director level roles at Prime Partners, Vickers Ballas and Morgan Greenfell Asia. Mr. Lim serves on a number of boards as well as grant and advisory committees.

Eliot Siegel, MD | Non-Executive Director

Dr. Siegel is a well-known thought leader in the world of radiology and imaging informatics. He is currently Professor and Vice Chair at the University of Maryland School of Medicine, Department of Diagnostic Radiology, and the Chief of Radiology and Nuclear Medicine for the Veterans Affairs Maryland Healthcare System, both in Baltimore, MD. Under his guidance, the VA Maryland Healthcare System became the first filmless healthcare enterprise in the United States. He has written over 200 articles and book chapters about PACS (Picture Archiving and Communication Systems) and digital imaging, and has edited six books on the topic, including Filmless Radiology and Security Issues in the Digital Medical Enterprise. He has given more than 1,000 presentations throughout the world on a broad range of topics involving the use of computers in medicine. Dr. Siegel was symposium chairman for the Society of Photo-optical and Industrial Engineers (SPIE) Medical Imaging Meeting for three years, is currently chair of Publications for the Society of Computer Applications in Radiology (SIIM) and has been honoured as a fellow in that organization. He is Chairman of the RSNA's Medical Imaging Resource Committee and a Board member of Carestream Health, a billion-dollar global company in digital radiography and computed radiography systems.

Wayne Spittle | Non-Executive Director

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

Jennifer Pilcher | Company Secretary, CFO

Prior to joining Mach7, Jenni spent nine years as a CFO and Company Secretary of ASX-listed biotechnology companies, including Alchemia and Mesoblast. Prior to joining Mesoblast, Jenni spent six years with ASX 200 Company, Spotless Group in senior finance roles. Internationally, Jenni has worked in the finance teams at Cadbury Schweppes plc. and international pharmaceutical group Medeva plc., based in London, United Kingdom. She has completed the Graduate Diploma of Applied Corporate Governance and been admitted to the Governance Institute of Australia and the international Institute of Chartered Secretaries & Administrators (ICSA). She qualified as a Chartered Accountant with Price Waterhouse in 1998.