



MSM CORPORATION INTERNATIONAL LIMITED

(formerly Minerals Corporation Limited)

ABN 51 002 529 160

UNAUDITED PRELIMINARY FINAL REPORT
30 JUNE 2016

	2016 \$	2015 \$	Movement	Percentage Change
Revenues from ordinary activities	29,230	-	29,230	-
Loss from ordinary activities after tax attributable to the members	8,491,150	1,126,318	increased loss	654%
Loss for the year attributable to the members	8,491,150	1,126,318	increased loss	654%

DIVIDENDS

No dividends have been provided for or paid by the consolidated entity in respect of the year ended 30 June 2016 (2015 – nil).

	2016	2015
NET TANGIBLE ASSETS PER SECURITY (cents)	1.5	(1.5)

BASIS OF FINANCIAL REPORT PRESENTATION

This financial report is for the year ended 30 June 2016 and has been prepared in accordance with the Australian Securities Exchange Listing Rules as they relate to Appendix 4E and in accordance with the Corporations Act 2001. The accounting policies adopted with the contents of this report are consistent with those of the previous financial year and corresponding interim reporting period. Comments are for the twelve months ended 30 June 2016 with comparatives for the period from 12 August 2014 to 30 June 2015. All amounts are measured in Australian dollars.

AUDIT STATUS

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

REVIEW AND RESULTS OF OPERATIONS

Operational

Operationally, MSM Corporation International Limited (**Company** or **MSM**) has made strong development progress towards the launch of its first product offering.

Prototype Completion

During the period, MSM completed the first prototype of the Megastar Millionaire platform, representing a substantial technical milestone which was achieved ahead of schedule. The prototype contains the basic features and functionalities that will be included in the final consumer product. The prototype was completed in preparation for qualitative and quantitative research to further refine the platform, maximise platform efficiencies and increase user engagement.

Qualitative Testing

To refine the Megastar Millionaire prototype, close associates of the Company participated in a qualitative testing program of the platform to identify areas where improvements could be made. 62% of the participants rated the platform favourably and provided the Company with highly valuable feedback on the modality and functionality of the platform. This data has assisted the Company with debugging the platform and refining its user experience. Following the feedback received, the on-boarding process for users was refined and the video uploading process streamlined, helping to minimise barriers to entry and intended to maximise the audience reach.

REVIEW AND RESULTS OF OPERATIONS (*continued*)

Quantitative Testing

With the view of quantifying the commercial potential and understanding the level of user engagement of the Megastar Millionaire competition platform, the Company commissioned leading entertainment research firm, Hub Entertainment Research, to undertake quantitative testing of the platform.

Reporting the findings in July 2016, the rigorous and statistically significant research revealed the enormous commercial upside potential of the competition. Specifically, the weighted average price point participants were willing to pay far exceeded the Company's expectations, indicating the platform has the potential to be monetised in a highly significant manner. With over 2,500 participants, the independent, third-party research also demonstrated that 91% of respondents were somewhat/very interested in being a *Fan* and 54% are also somewhat/very interested in being a *Performer*, illustrating the high engagement potential of the competition platform.

Corporate

During the year the Group incurred a loss after tax of \$8,491,150 (2015 – loss of \$1,126,318). The result included the recognition of the finance cost of the conversion of the convertible notes to shares of \$979,652, share based payments expenses for options and shares issued as remuneration and payment of services of \$1,694,640 and the share based payments recognised on the acquisition of \$2,335,265.

The Group's financial position is sound as at the end of the year, with cash on hand of \$4,084,229.

MSM Reverse Take-over

During the year, MSM acquired all of the securities in Megastar Millionaire Pty Ltd (**Megastar**) via a reverse takeover offer. The takeover was affected through a share sale and purchase agreement between MSM and all of the shareholders of Megastar. Shareholders of Megastar received 1.079 new MSM shares for every 1 Megastar share held.

The acquisition of Megastar was subject to the satisfaction of a number of conditions precedent outlined below and resulted in MSM acquiring up to 100% of the issued capital of Megastar.

Under the terms of the acquisition agreement, MSM acquired 100% of Megastar for the following consideration:

- 75,000,000 ordinary shares to the Vendors; and
- The Company also issued 100,000,000 Performance Shares to Vendors of Megastar, which will convert into ordinary shares upon achievement of the following milestones:
 - 50,000,000 upon Megastar achieving \$5 million in EBITDA or if the MSM Platform achieves a number of unique registered users of at least 1 million on or before five years from the date of issue (Class A Performance Shares); and
 - 50,000,000 upon Megastar achieving \$15 million in EBITDA or if the MSM Platform achieves a number of unique registered users of at least 2 million on or before five years from the date of issue (Class B Performance Shares).

Megastar was deemed the acquirer for accounting purposes as it owned 63.06% of the entity following completion. The acquisition of Megastar by MSM is not deemed to be a business combination, as MSM is not considered to be a business under the accounting standard AASB 3 Business Combinations.

REVIEW AND RESULTS OF OPERATIONS (continued)

As such the consolidation of these two companies reflects the continuation of Megastar with no fair value adjustments, whereby Megastar was deemed to be the accounting parent. Therefore the appropriate treatment for the transaction was to account for it under AASB 2 'Share Based Payments', whereby Megastar is deemed to have issued shares to MSM shareholders in exchange for the net assets held by MSM. The comparative information presented in the consolidated interim financial statements is that of Megastar, as presented in its audited financial statements for the year ended 30 June 2015.

Additionally, on 7 October 2015, Minerals Corporation Limited obtained shareholder approval to change its name to MSM Corporation International Ltd. On 29 December 2015, MSM announced that it had received 100% acceptances from Megastar's shareholders and on 13 January 2016 was re-listed on the ASX.

About MSM

MSM Corporation International Limited is a digital technology and media entertainment company that, via the first product offering, Megastar Millionaire, will launch the world's richest online, mobile-first, talent discovery competition platform.

Megastar Millionaire is a consumer digital entertainment technology platform; connecting performers and fans in an innovative and interactive gamification experience. It is designed to transform, mobilise and individualise the search for new artists, allowing people to easily showcase their talents to a global digital audience and offers significant advantages over traditional television platforms.

This highly disruptive, first-to-market platform will monetise mobile video via a highly successful talent competition format. Operating squarely within the US\$25bn online gaming and US\$30bn mobile sectors, Megastar Millionaire draws on the social media phenomenon, allowing individuals to demonstrate their skills and talents.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Notes	2016 \$	Company Period to 30 June 2015 \$
Revenue from continuing operations			
Interest income		29,230	-
Expenses			
Finance cost	3	984,833	800,462
Administration expenses		947,566	162,266
Employee benefits and directors fees		498,573	35,552
Share based payments - reverse acquisition	2	2,335,265	-
Share based payments - options and shares	4	1,694,640	-
Project expenditure		2,059,503	128,038
Loss from continuing operations before income tax expense		(8,491,150)	(1,126,318)
Income tax expense		-	-
Net loss from continuing operations for the period		(8,491,150)	(1,126,318)
Other comprehensive loss			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on foreign operations		185,483	-
Total comprehensive loss for the period		(8,305,667)	(1,126,318)
Loss for the period attributable to owners of the Company		(8,305,667)	(1,126,318)
Total comprehensive loss for the period attributable to owners of the Company		(8,305,667)	(1,126,318)
Loss per share from continuing operations attributable to owners of the Company			
Basic loss per share	11	\$0.05	\$0.05

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	2016 \$	Company 30 June 2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents		4,084,229	652,954
Other assets	6	173,153	16,398
Total Current Assets		4,257,382	669,352
Non-Current Assets			
Property, plant & equipment		28,343	-
Investments	7	538,003	-
Total Non-Current Assets		566,346	-
TOTAL ASSETS		4,823,728	669,352
LIABILITIES			
Current Liabilities			
Trade and other payables	8	628,470	147,556
Provisions	9	66,944	-
Loan from convertible note holders	3	-	1,578,763
Total Current Liabilities		695,414	1,726,319
TOTAL LIABILITIES		695,414	1,726,319
NET ASSETS (LIABILITIES)		4,128,314	(1,056,967)
EQUITY			
Issued capital	10	11,249,100	69,351
Reserves	12	2,496,682	-
Accumulated losses		(9,617,468)	(1,126,318)
TOTAL EQUITY		4,128,314	(1,056,967)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2015	69,351	-	(1,126,318)	(1,056,967)
<i>Comprehensive Income</i>				
Net loss for the period	-	-	(8,491,150)	(8,491,150)
Other comprehensive income	-	185,483	-	185,483
Total comprehensive income/ (loss) for the period	-	185,483	(8,491,150)	(8,305,667)
Transactions with owners in their capacity as owners				
Issue of shares - prospectus	7,000,000	-	-	7,000,000
Conversion of convertible notes	1,600,000	-	-	1,600,000
Share based payment – acquisition	2,636,304	-	-	2,636,304
Share based payments - options	951,104	2,311,199	-	3,262,303
Shares issued on conversion of options	129,454	-	-	129,454
Capital raising expenses	(1,137,113)	-	-	(1,137,113)
Total transactions with owners and other transfers	11,179,749	2,496,682	(8,491,150)	5,185,281
Balance at 30 June 2016	11,249,100	2,496,682	(9,617,468)	4,128,314
Company				
Balance at 12 August 2014	-	-	-	-
<i>Comprehensive Income</i>				
Net loss for the period	-	-	(1,126,318)	(1,126,318)
Total comprehensive income for the period	-	-	(1,126,318)	(1,126,318)
Transactions with owners in their capacity as owners				
Issue of shares	101,951	-	-	101,951
Capital raising expenses	(32,600)	-	-	(32,600)
Total transactions with owners and other transfers	69,351	-	-	69,351
Balance at 30 June 2015	69,351	-	(1,126,318)	(1,056,967)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	2016 \$	Company to 30 June 2015 \$
Cash flows from operating activities		
Interest received	29,230	-
Project development payments	(2,104,986)	(128,035)
Payments to suppliers and employees	(984,078)	(88,362)
Net cash outflow from operating activities	(3,059,834)	(216,397)
Cash flows from investing activities		
Payments for investments	(329,338)	-
Purchase of property, plant and equipment	(28,343)	-
Net cash outflows from investing activities	(357,681)	-
Cash flows from financing activities		
Proceeds from issue of shares	7,437,903	101,951
Capital raising costs	(589,113)	(32,600)
Proceeds from issue of convertible notes	-	800,000
Net cash inflows from financing activities	6,848,790	869,351
Net increase in cash and cash equivalents	3,431,275	652,954
Cash and cash equivalents at the beginning of the financial period	652,954	-
Cash at the end of the financial period	4,084,229	652,954

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION

This preliminary final report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the financial report for the half-year ended 31 December 2015 and any public announcements made by MSM during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Statement of compliance

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

Acquisition of Megastar Millionaire Pty Ltd – Capital Restructure

During the year, MSM acquired all the shares in Megastar Millionaire Pty Ltd (Megastar) by issuing 75,000,000 shares in MSM, to Megastar shareholders, giving Megastar a controlling interest in MSM and equating to a controlling interest in the combined entity. Megastar has thus been deemed the acquirer for accounting purposes. The acquisition of MSM by Megastar is not deemed to be a business combination, as MSM is not considered to be a business under AASB 3: Business Combinations (AASB 3). As such, the consolidation of these two companies was on the basis of the continuation of Megastar with no fair value adjustments, whereby Megastar was deemed to be the accounting parent. The comparative information of MSM is subsequently Megastar for the period.

The transaction has therefore been treated as a share based payment under AASB 2: Share Based Payments (AASB 2), whereby Megastar is deemed to have issued shares in exchange for the net assets and listing status of MSM. As the deemed acquirer, Megastar has acquisition accounted for MSM as at 30 June 2016. Refer to Note 2 for further details on the acquisition accounting treatment.

The results for the year ended 30 June 2016 comprise the results of Megastar, and the results of MSM subsequent to the acquisition.

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

NOTE 2: REVERSE ACQUISITION ACCOUNTING TREATMENT

MSM made a takeover offer for all of the securities in Megastar. The takeover offer was affected through an off-market takeover bid for all of the ordinary shares in Megastar on the basis of 1.079 MSM shares for every 1 Megastar share held.

Under the acquisition, MSM acquired all of the shares in Megastar by issuing 75,000,000 shares in MSM to Megastar shareholders, giving Megastar a controlling interest in MSM and equating to a controlling interest in the combined entity. Megastar was thus deemed the acquirer for accounting purposes as it owned 63.06% of the consolidated entity. The acquisition of Megastar by MSM (legal acquirer) is not deemed to be a business combination, as MSM is not considered a business under AASB 3: Business Combinations.

As such the consolidation of these two companies reflects the continuation of Megastar with no fair value adjustments, whereby Megastar was deemed to be the accounting parent. Therefore the most appropriate treatment for the transaction was to account for it under AASB 2: Share Based Payments (AASB 2), whereby Megastar is deemed to have issued shares in exchange for the net assets and listing status of MSM.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In this instance, the value of the MSM shares provided has been determined as the notional number of equity instruments that the shareholders of Megastar would have had to issue to MSM to give the owners of MSM the same percentage ownership in the combined entity. This has been determined to be \$2,636,304.

The pre-acquisition equity balances of MSM are eliminated against this increase in Share capital of \$4,500,000 on consolidation. The balance is deemed to be the amount paid for the listing status of MSM, being \$2,335,265 (recognised as a share based payment in the Statement of Profit or Loss and Other Comprehensive Income). This is tabled below.

	\$
<i>Deemed Share Based Payment</i>	2,636,304
<i>Net fair value in MSM at Acquisition date</i>	<u>(301,039)</u>
<i>Share Based Payment – Acquisition</i>	<u>2,335,265</u>
Assets and Liabilities Acquired	
Cash	94,636
Property, plant and equipment	13
Loan receivable	135,000
GST receivable	83,235
Other debtors and prepayments	<u>121</u>
	<u>313,005</u>
Trade and other payables	<u>11,966</u>
	<u>11,966</u>
Net Assets	<u>301,039</u>

The equity structure in the consolidated financial statements (the number and type of equity instruments issued) at the date of the acquisition reflects the equity structure of MSM, including the equity instruments issued by MSM to effect the acquisition.

As part of the acquisition consideration the vendors of Megastar have been issued with 100 million Performance Shares. The Performance Shares have the following vesting conditions:

- 50 million Performance Shares will convert into 50 million Ordinary Shares if the Company achieves \$5 million in earnings before interest, tax, depreciation and amortization (**EBITDA**) or the Megastar platform achieves a number of unique registered users of at least 1 million on or before 3 years from the date of issue; and
- 50 million Performance Shares will convert into 50 million Ordinary Shares if the Company achieves \$15 million in EBITDA or the Megastar platform achieves a number of unique registered users of at least 2 million on or before 5 years from the date of issue.

The performance shares were issued as part of the consideration for the Megastar acquisition, and accordingly the value attributable to these shares is incorporated into the acquisition share based payment amount recognised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3: CONVERTIBLE NOTES

	2016 \$	Company 30 June 2015 \$
Convertible Notes – Sophisticated Investors (held at fair value)	-	1,578,763

On 23 March 2015, the Company entered into convertible note funding arrangements with a variety of investors which totalled \$800,000. The funding arrangement comprised 8,000 notes, each at \$100. These notes contained complex conversion features which constituted embedded derivatives.

The fair value of this liability and the associated embedded derivatives was fair valued at each reporting date. As at 30 June 2015, the fair value was determined to be \$1,578,763 which resulted in a fair value loss of \$778,763 recognised in the profit or loss in relation to finance costs for the 30 June 2015 period. In addition, an interest expense of \$21,699 was recognised as a finance cost in profit and loss for the period ended 30 June 2015. The fair value determination was by reference to the intrinsic value contained in the share price conversion feature, as well as the fair value of the attaching options. The options were valued at reporting date using the Black-Scholes option pricing model.

On 29 December 2015, the Company issued 25,000,000 ordinary shares at \$0.064 on conversion. The fair value of the equity issued, on issue date was \$1,600,000 (Refer to Note 10). The fair value of equity issued was by direct reference to the market price of the equity on issue date. The Company also issued 25,000,000 free attaching options which have an exercise price of \$0.10 and an expiry of 7 November 2019. The Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model at \$979,652.

The model inputs are shown in the table below.

Black-Scholes Option Pricing Model	
Date of grant	29/12/2015
Date of expiry	7/11/2019
Exercise price	\$0.10
Underlying share price (at issue date)	\$0.064
Risk free interest rate	2.0%
Volatility	100%
Years to expiry	3.9 years
Number of options granted	25,000,000
Fair value of options	\$979,652

The options above vested immediately and the conversion of these notes to shares and options during the period (per above) resulted in a fair value loss of \$979,652 recognised in the profit or loss in relation to finance costs. This fair value movement represents the movement in the fair value of the liability as at 30 June 2015 (\$1,578,763) and the fair value of the equity granted on settlement date (\$2,579,652).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4: SHARE BASED PAYMENTS

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

	2016 \$	2015 \$
<i>Recognised as a share based payment expense:</i>		
Options issued to US Advisory Board Members (Note 4(a))	7,034	-
Options issued to Key Management Personnel (Note 4(a))	494,159	-
Options issued for consulting services (Note 4(a))	235,116	-
Equity options issued to Employees (Note 4(c))	47,238	-
Shares issued to US Advisory Board Members (Note 4(b))	911,093	-
Reverse acquisition (Note 2)	2,335,265	-
Total share based payment expense	4,029,905	-
<i>Recognised as an administration expense:</i>		
Shares issued for corporate services (Note 4(b))	40,020	-
Total recognised in administration expenses	40,020	-
<i>Recognised in equity as capital raising expenses:</i>		
Options issued for corporate services (Note 4(a))	548,000	-
Total recognised in equity as capital raising expenses	548,000	-

(a) Fair value of options granted during the year

Consideration for corporate services

On 29 December 2015, the Company issued 14,000,000 options to Brokers in relation to the prospectus. The fair value of the services received was unable to be determined and accordingly the expense recognised was by reference to the fair value of equity granted. The Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model	
Date of grant	29/12/2015
Date of expiry	7/11/2019
Exercise price	\$0.10
Underlying share price (at issue date)	\$0.064
Risk free interest rate	2.0%
Volatility	100%
Years to expiry	3.9 years
Number of options granted	14,000,000
Fair value of options	\$548,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options vested immediately and therefore the share based payment recognised is \$548,000. As these services related to share capital, these costs have been accounted for as capital raising costs under equity, with a corresponding increase in the Option Premium Reserve.

Options issued to US Advisory Board Members

On 1 March 2016, the Company issued 900,000 unlisted options to three US Advisory Board members as part of their appointment remuneration package. The Company has internally measured the fair value of options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model	
Date of grant	01/03/2016
Date of expiry	18/03/2020
Exercise price	\$0.15
Underlying share price (at issue date)	\$0.09
Risk free interest rate	1.58%
Volatility	94%
Years to expiry	4.05 years
Number of options granted	900,000
Fair value of options	\$46,623

The options above vest on 12 May 2018 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$7,034 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the current year.

Options issued to Key Management Personnel

On 26 April 2016, the Company entered into an agreement to issue 2 million unlisted options to Sophie McGill as part of her appointment remuneration package. These options are exercisable at \$0.125 on or before 18 March 2020 and will vest in six equal instalments (333,334 options) over a 3 year period. These options are subject to shareholder approval at the Company's 2016 Annual General Meeting.

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

Black-Scholes Option Pricing Model	
Date of grant	26/04/2016
Date of expiry	18/03/2020
Exercise price	\$0.125
Underlying share price (at issue date)	\$0.125
Risk free interest rate	1.57%
Volatility	94%
Years to expiry	3.9 years
Number of options granted	2,000,000
Fair value of options	\$164,310

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options vest over six equal instalments over a 3 year period and therefore the share based payment expense has been recognised over the respective vesting period of each instalment. As a result, a share based payment expense of \$23,927 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the current year.

On 29 December 2015, the Company issued 12 million unlisted options to Dion Sullivan (6 million) and Adam Wellisch (6 million) as part of their remuneration package in connection with the reverse acquisition. These options are exercisable at \$0.10 on or before 7 November 2019. The Company has internally measured the fair value of options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Options issued to Webstar Group International Limited

On 29 December 2015, the Company issued 6 million unlisted options to Webstar Group International Limited for services rendered in connection with the reverse acquisition. These options are exercisable at \$0.10 on or before 7 November 2019. The Company has internally measured the fair value of options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model	
Date of grant	29/12/2015
Date of expiry	7/11/2019
Exercise price	\$0.10
Underlying share price (at issue date)	\$0.064
Risk free interest rate	2.0%
Volatility	100%
Years to expiry	3.9 years
Number of options granted	18,000,000
Fair value of options	\$705,348

The options vest immediately, and as a result, a share based payment expense of \$705,348 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income. \$470,232 of this amount related to Key Management Personnel and the remaining \$235,116 related to corporate services.

(b) Fair value of shares granted during the year

On 29 December 2015, the Company issued 12,500,000 shares to Doug Barry, Chairman of MSM's US operations, and 1,735,836 shares to Mr John Baldecchi and Michael Pole as members of the MSM US Advisory Board in consideration for services.

The fair value of equity granted was by reference to the market price on grant date, \$0.064 per share. This resulted in a share based payment expense of \$911,093 being recognised in the Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

On 29 June 2016, the Company issued 666,667 shares to unrelated parties in consideration for services.

The fair value of equity granted was by reference to the fair value of services received. As a result, an expense of \$40,020 was recognised in the Statement of Profit or Loss and Other Comprehensive Income under administration expenses.

(c) Equity options issued to Employees (MSM Music Inc.) - Employee Option Plan

During 2016, the Company issued various 'option equity' components as part of the remuneration package offered to employees appointed by MSM Music Inc. The component entitles the employee to a fixed percentage of the total shares in MSM Corporation International Limited at grant date, which vests over 48 months (4 years), in equal instalments.

Under the 'option equity' agreements, eligible employees are entitled to 6,737,790 shares in the Company. The fair value of equity instruments granted is valued by direct reference to the total equity contributed in the Company at grant date and the respective share price on grant date. These options are intended to be issued under the Company's Employee Option Plan to be put to shareholders for approval at the Company's 2016 Annual General Meeting.

As the equity option vests over 48 months, the share based payment expense has been expensed over this vesting period. As a result, a share based payment expense of \$47,238 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income.

The weighted average remaining contractual life of the options outstanding as at 30 June 2016 is 3.3 years (30 June 2015: nil).

	2016 \$	Company Period to 30 June 2015 \$
NOTE 5: REVENUE AND EXPENSES		
(a) Revenue and other income		
Interest and other income	29,230	-
	<u>29,230</u>	<u>-</u>
(b) Expenses		
Finance costs - convertible notes (Note 3)	979,652	-
Finance costs – other	5,181	-
Employees benefits expense	26,283	-
Wages, salaries, directors fees and other remuneration expenses	403,895	10,000
	<u>1,415,011</u>	<u>10,000</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2016	Company 30 June 2015
	\$	\$
NOTE 6: OTHER ASSETS		
Other receivables	67,396	-
Derivative financial instrument	31,867	-
GST recoverable	40,288	16,398
Prepayments	33,602	-
	<u>173,153</u>	<u>16,398</u>

NOTE 7: INVESTMENTS

Unlisted investments at cost	<u>538,003</u>	<u>-</u>
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On 12 July 2015, Megastar entered into an unsecured convertible promissory note agreement with Digital Riot Media, LLC for the principal sum of US\$50,000.

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

- The payment of US\$100,000 on 7 August 2015; and
- US\$200,000 (A\$269,139) in the form of either cash or MSM shares, at MSM's election. This is accounted for under Trade and Other Payables (Note 8).

On 5 April 2016, Megastar purchased 7,178,007 shares in WinWin Holdings Pty Ltd under Tranche 1 of the private placement agreement for US\$34,000 (A\$47,854).

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

Management have determined there are no impairment indicators which would suggest the investments are impaired.

NOTE 8: TRADE AND OTHER PAYABLES

Trade creditors	256,840	120,857
Accruals	102,491	5,000
Other payables (Note 7)	269,139	-
Accrued interest	-	21,699
Total trade and other payables	<u>628,470</u>	<u>147,556</u>

NOTE 9: PROVISIONS

Provision for employee benefits	<u>66,944</u>	<u>-</u>
Total provisions	<u>66,944</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10: CONTRIBUTED EQUITY

Shares – 30 June 2016	\$	No. of Shares	Amount per share
Issued and paid up capital			
Movements in issued and paid up capital			
Balance at beginning of period	69,351	-	-
Fully paid ordinary share capital of MSM	-	43,938,596	-
Proceeds from shares issued under the public offer	7,000,000	116,666,667	\$0.060
Deemed share based payment (Note 3)	2,636,304	75,000,000	\$0.035
Shares issued for the conversion of convertible notes	1,600,000	25,000,000	\$0.064
Share based payments (Note 4)	911,094	14,235,739	\$0.064
Share based payments (Note 4)	40,020	666,667	\$0.060
Shares issued on conversion of options	129,444	1,294,441	\$0.100
Capital raising costs	(1,137,113)	-	-
Total issued and paid up capital at the end of the period	11,249,100	276,802,110	

Shares – 30 June 2015	\$	No. of Shares	Amount per share
Issued and paid up capital			
Movements in issued and paid up capital			
Balance at beginning of period	-	-	-
Founder share issued	1	1	\$1.00
Proceeds from shares issued	1,950	19,500,000	\$0.0001
Proceeds from shares issued	100,000	50,000,000	\$0.002
Capital raising costs	(32,600)	-	-
Total issued and paid up capital at the end of the period	69,351	69,500,001	

	2016 \$	Company 30 June 2015 \$
NOTE 11: BASIC LOSS PER SHARE		
Basic loss per share	(0.05)	(0.05)
Diluted loss per share	(0.05)	(0.05)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2016 \$	Company 30 June 2015 \$
Basic loss per share		
The loss and weighted average number of ordinary shares used in the calculation of the basic and diluted loss per share are as follows:		
Net loss	(8,491,150)	(1,126,318)
	Number	Number
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	175,825,172	22,720,993
(i) The prior year weighted average number of ordinary shares has been adjusted to reflect the reverse acquisition. Refer Note 2 for further detail.		

NOTE 12: RESERVES

Option Premium Reserve

Value of broker options issued (Note 4(a))	548,000	-
Options issued for the conversion of convertible notes (Note 3)	979,652	-
Options issued to key management personnel	501,193	-
Options issued to other employees (Note 4(c))	47,238	-
Options issued for services rendered (Note 4(a))	235,116	-
	<u>2,311,199</u>	<u>-</u>

Foreign Exchange Translation Reserve

Exchange differences on foreign operations	185,483	-
Total Reserves	<u>2,496,682</u>	<u>-</u>

NOTE 13: SUBSEQUENT EVENTS

In July 2016, the Company announced that it had successfully delivered its next platform development milestone, with the completion of independent third-party commissioned quantitative research by Hub Entertainment Research.

Since the end of the year, 8,149,181 ordinary shares have been issued as a result of the exercise of options at \$0.10 each, increasing the Company's issued share capital by \$814,918.

Other than the above, no matter has arisen since the end of the year that has significantly affected or may significantly affect the company's operations, the results of those operations or its financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14: COMMITMENTS

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

As part of the investment in WinWin Holdings Pty Ltd, MSM have entered into a service agreement to provide up to A\$152,486 worth of MSM services in consideration for Tranche 2 shares under the private placement agreement. Tranche 2 contains 22,821,993 shares and will only be issued once all conditions have been satisfied under the services agreement.

NOTE 15: CONTINGENT LIABILITIES

There are no contingent liabilities requiring disclosure in the financial report.

NOTE 16: SUBSIDIARIES

MSM Holdings Pte Ltd was incorporated in Singapore on 3 March 2015 and is a wholly owned subsidiary of Megastar.

MSM Music, Inc. was incorporated in Delaware on 23 June 2015 and is a wholly owned subsidiary of Megastar.

NOTE 17: OPERATING SEGMENTS

The Board has considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded at this time that there are no separately identifiable segments.