

## **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 2021**

(Previous corresponding period: year ended 30 June 2020)

Provided to the ASX in accordance with listing rule 4.3A

# Mach7 Technologies Limited

## ASX Appendix 4E

### Preliminary Final Report

YEAR ENDED 30 JUNE 2021

## Results for announcement to the market

Current reporting period 1 July 2020 to 30 June 2021

Previous corresponding period 1 July 2019 to 30 June 2020

		% Change		\$'000
Revenue from continuing operations	up	1%	to	19,027
Net loss for the year	down	(5,627%)	to	(9,357)
Net loss for the year attributable to members	down	(5,627%)	to	(9,357)
<b>Dividends</b>				
Interim dividend		–		–
Final dividend		–		–

	Current period	Previous Corresponding period
<b>Earnings per share (EPS)</b>		
Basic EPS	(0.04)	0.001
Diluted EPS	(0.04)	0.001
Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	234,660,089	169,760,004
<b>Net tangible asset (NTA) backing</b>		
Net tangible asset backing per ordinary share	8 cents	22 cents

### Entities over which control has been gained or lost during the period

The Company acquired (and gained control over) Client Outlook Inc. on 13 July 2020. Refer Note 33 to the financial statements for more detail.

### 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 2021.

### Audit

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

# Directors' Report

YEAR ENDED 30 JUNE 2021

The directors of Mach7 Technologies Ltd submit their report for the year ended 30 June 2021.

## 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 2021 up to the date of this report:

Mr David Chambers	Chairman
Eliot Siegel, MD	Non-Executive Director
Mr Robert Bazzani	Non-Executive Director
Mr Philippe Houssiau	Non-Executive Director (Appointed 1 January 2021)
Mr Michael Lampron	Managing 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 18–19.

## Directors' relevant interest in Mach7 Technologies Limited securities

The directors' interests in the shares and options of Mach7 Technologies Limited at 30 June 2021 were:

Director	Ordinary Shares No.	Options No.	Performance Rights No.
Mr David Chambers	120,000	295,000	–
Eliot Siegel, MD	46,100	275,000	–
Mr Robert Bazzani	21,100	250,000	–
Mr Michael Lampron	85,208	1,333,333	378,114

## 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 David Chambers	Member	Chair
Eliot Siegel, MD	Member	Member (until April 2021)
Mr Robert Bazzani	Chair	Member
Mr Michael Lampron	Member (until April 2021)	Member
Mr Philippe Houssiau	–	Member (from April 2021)

# Directors' Report

YEAR ENDED 30 JUNE 2021

## 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
Mr David Chambers	10	10	4	4	4	4
Eliot Siegel, MD	10	10	4	4	4	4
Mr Robert Bazzani	10	10	4	4	4	4
Mr Michael Lampron	10	10	4	4	4	4
Mr Philippe Houssiau	4	4	0	0	1	1

## Dividends

Mach7 Technologies Limited did not declare or pay any dividends during the financial year (2020: 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 2021	As at 30 June 2020	Movement
	\$	\$	%
Cash (including all cash deposits)	18,363,398	48,874,210	(62%)
Deferred revenue – yet to be recognised	(5,580,346)	(2,777,482)	101%
Net current assets / (liabilities)	16,908,539	46,895,451	(64%)
Net tangible assets	18,807,695	47,961,347	(61%)
Intangible assets net of associated deferred tax liability	39,106,595	5,505,381	610%
Net assets	57,914,290	53,466,728	8%

# Directors' Report

YEAR ENDED 30 JUNE 2021

## Operating and financial review (continued)

### Cash & cashflows

The Group reported cash balances as of 30 June 2021 of \$18.4 million (2020: \$48.9 million). The decrease of \$30.5 million is due to the acquisition of Client Outlook Inc. which completed on 13 July 2020 and was an all-cash transaction. Mach7 met its stated target of free cash flow breakeven or better and delivered its second consecutive year (since listing) of positive operating cash flows of \$1.5 million (2020: \$4.7 million).

### Deferred revenue

Deferred revenue represents cash amounts that have been collected from customers that will be recognised as revenue in a future period as and when the professional services and/or support services are performed. This balance is therefore a non-cash liability and consequently does not affect future cash flows. The Group's deferred revenue balance increased by \$2.8 million (101%) to \$5.6 million due to the Group now including deferred revenue from the Client Outlook acquisition.

### Net assets (current, tangible and intangible)

The Group reported positive net current assets at 30 June 2021 of \$16.9 million (2020: \$46.9 million). The decrease in net current assets of \$30 million (64%) is due to the cash payment made for the Client Outlook acquisition which occurred in July 2020. The Group reported positive net tangible assets balance at 30 June 2021 of \$19.1 million (2020: \$48.0 million). This balance closely resembles net current assets as the Group has a relatively small investment in fixed assets and does not yet capitalise any research and development costs that did not meet the Australian Accounting Standards criteria. The decrease in net tangible assets of \$28.8 million (60%) can therefore also be attributed to the acquisition of Client Outlook which occurred in July 2020. Net intangible assets of \$39.1 million has increased by \$33.6 million (610%) due to the intangible assets and associated deferred tax liability acquired as part of the Client Outlook acquisition.

## Review and results of operations

### Impact of Covid-19 to the business

Covid-19 has impacted the business in various ways this financial year. Travel restrictions across the globe have impacted the integration of the Client Outlook business, and limited face time with our potential customers, partners and existing customers. Certain sales orders have been subjected to phased roll-outs at the customers' request, which has pushed revenue recognition and cash collection from this year into next year. On a positive note, the Group has recorded its largest sales order intake in its history and the sales pipeline of opportunities remains strong.

### Profitability

The Group has reported a strengthened Gross Margin of \$18.4 million (2020: \$16.5 million), an increase of \$1.9 million or 12%. Gross margins have grown significantly to 97% of revenues (2020: 87%) due to the elimination of reseller fees owing to Client Outlook on eUnity solution sales since the acquisition of Client Outlook Inc.

At the EBITDA level, and after removing the effect of foreign exchange losses, a small loss of \$0.7 million is reported (2020: profit \$3.2m). The decrease of \$3.9 million against last year's adjusted EBITDA can be attributed to incorporating the Client Outlook expense base in 2021, and the delay of revenue recognition of current year sales orders into FY22, which is explained further in the Revenue from Continuing Operations section.

# Directors' Report

YEAR ENDED 30 JUNE 2021

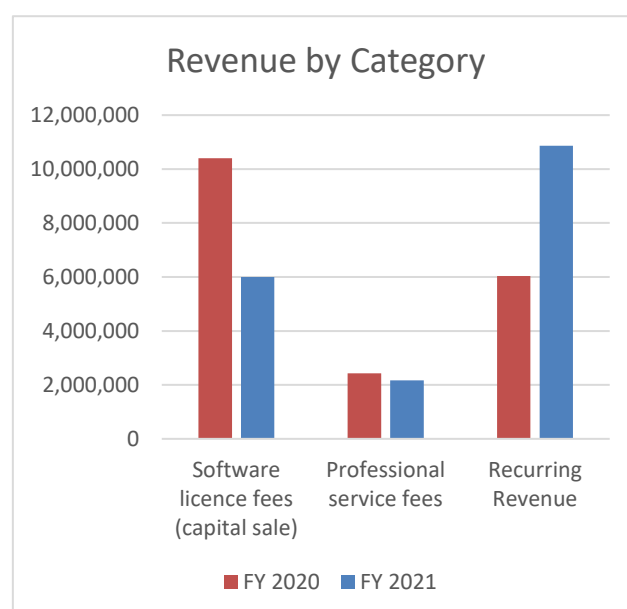
## Operating and financial review (continued)

The Group has reported a net loss for the year of \$9.4 million (2020: profit \$0.2 million). The additional decrease in net profit of \$5.5 million (over and above the decrease in EBITDA of \$3.9 million described above) is made up of \$1.1 million in foreign exchange losses (of which \$0.8 million are unrealised) due to the strengthening of currencies AUD and CAD against USD. The remaining \$4.4 million increase can be attributed to the amortisation of intangible assets and associated income tax benefit (non-cash items) acquired as part of the Client Outlook acquisition. The following table outlines the Group's profitability:

CONSOLIDATED	2021	2020	Movement
	\$	\$	%
Revenue from continuing operations	19,027,093	18,862,201	1%
Third-party licenses	(585,821)	(2,408,133)	(76%)
<b>Gross Margin</b>	<b>18,441,273</b>	<b>16,454,068</b>	<b>12%</b>
Operating expenditure	(17,468,971)	(12,730,463)	37%
Share-based payments expense (non-cash)	(1,931,548)	(702,630)	175%
Other income/expenses (net)	244,916	165,427	48%
<b>Adjusted EBITDA (before FX movements)</b>	<b>(714,331)</b>	<b>3,186,403</b>	<b>(122%)</b>
Foreign exchange (losses)/gains	(1,111,583)	128,051	(968%)
<b>EBITDA</b>	<b>(1,825,914)</b>	<b>3,314,454</b>	<b>(155%)</b>
Interest expense	(46,601)	(43,695)	7%
Depreciation and amortisation charges (non-cash)	(9,762,327)	(3,865,446)	153%
Income tax benefit (non-cash)	2,277,646	763,980	198%
<b>Profit/(loss) for the year</b>	<b>(9,357,196)</b>	<b>169,293</b>	<b>(5627%)</b>

## Revenue from continuing operations

The Group reported revenue from operations for the current year of \$19.0 million (2020: \$18.9 million), an increase of \$0.1 million (1%). Pleasingly the Group's annual recurring revenue (ARR) recognised (that is annual maintenance fees and subscription fees) has increased by 80% over the prior year, to \$10.9 million (2020: \$6.0m), and now accounts for 57% of total revenue (2020: 32%). Notably, ARR has grown 23% on a pro-forma/constant currency basis i.e. when compared to 2020 including Client Outlook. Professional services revenue is largely constant at \$2.2 million (2020: \$2.4 million). Capital software license fee revenue has decreased by 42% to \$6.0 million (2020: \$10.4 million). This decrease is due to the timing of revenue recognition from capital sales orders and an increase in subscription sales. This is explained further below. The following chart depicts revenue by major category for the current and prior years:



# Directors' Report

YEAR ENDED 30 JUNE 2021

## Sales Orders

### Significant Growth

Mach7 has produced its most successful year in its history for sales orders with \$25.64 million (total contract value ("TCV")) (FY20: \$13.14 million), 95% growth over the prior year. Pleasingly, 20% of the sales orders were subscription sales, which demonstrates the Company is actively growing its recurring revenue base.

### Sales Order Mix and Impact to Revenue Recognition for Current and Future Years

The mix of current year sales orders has impacted the timing of revenue recognition. Of the \$25.64 million sales orders, 20% were subscriptions (as mentioned above), 72% were capital sales, and 8% were services only (e.g. migration orders). The high proportion of subscription sales relative to prior years (FY20: 1%) has meant a much higher proportion will flow into revenue over the next five years, rather than in the current year. Further, 70% of the capital sales orders (50% of total sales orders) were subject to a phased roll-out which means software is not delivered immediately but rather in accordance with the customers roll-out plan. This has meant that only 12% of total sales orders TCV (and 17% of capital sales orders) has flowed into software license fee revenue for FY21, compared to 33% for FY20. On the positive side, a large amount of the sales order revenue is expected to be recognised in future years, including the coming year (FY2022). This, together with the Group's annual recurring revenue run rate (that is, most recent month ARR annualised) at 30 June 2021 of \$13.3 million, provides a strong base for revenue in the coming financial year.

## Operating expenses from continuing operations

The Group reported operating expenditure (as per Table A) for the year of \$17.5 million (2020: \$12.7 million), an increase of \$4.8 million (37%) over the prior year. This is solely due to the acquisition of Client Outlook Inc. Notably, on a pro-forma basis (i.e. when including Client Outlook results for the previous year FY20), operating expenditure has decreased by 7%.

## Business strategies and prospects for future years

Following the acquisition of Client Outlook on 13 July 2020, the Group continues to focus on gaining market share in the enterprise imaging market within its core regions of North America and Asia. This past year, the Group has increased its sales, marketing and services expertise in support of pursuing revenue growth. In addition, the Group will continue to expand into the radiology PACS market with its full diagnostic PACS solution.

The Group has met its stated target of achieving free cashflow breakeven for the second consecutive year and will continue to drive revenue growth going forward.

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 leading-edge products and services to its customers and product development remains a core focus of the Group.

## Risk management

The Board takes a proactive approach to risk management. The Board oversees the Audit and Risk Management Committee, which 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.

# Directors' Report

YEAR ENDED 30 JUNE 2021

## Key business risks

The Group's operations are subject to several 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.

### (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 business decisions and operations with reasonable care and diligence, 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.

## 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

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the U.S. Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

## Likely developments and expected results from operations

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 via its customer install base and community hospitals, which the Group will endeavour to keep the market updated on a regular basis. 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 of Australia, or any of the regions where it operates.



# Directors' Report

YEAR ENDED 30 JUNE 2021

## 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.

### Key Management Personnel (KMP)

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. The KMP included in this report are as follows:

Non-executive Directors (NED)	Role	Period covered for remuneration
Mr David Chambers	Independent, Non-Executive Chairman	Full year
Eliot Siegel, MD	Independent, Non-Executive Director	Full year
Mr Robert Bazzani	Independent, Non-Executive Director	Full year
Mr Philippe Houssiau	Independent, Non-Executive Director	From 1 January 2021
<b>Executives</b>		
Mike Lampron	CEO, Managing Director	Full year
Steve Rankin	Chief Product Officer	From 13 July 2020
Jenni Pilcher	Chief Financial Officer & Company Secretary	Full year

### Remuneration philosophy

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.

### Remuneration structure

The Board, through its Nomination and Remuneration Committee, is responsible for determining and reviewing remuneration arrangements for the Group's directors and executives. In accordance with best practice corporate governance, the structure of Non-Executive Directors and executive remunerations are separate.

### 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 value creation for shareholders, and conforms to the market best practice for the delivery of reward.

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

# Directors' Report

YEAR ENDED 30 JUNE 2021

## REMUNERATION REPORT (AUDITED)

- (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.

### Non-executive directors' remuneration framework

#### Objective

Remuneration for Non-Executive Directors is set with the objective of attracting and retaining highly experienced and skilled directors, and which reflect the demands and responsibilities of their role.

#### Structure

The financial position of the Company is considered when determining the mix between cash and non-cash remuneration. 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.

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.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. Following the adoption of a revised 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:

Base fee	From 1 January 2021	From 1 January 2020
Chair	\$100,000	\$65,000
Director	\$80,000	\$45,000

### Executive remuneration framework

#### Objective

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.

# Directors' Report

YEAR ENDED 30 JUNE 2021

## REMUNERATION REPORT (AUDITED)

### Structure

#### Fixed remuneration

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. Fixed remuneration is reviewed annually by the Board (via its Nomination and Remuneration Committee).

Fixed remuneration for key management personnel includes the following:

- Annual base salary
- Benefits in compliance with local laws (e.g. paid leave, medical insurance and superannuation payments)

#### Performance-based (variable) remuneration

Performance-based remuneration for key management personnel includes:

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

The Group has both a short-term incentive program (**STIP**) and a long-term incentive plan (**LTIP**).

### Short-Term Incentive Program (STIP)

#### Objective

The STIP is designed to align corporate and departmental goals with the targets of executives responsible for meeting those goals. STI payments are granted to executives based on the achievement of specific annual targets/key performance indicators (**KPI's**). KPI's can include (but are not necessarily limited to) the following elements:

- Achievement of financial targets (e.g. revenue, earnings/profitability, cash flows, sales orders, budgeted operating expenses)
- Excellence in customer service and satisfaction
- Leadership contribution
- Product development
- Capital management
- Corporate transactions

#### 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. The STIP was last approved by the Board in April 2016.

#### 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.

# Directors' Report

YEAR ENDED 30 JUNE 2021

REMUNERATION REPORT (AUDITED)

## Choice of performance conditions

The choice of performance conditions for the STIP will be relevant to the Group in its current phase of growth and will be heavily focussed on financial metrics, such as revenue, earnings, cash flow, and sales orders targets. 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.

## Performance period

The STIP is an annual plan. The current period is for 1 July 2020 to 30 June 2021.

## Performance conditions – current year

Any payment made under the STIP is on the basis that performance conditions are met. For the current period, performance conditions were outlined in a business plan approved by the Board and included:

- top-line sales growth
- annual recurring revenue (ARR) growth
- positive EBITDA

## Assessment of performance conditions

Financial targets as assessed by the Board with reference to annual financial statements and sales order information. For non-financial and individual targets, the Board assesses the personal performance of each executive against 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 provide a final recommendation for STI's to be paid to the Board for its approval.

## Payment of the STIP

Any STI payment is generally made within two to three months of the end of the performance period. The Board may, in its discretion, vary the general payment period.

## Cessation of employment

The STIP provides that in order to qualify for payment to the Participant, a Participant must remain employed with a Group Company as an Eligible Employee in a full-time or permanent part-time position for all of the portion of the Performance Period specified in the Grant for the Award. If the Executive leaves for a qualifying reason, the Board, in its discretion, may award the STI in its full discretion.

## Long-Term Incentive Program (LTIP)

The LTIP provides for the issue of equity instruments such as performance rights, shares and options that are linked to the achievement of targets related to the Group's medium to long-term performance. Option awards typically vest over a period of between one and three years, expire within five years and have an exercise price that may include a premium to the market price as at the date of issue. The most recent LTIP was approved by shareholders on 30 November 2020.

## Performance conditions

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, or financial targets. 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.

# Directors' Report

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## REMUNERATION REPORT (AUDITED)

As of 30 June 2021, the Company has 540,115 performance rights on issue which will vest on 30 June 2023 provided the following performance conditions are met and the holder remains employed on this date:

Hurdle: M7T relative TSR performance compared to the S&P/ASX All Technology Index	Percentage of Performance Rights to vest
<50th percentile	No vesting
≥50th percentile to 75th percentile	Pro-rata straight line vesting between 50% and 100%
≥75th percentile	100% vesting

### Cessation of employment

If a KMP ceases to be employed or engaged by the Group for any reason other than as a result of a Qualifying Event, any unvested performance rights and equity options held by the participant will lapse immediately on the participant ceasing to be employed. Any vested performance rights and equity options must be exercised within 30 days of termination date. 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.

In the event of a change of control, the Board has discretion to determine that the vesting of some or all of non-vested performance rights and equity options should be accelerated. Any remaining unvested performance rights or options will immediately lapse.

### Company performance and remuneration

The Company aims 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:

	30 June	2021	2020	2019	2018	2017
Profit/(Loss) for the year		(9,357,196)	169,293	(7,058,729)	(4,953,396)	(17,659,098)
Basic earnings/(loss) per share (EPS) (cents)		(0.04)	0.001	(5.1)	(3.9)	(16.3) <sup>1</sup>
Improvement in EPS		(0.041)	5.1	(1.2)	12.4	7.8
Dividend payments		–	–	–	–	–
Dividend payout ratio (%)		–	–	–	–	–
Share price		\$1.0650	\$0.97	\$0.475	\$0.21	\$0.16 <sup>1</sup>
% change in share price		+10%	+105%	+126%	+31%	–53%

1. Basic earnings per share and share price data has been adjusted for the stock split (1/10) which occurred in January 2017:

# Directors' Report

YEAR ENDED 30 JUNE 2021

REMUNERATION REPORT (AUDITED)

## 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
Fixed remuneration	Various
Variable remuneration	Participation in the Company's STIP and LTIP
Contract duration	Ongoing
Termination of employment (without cause) by Company or by individual	6 months' notice (CEO) and 3 months' notice (CFO, CPO)
Termination of employment (for cause) by Company	Terminated immediately

## Amounts of remuneration

Table 1: Remuneration for KMP for the years ended 30 June 2021 and 30 June 2020

	Short term				Post-employment	Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Other Cash Payments	Non-monetary Benefits	Superannuation Contributions	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors (non-executive)</b>									
David Chambers – Chairman									
2021	75,342	–	–	–	7,157	24,159	32,500	139,158	–
2020	29,680	–	–	–	2,820	19,957	–	52,457	–
Eliot Siegel									
2021	62,500	–	–	–	–	18,946	22,500	103,946	–
2020	22,500	–	–	–	–	18,180	–	40,680	–
Robert Bazzani <sup>1</sup>									
2021	59,030	–	–	–	5,608	43,429	22,500	130,567	–
2020	22,500	–	–	–	2,138	36,938	–	61,576	–
Philippe Houssiau <sup>4</sup>									
2021	40,000	–	–	–	–	–	–	40,000	–
2020	–	–	–	–	–	–	–	–	–
Damien Lim <sup>2</sup>									
2021	–	–	–	–	–	–	–	–	–
2020	10,000	–	–	–	–	1,619	–	11,619	–
A. Wayne Spittle <sup>3</sup>									
2021	–	–	–	–	–	–	–	–	–
2020	6,646	–	–	–	631	1,619	–	8,896	–
<b>Sub-total Non-executive Directors</b>									
2021	236,872	–	–	–	12,765	86,534	77,500	413,671	–
2020	91,326	–	–	–	5,589	78,313	–	175,228	–

1) Robert Bazzani was appointed on 1 January 2020

2) Damien Lim retired effective from 1 January 2020

3) Wayne Spittle retired effective from 11 November 2019

4) Philippe Houssiau was appointed on 1 January 2021

# Directors' Report

YEAR ENDED 30 JUNE 2021

REMUNERATION REPORT (AUDITED)

Table 1: Remuneration for KMP for the years ended 30 June 2021 and 30 June 2020 (continued)

	Short term				Post-employment	Equity-based payments		Total	Performance related
	Salary & Fees	Cash Bonus	Other Cash Payments	Non-monetary Benefits	Superannuation Contributions	Options/ Rights	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Executives</b>									
Mike Lampron									
2021	367,059	66,070	409	35,323	–	164,457	–	633,318	10%
2020	409,531	143,336	10,242	37,728	–	200,718	61,430	862,985	25%
Ravi Krishnan <sup>6</sup>									
2021	–	–	–	–	–	–	–	–	–
2020	335,980	37,230	92,726	9,588	15,583	19,805	–	510,912	25%
Jenni Pilcher									
2021	309,000	55,620	–	–	29,355	118,052	–	512,027	11%
2020	309,000	108,150	–	–	29,355	137,886	46,350	630,741	24%
Steve Rankin <sup>5</sup>									
2021	239,616	20,842	–	7,330	–	137,788	–	405,576	5%
2020	–	–	–	–	–	–	–	–	–
<b>Sub-total Executives</b>									
2021	915,675	142,532	409	42,653	29,355	420,297	–	1,550,921	9%
2020	1,054,511	288,716	102,968	47,316	44,938	358,409	107,780	2,004,638	25%
<b>Grand totals</b>									
2021	1,152,547	142,532	409	42,653	42,120	506,831	77,500	1,964,592	7%
2020	1,145,837	288,716	102,968	47,316	50,527	436,722	107,780	2,179,866	23%

5) Steve Rankin was appointed from 13 July 2020

6) Ravi Krishnan holds the role of GM of Asia-Pacific for 2021. This role is not considered a KMP for 2021

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

## Options provided as compensation

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.

# Directors' Report

YEAR ENDED 30 JUNE 2021

REMUNERATION REPORT (AUDITED)

Table 2: Compensation options: granted during the year

2021	Granted (No.)	Grant date	Fair value per option/right at grant date	Exercise price	Expiry date	Vesting date(s)
<b>Directors</b>						
David Chambers	35,000	01-Dec-20	\$0.790	\$1.400	30-Nov-25	1 Dec 2021-23
Eliot Siegel	25,000	01-Dec-20	\$0.790	\$1.400	30-Nov-25	1 Dec 2021-23
Robert Bazzani	25,000	01-Dec-20	\$0.790	\$1.400	30-Nov-25	1 Dec 2021-23
<b>Executives</b>						
Mike Lampron	378,114	01-Dec-20	\$0.835	–	30-Sep-23	30-Jun-23*
Jenni Pilcher	162,001	01-Dec-20	\$0.835	–	30-Sep-23	30-Jun-23*
Steve Rankin	400,000	13-Jul-20	\$0.560	\$0.900	30-Jun-25	1 July 2021-23
<b>Total</b>	<b>1,025,115</b>					
<b>2020</b>						
<b>Directors</b>						
David Chambers	35,000	18-Nov-19	\$0.367	\$0.820	17-Nov-24	18 Nov. 20-22
Eliot Siegel	25,000	18-Nov-19	\$0.367	\$0.820	17-Nov-24	18 Nov. 20-22
Robert Bazzani	225,000	18-Nov-19	\$0.367	\$0.820	17-Nov-24	1 Jan. 21-23
<b>Executives</b>						
Mike Lampron	250,000	18-Nov-19	\$0.370	\$0.800	17-Nov-24	01-Jul-20
Mike Lampron	250,000	18-Nov-19	\$0.347	\$0.950	17-Nov-24	01-Jul-21
Mike Lampron	250,000	18-Nov-19	\$0.326	\$1.100	17-Nov-24	01-Jul-22
Jenni Pilcher	500,000	11-Oct-19	\$0.447	\$0.680	01-Oct-24	1 Oct. 20-22
<b>Total</b>	<b>1,535,000</b>					

\*subject to performance hurdles

Table 3: Value of options granted and exercised, and number of options vested, during the current year

2021	Vested (No.)	Vested (% of holding)	Value of options/rights granted <sup>1</sup> (\$)	Value of options exercised <sup>2</sup> (\$)
<b>Directors</b>				
David Chambers	86,667	29%	27,650	–
Eliot Siegel	83,333	30%	19,750	–
Robert Bazzani	75,000	30%	19,750	–
<b>Executives</b>				
Mike Lampron	483,333	36%	315,839	120,984
Jennifer Pilcher	308,333	29%	135,319	234,000
Steve Rankin	–	–	224,000	–
<b>Total</b>	<b>1,036,666</b>		<b>742,308</b>	<b>354,984</b>

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

2. Value is calculated at the time the options/rights are exercised



# Directors' Report

YEAR ENDED 30 JUNE 2021

REMUNERATION REPORT (AUDITED)

## 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
	2021	2020	2021	2020	2021	2020	2021	2021
David Chambers	59%	62%	23%	–	17%	–	–	–
Eliot Siegel	60%	55%	22%	–	18%	–	–	–
Robert Bazzani	50%	40%	17%	–	33%	–	–	–
Philippe Houssiau	100%	–	0%	–	0%	–	–	–
Damien Lim	–	86%	–	–	–	–	–	–
A. Wayne Spittle	–	82%	–	–	–	–	–	–
Mike Lampron	64%	52%	10%	25%	26%	23%	36%	64%
Jenni Pilcher	66%	54%	11%	24%	23%	22%	36%	64%
Steve Rankin	61%	–	5%	–	34%	–	32%	68%

## Equity holdings of KMP

Options over ordinary shares held in Mach7 Technologies Limited by KMP as at 30 June 2021 are as follows:

Table 5: Option and performance right holdings of Key Management Personnel

	Balance	Granted as remuneration	Options lapsed	Grant year of options lapsed	Options exercised	Balance	Vested & exercisable
	No.	No.	No.	FY	No.	No.	No.
	01-Jul-20					30-Jun-21	30-Jun-21
<b>Directors</b>							
David Chambers	260,000	35,000	–	–	–	295,000	161,667
Eliot Siegel	250,000	25,000	–	–	–	275,000	158,333
Robert Bazzani	225,000	25,000	–	–	–	250,000	75,000
<b>Executives</b>							
Mike Lampron	1,450,000	378,114	–	–	(116,667)	1,711,447	716,667
Jennifer Pilcher	1,365,000	162,001	–	–	(308,334)	1,218,667	648,333
Steve Rankin	–	400,000	–	–	–	400,000	–
	3,550,000	1,025,115	–	–	(425,001)	4,150,114	1,760,000

Ordinary shares held in Mach7 Technologies Limited (number) by KMP as at 30 June 2021 are as follows:

# Directors' Report

YEAR ENDED 30 JUNE 2021

REMUNERATION REPORT (AUDITED)

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.
2021	30-Jun-20				30-Jun-21
<b>Directors</b>					
David Chambers	42,399	30,480	–	47,121	120,000
Eliot Siegel	–	21,100	–	–	21,100
Robert Bazzani	–	21,100	–	25,000	46,100
<b>Executives</b>					
Michael Lampron	29,000	56,148	116,667	(116,607)	85,208
Jennifer Pilcher	216,668	42,114	308,334	4,407	571,523

## Shares issued on exercise of compensation options

There were no shares issued on exercise of options granted as compensation during the period (2020: 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 30 November 2020, the remuneration report for the year ended 30 June 2020 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 2021 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 ensure 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.

# Directors' Report

YEAR ENDED 30 JUNE 2021

## Indemnification of auditors

To the extent permitted by law the Group has agreed to indemnify its 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.

## 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 20.

## 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 23 August 2021

# Board of Directors and Company Secretary

**Mike Lampron** | CEO, Managing Director (Director since 20 June 2019)

Mr. Mike Lampron is the CEO and 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.

Other current listed company Directorships: None.

**David Chambers** | Chairman (Director since 3 August 2018)

Mr. David 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. David up until recently acted as Managing Director, Asia-Pacific, of Allscripts Healthcare Solutions, a NASDAQ listed billion-dollar global leader in Healthcare Technology, retiring after close to seven years, on 30th June 2020. Prior to that David was General Manager, Asia and ANZ with Carestream Health. He was former chief executive of ASX-Listed health software business Pro Medicus Limited. David also served eleven years with Agfa Healthcare, including managing their Informatics group in Asia Pacific, and culminating in his elevation to Vice President of Agfa North America.

Other current listed company Directorships: Hills Limited (ASX:HIL)

**Eliot Siegel, MD** | Non-Executive Director (since 3 August 2018)

Dr. Siegel is a well-known thought leader in the world of radiology and imaging informatics and artificial intelligence applications in medicine. He is currently Professor and Vice Chair of information systems 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 as well as adjunct professor of computer science and biomedical engineering at the undergraduate campuses of the University of Maryland. Under his guidance, the VA Maryland Healthcare System became the first filmless healthcare enterprise in the World. He has written over 300 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 and artificial intelligence. Dr. Siegel was symposium chairman for the Society of Photo-optical and Industrial Engineers (SPIE) Medical Imaging Meeting for three years and has been honoured as a fellow in that organization as well as the American College of Radiology. He is also a Board member of Carestream Health, a billion-dollar global company in digital radiography and computed radiography systems and serves on numerous advisory boards in medical imaging.

Other current listed company Directorships: None.

# Board of Directors and Company Secretary

**Robert Bazzani** | Non-Executive Director (since 1 January 2020)

Mr. Robert Bazzani was a top-level Partner with the global consulting firm KPMG, where he rose to the top and served as Chairman of KPMG Victoria, National Managing Partner for KPMG Australia's Enterprise Division and National Managing Partner for KPMG's M&A Division. Whilst in these roles, Rob was a member of KPMG's National Executive Committee (NEC), which oversees and is responsible for the Firm's turnover, strategic decision making, profitability and operations. Rob has a demonstrated track record of leading and growing large scale and complex businesses. He has played a significant role in advising clients (public, private, and global subsidiaries) on commercial matters, public transitions, corporate governance, M&A and has engaged with Government and Regulators. With extensive experience in corporate advisory, Rob has deep commercial and industry knowledge across financial services, asset and wealth management, property, insurances and consumer & industrial markets.

Other current listed company Directorships: Class Ltd (ASX:CL1), Keypath Education International Inc. (ASX:KED).

**Philippe Houssiau** | Non-executive Director (since 1 January 2021)

Philippe has held a variety of executive roles as Partner with PriceWaterhouse and PwC, CEO of Agfa Healthcare, where he transitioned the business from being an Analog Film manufacturing outfit to become a world leader in Imaging and Health IT, CEO of Alliance Medical, the leading European Imaging Services Provider and CEO/Chairman of the Rhapsody Healthcare Interoperability business, now Lyniate. Philippe also ran the CSC/DxC Healthcare business in the UK and Netherlands and held many board and Chair positions, in Imaging and Healthcare. He currently serves as the CEO of MAK-System, the leading Blood Management Software company and as Chairman of Corilus (Primary Care). Philippe is based in Antwerp, Belgium.

Other current listed company Directorships: Althea Group (Rome) and Corilus (Belgium)

**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. Jenni is a qualified Chartered Accountant, and has completed the Graduate Diploma of Applied Corporate Governance.

**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 subsidiaries ("the Group") for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to be "RSM".**RSM AUSTRALIA PARTNERS**A handwritten signature in blue ink, appearing to be "R B Miano".

**R B MIANO**  
Partner

Dated: 23 August 2021  
Melbourne, Victoria

Mach7 Technologies Limited

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

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# Statement of Financial Position

AS AT 30 JUNE 2021

		CONSOLIDATED	
	Note	2021	2020
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	11	18,363,398	48,874,210
Trade and other receivables	12	2,069,606	1,636,895
Customer contract assets	13	3,440,027	2,549,378
Other current assets	14	529,981	362,349
<b>TOTAL CURRENT ASSETS</b>		<b>24,403,012</b>	<b>53,422,832</b>
<b>NON-CURRENT ASSETS</b>			
Right-of-use assets	15	1,032,478	306,959
Plant and equipment	16	419,896	181,285
Contract deposits	6	698,105	764,732
Deferred tax asset		552,694	–
Intangible assets	17	49,862,650	6,944,043
<b>TOTAL NON-CURRENT ASSETS</b>		<b>52,565,823</b>	<b>8,197,019</b>
<b>TOTAL ASSETS</b>		<b>76,968,835</b>	<b>61,619,851</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	1,640,016	3,616,500
Customer contract liabilities	19	5,580,346	2,777,482
Interest bearing liabilities	20	274,111	133,399
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,494,473</b>	<b>6,527,381</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities	20	804,017	187,080
Deferred tax liability	21	10,756,055	1,438,662
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,560,072</b>	<b>1,625,742</b>
<b>TOTAL LIABILITIES</b>		<b>19,054,545</b>	<b>8,153,123</b>
<b>NET ASSETS</b>		<b>57,914,290</b>	<b>53,466,728</b>
<b>EQUITY</b>			
Contributed equity	22	113,746,239	101,791,997
Reserves	23	5,497,872	3,647,356
Accumulated losses		(61,329,821)	(51,972,625)
<b>TOTAL EQUITY</b>		<b>57,914,290</b>	<b>53,466,728</b>

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

# Statement of Profit and Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2021

CONSOLIDATED			
	Note	2021	2020
		\$	\$
<b>Profit from Continuing Operations</b>			
Revenue from customer contracts	6	19,027,093	18,862,201
Other income	7	260,836	374,841
Employee benefits & staff related expenses	8	(16,675,303)	(10,762,012)
Distributor and license fees		(585,821)	(2,408,133)
General administration expenses		(1,229,425)	(699,423)
Marketing expenses		(143,753)	(360,452)
Professional fees		(1,323,999)	(1,258,172)
Travel and related expenses		(28,039)	(353,034)
Other expenses	8	(1,127,504)	(81,362)
Finance costs		(46,601)	(43,695)
Depreciation and amortisation		(9,762,327)	(3,865,446)
<b>Loss from continuing operations before income tax</b>		<b>(11,634,842)</b>	<b>(594,687)</b>
Income tax benefit	9	2,277,646	763,980
<b>Profit / (loss) for the year</b>		<b>(9,357,196)</b>	<b>169,293</b>
<b>Other Comprehensive Income</b>			
Fair value loss on equity investment		–	(318,016)
Foreign currency translation		355,409	(231,158)
<b>Total other comprehensive loss</b>		<b>355,409</b>	<b>(549,174)</b>
<b>Total comprehensive loss for the year, net of tax, attributable to equity holders of the parent</b>		<b>(9,001,787)</b>	<b>(379,881)</b>
<b>Earnings per share (cents per share)</b>			
– Basic earnings/(loss) per share (cents)	10	(4c)	0.1c
– Diluted earnings/(loss) per share (cents)	10	(4c)	0.1c
<b>Dividends per share (cents)</b>		–	–

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



# Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2021

	Share Capital	Share Based Payments Reserve	Foreign Exchange Trans- lation Reserve	Accumulated Losses	Total Equity
CONSOLIDATED	\$	\$	\$	\$	\$
<b>Balances as at 30 June 2019</b>	58,845,390	2,949,030	394,704	(51,823,902)	10,365,222
Profit for the year	–	–	–	169,293	169,293
Other comprehensive loss for the year	–	–	(231,158)	(318,016)	(549,174)
Total comprehensive loss for the year	–	–	(231,158)	(148,723)	(379,881)
Issue of shares pursuant to capital raisings	43,383,651	–	–	–	43,383,651
Capital raising costs	(2,270,904)	–	–	–	(2,270,904)
Issue of shares upon option exercises	1,680,340	–	–	–	1,680,340
Transfers upon exercise of options/rights	153,520	(153,520)	–	–	–
Share based payments	–	702,630	–	–	702,630
Foreign exchange movements	–	(14,330)	–	–	(14,330)
<b>Balances as at 30 June 2020</b>	<b>101,791,997</b>	<b>3,483,810</b>	<b>163,546</b>	<b>(51,972,625)</b>	<b>53,466,728</b>
Profit for the year	–	–	–	(9,357,196)	(9,357,196)
Other comprehensive loss for the year	–	–	355,409	–	355,409
Total comprehensive loss for the year	–	–	355,409	(9,357,196)	(9,001,787)
Issue of shares pursuant to capital raisings	11,420,497	–	–	–	11,420,497
Capital raising costs	(518,850)	–	–	–	(518,850)
Issue of shares upon option exercises	608,618	–	–	–	608,618
Transfers upon exercise of options/rights	347,313	(347,313)	–	–	–
Share based payments	96,664	1,834,884	–	–	1,931,548
Foreign exchange movements	–	7,536	–	–	7,536
<b>Balances as at 30 June 2021</b>	<b>113,746,239</b>	<b>4,978,917</b>	<b>518,955</b>	<b>(61,329,821)</b>	<b>57,914,290</b>

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

# Statement of Cashflows

FOR THE YEAR ENDED 30 JUNE 2021

CONSOLIDATED		
Note	2021	2020
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	21,000,020	17,093,921
Payments to suppliers and employees	(20,376,729)	(12,518,776)
Interest received	82,072	120,294
Interest and other costs of finance paid	–	(31,632)
Other receipts	790,821	84,604
Net cash (used in) operating activities 24	1,496,183	4,748,411
<b>Cash flows from investing activities</b>		
Payment for plant and equipment	(99,703)	(77,062)
Payment for other non-current assets	–	(2,397)
Payment for acquisition of business, net of cash acquired 33	(42,233,656)	–
Net cash flows provided by / (used in) investing activities	(42,333,359)	(79,459)
<b>Cash flows from financing activities</b>		
Borrowings repaid	–	(628,337)
Payment for finance leases	(290,745)	(145,435)
Proceeds from issues of shares, options etc	12,029,115	45,065,495
Capital raising cost	(528,035)	(2,390,905)
Net cash flows provided by financing activities	11,210,335	41,900,818
Net increase/decrease) in cash and cash equivalents	(29,626,841)	46,569,770
Net foreign exchange difference relating to cash	(883,971)	36,992
Cash and cash equivalents at beginning of year	48,874,210	2,267,448
<b>Cash and cash equivalents at end of year</b> 11	<b>18,363,398</b>	<b>48,874,210</b>

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 1. CORPORATE INFORMATION

The financial report of Mach7 Technologies Limited (the “Company” or the “Parent”) for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of the directors on 23 August 2021.

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.

### (c) Compliance with IFRS

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

### (d) New or Amended Accounting Standards and Interpretations Adopted

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2020:

- AASB 2018–7 Amendments to Australian Accounting Standards – Definition of Material [AASB 101 and AASB 108]
- AASB 2018–6 Amendments to Australian Accounting Standards – Definition of a Business [AASB 3]
- AASB 2019–3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform [AASB 9, AASB 139 and AASB 7]
- AASB 2019–5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia [AASB 1054]
- Conceptual Framework for Financial Reporting and AASB 2019–1 Amendments to Australian Accounting Standards – References to the Conceptual Framework.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### (e) Accounting Standards and Interpretations Issued – 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 2021. These are outlined in the tables below:

<b>Standard &amp; title</b>	AASB 2021-1 <i>Amendments to Australian Accounting Standards – Classifications of Liabilities as Current or Non-Current</i>
<b>Nature of change</b>	This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.
<b>Application date of standard</b>	1 January 2023
<b>Application date for Group</b>	1 July 2023
<b>Impact on Group financial report</b>	Minimal impact.

### f) 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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.

### **g) 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.

### **h) 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### Translation of group companies' functional currency to presentation currency

As at the reporting date, the assets and liabilities of all foreign subsidiaries 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. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### **i) 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". This year, management's assessment of reportable segments has changed due to internal restructuring following the acquisition of Client Outlook. Consequently, the segment disclosure for the current year has changed from prior year, and prior year comparatives have been restated accordingly.

### **j) Revenue recognition**

The Group recognises revenue as follows:

#### Revenue from contracts with customers

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:

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### (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.

### (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.

### **k) 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.

### **l) 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.

### **m) 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### 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.

### **n) 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.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### o) 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.

### p) Right-of-use assets

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

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

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

### q) 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 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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

### Software development costs

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

### **r) 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.

### **s) 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.

### **t) 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.

### **u) Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

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

### v) 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.

### w) 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.

### x) 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### 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.

### 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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.

### y) 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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.

### 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.

### **z) 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### aa) 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.

### ab) Comparatives

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

### ac) 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 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

#### Interest rate risk

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

At 30 June 2021, 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 day term deposit and short-term money market facilities. The Group constantly analyses its interest rate exposure with respect to renewal of existing positions, alternative investment opportunities / facilities and whether to consider a mix of fixed and variable instruments.

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

	CONSOLIDATED	
	2021	2020
	\$	\$
<b>Financial assets with interest rate risk</b>		
Deposits at call (maturity date < 3 months after 30 June)	<b>7,955,828</b>	19,320,232
Term deposit (maturity date > 3 months after 30 June)	–	–
	<b>7,955,828</b>	19,320,232



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

Sensitivity analysis	Profitability (post-tax) higher/(lower)		Equity (excluding accumulated losses) higher/(lower)	
	2021	2020	2021	2020
Judgement of reasonably possible movements:	\$	\$	\$	\$
<b>Consolidated</b>				
Interest rate strengthens +0.25% or 25 basis points (2020: +0.25% or 25 basis points)	19,890	48,301	-	-
Interest rate weakens -1% or 100 basis points (2020: -1% or 100 basis points)	(79,558)	(193,202)	-	-

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.

### 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	
	2021	2020
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents – held in USD	9,749,243	6,669,506
Cash and cash equivalents – held in SGD	7,621	11,594
Cash and cash equivalents – held in CAD	218,870	533,108
Total cash and cash equivalents held in foreign currency	9,975,734	7,214,208
Accounts receivable – denominated in USD	1,939,980	1,527,950
Accounts receivable – denominated in SGD	13,817	20,886
Accounts receivable – denominated in GBP	10,636	-
Total debtors denominated in foreign currency	1,964,433	1,548,835
Customer contract assets – denominated in USD	3,440,027	2,549,378

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

	CONSOLIDATED	
	2021	2020
	\$	\$
<b>Financial Liabilities</b>		
Trade and other payables – denominated in USD	766,773	2,410,118
Trade and other payables – denominated in SGD	206,396	196,759
Trade and other payables – denominated in CAD	233,984	–
Total trade and other payables denominated in foreign currency	1,207,153	2,606,877
Lease liabilities – denominated in USD	128,969	256,608
Lease liabilities – denominated in SGD	44,096	63,871
Lease liabilities – denominated in CAD	905,063	–
Total Finance leases denominated in foreign currency	1,078,128	320,479
Net exposure – USD	14,232,433	8,080,108
Net exposure – SGD	(221,350)	(228,151)
Net exposure – CAD	(844,835)	533,108
Net exposure – GBP	10,636	–
<b>Net exposure</b>	<b>13,176,885</b>	<b>8,385,065</b>

Based on the financial instruments held at 30 June 2021, 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)	
	2021	2020	2021	2020
Consolidated	\$	\$	\$	\$
AUD strengthens +10% (2020: +10%)	(1,196,932)	(762,279)	–	–
AUD weakens –10% (2020: –10%)	1,462,917	931,674	–	–

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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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 product development 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.

### *Remaining contractual maturities*

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Consolidated – 2021</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	–	1,640,016	–	–	–	1,640,016
<i>Interest-bearing – fixed rate</i>						
Lease liability	4.1%	311,717	187,387	564,096	98,104	1,161,303
<b>Total non-derivatives</b>		<b>1,951,733</b>	<b>187,387</b>	<b>564,096</b>	<b>98,104</b>	<b>2,801,320</b>
<b>Consolidated – 2020</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	–	3,616,500	–	–	–	3,616,500
<i>Interest-bearing – fixed rate</i>						
Lease liability	5.1%	141,807	148,417	11,234	–	301,457
<b>Total non-derivatives</b>		<b>3,758,307</b>	<b>148,417</b>	<b>11,234</b>	<b>–</b>	<b>3,917,957</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 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.

### 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 (CGU) to which the goodwill and intangibles with indefinite useful lives are allocated. The Directors have determined that the recoverable amount of the CGU exceeds the carrying value of the goodwill allocated to it and consequently there is no impairment.

### 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. The Directors have determined there are no indicators of impairment present at 30 June 2021.

### 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.

### 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.

### 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

### Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

### Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

### Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

### Uncertain tax position and tax-related contingency

The group is in the process of applying for a ministerial waiver with respect to accessibility of losses which were incurred by the Singapore's entity, prior to it being acquired by 3D Medical in April 2016 which constituted a change of control. Management and directors have applied judgement and, in their opinion, assessed that the ministerial waiver will be granted. Refer to Note 9 for details.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 5. SEGMENT INFORMATION

### Description of segments and principal activities

Mach7 Technologies is a global provider of enterprise imaging solutions for healthcare institutions, predominantly throughout the United States, Asia-pacific, and the Middle East region. The Group's performance is monitored and reported for one main segment, which is enterprise imaging. In addition, revenue is monitored at a regional and product/services level. This information is presented in Note 6a. This year, management's assessment of reportable segments has changed due to internal restructuring following the acquisition of Client Outlook. Consequently, the segment disclosure for the current year has changed from prior year, and prior year comparatives have been restated accordingly, to reflect the current manner of internal reporting to the Directors and CEO.

### Profit or Loss

The Group's profit and loss is managed as a whole and is the same as what is presented in the statement of financial performance and other comprehensive income. In addition, management and the directors monitor Gross Margins, Earnings Before Interest, Tax and Depreciation (EBITDA), and EBITDA adjusted for non-cash items. This is presented below:

	CONSOLIDATED	
	2021	2020
	\$	\$
Revenue from continuing operations	19,027,093	18,862,201
Third-party licenses	(585,821)	(2,408,133)
<b>Gross Margin</b>	<b>18,441,273</b>	<b>16,454,068</b>
Operating expenditure	(17,468,971)	(12,730,463)
Other income/expenses (net)	(63,112)	165,427
<b>EBITDA – before the following items:</b>	<b>909,189</b>	<b>3,889,033</b>
Share-based payments expense (non-cash)	(1,931,548)	(702,630)
Foreign exchange (losses)/gains – unrealised	(803,555)	128,051
<b>EBITDA</b>	<b>(1,825,914)</b>	<b>3,314,454</b>
Depreciation & amortisation expense	(9,762,327)	(3,865,446)
Finance cost	(46,601)	(43,695)
Income tax benefit	2,277,646	763,980
Net loss after tax	(9,357,196)	169,293

### Segment assets and liabilities

The Group's chief decision makers review and monitor assets and liabilities as a whole.

### 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	
	2021	2020
	\$	\$
North America	2,629,819	1,145,415
Asia	73,354	107,561
	<b>2,703,173</b>	<b>1,252,976</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 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	
	2021	2020
	\$	\$
Software licenses (major segment)	9,731,500	10,916,520
Implementation & training services	1,652,865	1,246,560
Migration services	492,187	1,177,080
Other custom services	18,269	–
Support and maintenance fees (recurring revenue)	7,132,272	5,522,041
Professional services (major segment)	9,295,593	7,945,681
<b>Total Segment Revenues</b>	<b>19,027,093</b>	<b>18,862,201</b>
<b>Timing of revenue recognition</b>		
Revenue recognised at a point in time	6,001,722	10,399,017
Revenue recognised over time	13,025,371	8,463,184
	<b>19,027,093</b>	<b>18,862,201</b>
<b>Geographical segment revenues</b>		
North America	12,422,353	10,865,744
Middle East	980,007	1,157,108
Asia/Pacific	5,441,261	6,787,401
Europe and other regions	183,473	51,948
<b>Total revenue recognised from contracts with customers</b>	<b>19,027,093</b>	<b>18,862,201</b>

Revenues of approximately \$5.1m, 27% (2021: \$5.9m, 31%) are derived from a single external customer.

### (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 a previous year, the Group 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	
	2021	2020
	\$	\$
Non-current asset for contract deposit	698,105	764,732

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 6. CONTRACTS WITH CUSTOMERS (continued)

### Revenue recognised in relation to prior year contract liabilities

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

	CONSOLIDATED	
	2021	2020
	\$	\$
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Annual support fees	2,280,762	2,233,465
Professional services fees	229,748	1,204,478
	2,510,510	3,437,943

### Revenue recognised from performance obligations satisfied in previous periods

There was no revenue recognised during the year from performance obligations satisfied in previous periods (2020: nil).

### Unsatisfied performance obligations

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

	CONSOLIDATED	
	2021	2020
	\$	\$
Contracted annual support and subscription fees (recurring) <sup>1</sup>	13,856,310	8,885,602
Contracted professional services fees (non-recurring)	1,719,052	1,036,137
Contracted software fees (non-recurring)	1,995	195,354
	15,577,358	10,117,093
<u>Amounts expected to be recognised as revenues:</u>		
Contracted annual support and subscription fees within one year	13,856,310	8,081,627
Contracted annual support and subscription fees within two years	–	613,736
Contracted annual support and subscription fees beyond two years	–	190,240
	13,856,310	8,885,602
Contracted professional services & software fees within one year	1,661,191	1,132,263
Contracted professional services & software fees within two years	59,856	99,228
Contracted professional services & software fees beyond two years	0	–
	1,721,048	1,231,491

<sup>1</sup>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.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 7. OTHER INCOME

	CONSOLIDATED	
	2021	2020
	\$	\$
<b>Other income</b>		
Interest income	40,028	162,186
Government grants & rebates	89,346	79,697
Foreign exchange gains	–	128,051
Doubtful debt recovered	114,746	–
Other revenues	16,716	4,907
	<b>260,836</b>	<b>374,841</b>

## 8. EXPENDITURE

	CONSOLIDATED	
	2021	2020
	\$	\$
<b>Other expenses</b>		
Allowance for expected credit losses on contracts with customers	–	73,070
Losses (net of any gains during the year) on fixed asset disposals	753	–
Other expenses	15,167	8,292
Foreign exchange losses	1,111,584	–
	<b>1,127,504</b>	<b>81,362</b>
<b>Depreciation and amortisation</b>		
Amortisation of intangible assets	9,272,951	3,643,380
Depreciation of right-to-use assets	279,825	138,856
Depreciation of property, plant and equipment	209,551	83,210
	<b>9,762,327</b>	<b>3,865,446</b>
<b>Employee salaries, benefit and staff related expenses</b>		
Salaries, wages, commissions	12,090,861	7,151,337
Bonuses	368,613	902,216
Employee benefits	945,548	665,022
Restructuring costs	265,999	22,039
Defined contribution plan expense (superannuation)	326,181	176,545
Annual leave provision movement	(417,190)	76,540
Payroll and fringe benefit tax	578,021	533,517
Other employment related expenses	175,184	71,172
Contractors	410,539	460,994
Share-based payments (note 27)	1,931,548	702,630
	<b>16,675,303</b>	<b>10,762,012</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 9. INCOME TAX

### (a) Unused tax losses

At 30 June 2021, the Group has gross tax losses of \$49,839,238 (2020: \$40,625,542) arising in Australia (\$17.9m), US (\$22.1m), Singapore (\$4.1m) and Canada (\$5.7m) that are likely to be 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 Singapore tax losses of \$4,058,407 are currently the subject of a ministerial waiver application to the Tax Comptroller in Singapore which the Company is in the process of preparing. This application is required due to a change in control, and that the change of control was not for the purposes of achieving a tax advantage, the Directors are of the opinion that the ministerial waiver will be granted. Should the application be unsuccessful, the Group will have taxes payable of an estimated \$399,591 and there will be no losses available to carry forward to future years. No deferred tax asset has been recognised on these losses until there is certainty about the tax position, subject to meeting the deferred tax asset recognition criteria. The group expects to get a response before 30 June 2022.

Of the US tax losses, \$12.1 million were generated before the change in control that occurred in 2016. These losses have recently been tested for use by an independent third party who has determined these losses will be fully available. Management may further test these losses when it becomes likely that they will be utilised.

### (b) Deferred tax liabilities

The Group has recognised a deferred tax liability of as a result of the acquisition of Mach7 Technologies Pte. Ltd in accordance with AASB112 Income Taxes. Refer Note 21.

	CONSOLIDATED	
	2021	2020
	\$	\$
<b>(c) Income tax expense</b>		
<i>The major components of income tax expense are:</i>		
Current income tax on profits	–	–
(Increase) / decrease in deferred tax assets	–	–
(Decrease) / increase in deferred tax liabilities	(2,277,646)	(763,980)
Income tax benefit	(2,277,646)	(763,980)
<b>(b) Reconciliation of prima-facie tax payable to income tax expense</b>		
Profit/(loss) from continuing operations before income tax expense	(11,634,473)	(594,687)
Tax benefit at the Australian statutory income tax rate of 30% (2020: 27.5%)	(3,490,342)	(163,539)
<i>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Share-based payments expense	284,147	193,223
Unrealised foreign exchange (gains)/losses	242,919	(45,823)
Acquisition costs	15,700	210,422
Other non-deductible expenses/non-assessable income	133,688	59,914
Sub-total	(2,813,888)	(258,966)
Deferred tax liability not recognised for temporary differences	(283,414)	–
Option exercises deductible for tax	(154,749)	(513,163)
Tax losses not recognised	972,766	200,230
Tax losses utilised <sup>1</sup>	(349,468)	(633,366)
Differences in local tax rates	351,107	(72,379)
<b>Income tax expense/(benefit)</b>	<b>(2,277,646)</b>	<b>(763,980)</b>

1. This tax losses are the subject of an application for Ministerial Wavier in Singapore, which if granted, will ensure these losses can be used. If the application is unsuccessful, these losses will not be available for use and the Company will need to pay tax of approximately the same amount.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 10. EARNINGS PER SHARE

	2021	2020
Earnings/(Loss) per share ("EPS") – basic (cents)	(4c)	0.1c
Earnings/(Loss) per share ("EPS") – diluted (cents)	(4c)	0.1c

Basic earnings per share ("EPS") 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 EPS is as follows:

	2021	2020
	\$	\$
Net profit/(loss) used in calculating basic and diluted EPS	(9,357,196)	169,293
	<b>Number of Shares</b>	
Weighted average number of ordinary shares used in calculating basic EPS	234,660,089	169,760,004
Adjustments for calculation of diluted EPS	7,571,780	8,396,669
Weighted average number of ordinary shares used in calculating diluted EPS	242,231,869	178,156,673

## 11. CASH AND CASH EQUIVALENTS

	<b>CONSOLIDATED</b>	
	2021	2020
	\$	\$
Cash at bank and on hand	10,407,570	29,553,978
Cash on call deposits	7,955,828	19,320,232
	18,363,398	48,874,210

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

	<b>CONSOLIDATED</b>	
	2021	2020
	\$	\$
<b>(a) Balances</b>		
Trade receivables <sup>1</sup>	2,414,061	1,791,286
Less allowance for expected credit losses	(421,172)	(245,007)
Other receivables	65,682	3,997
GST receivable	8,459	40,334
Interest receivable	2,576	46,285
	2,069,606	1,636,895

<sup>1</sup>Trade receivables typically have 30–45 day payment terms.

The carrying amounts of trade and other receivables are assumed to approximate their fair values due to their short-term nature.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 12. TRADE AND OTHER RECEIVABLES (continued)

### (b) Allowance for expected credit losses

The consolidated entity has recognised a gain of \$114,746 (2020: loss \$73,070) in profit or loss in respect of expected credit losses net of recoveries for the year ended 30 June 2021. The aging of the trade and other receivables and allowance for expected credit losses provided for above are as follows:

	CONSOLIDATED					
	Expected credit loss rate		Carrying amount trade & other receivables		Allowance for expected credit losses	
	2021	2020	2021	2020	2021	2020
	\$	\$	\$	\$	\$	\$
Not overdue	–	–	769,375	508,758		
Up to 3 months	1%	6%	1,111,375	1,135,416	13,978	71,494
3 to 6 months	–	–	12,019	–	–	–
> 6 months	68%	73%	598,008	237,727	407,194	173,512
	17%	13%	2,490,778	1,881,902	421,172	245,007

### (c) Movement in allowance for expected credit losses

	CONSOLIDATED	
	2021	2020
	\$	\$
Opening balance	245,006	170,283
Allowances acquired through business combinations	547,641	–
Additional provisions recognised during the year	13,978	71,494
Bad debts written off	(65,266)	–
Amounts recovered	(276,303)	–
FX impact	(43,884)	3,229
Closing balance	421,172	245,006

## 13. CUSTOMER CONTRACT ASSETS

	CONSOLIDATED	
	2021	2020
	\$	\$
Accrued revenue <sup>1</sup>	3,440,027	2,549,378
	3,440,027	2,549,378

<sup>1</sup> Accrued revenue represents software license fees and professional services 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.

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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 14. OTHER CURRENT ASSETS

	CONSOLIDATED	
	2021	2020
	\$	\$
Security deposits	32,247	16,550
Deferred expenses	78,371	102,563
Prepayments	419,363	243,236
	<b>529,981</b>	<b>362,349</b>

## 15. RIGHT-OF-USE ASSETS

	CONSOLIDATED	
	2021	2020
	\$	\$
Land and buildings	1,440,973	442,673
Less accumulated depreciation	(408,495)	(135,714)
	<b>1,032,478</b>	<b>306,959</b>
Net book value – opening balance	306,959	–
Acquisitions <sup>1</sup>	1,019,668	436,448
Depreciation	(279,825)	(138,855)
Foreign exchange movements	(14,324)	9,367
Net book value – closing balance	<b>1,032,478</b>	<b>306,959</b>

<sup>1</sup> 2021 balances were acquired through a business combination, 2020 balances were acquired through implementation of AASB16 for the first time.

The consolidated entity leases land and buildings for its offices in Vermont (USA), Waterloo (Canada) and Johor (Malaysia). The Vermont lease commenced 1 August 2014 for an initial term of five years, with an annual rental increase of 2%. This lease was renewed for a further three years on 1 August 2019 with annual increases of 0%, 4% and 6% for each year respectively. The Waterloo lease commenced 1 November 2019, for a term of 6 years ending 31 December 2026. This lease has two options to renew – each for a further five years. The Johor lease commenced 1 June 2019, for a term of three years, with an option to renew for a further two years. On renewal, the terms of the Johor lease will be renegotiated.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 16. PLANT AND EQUIPMENT

	Office Equipment	Computer Hardware & Software	Leasehold Improve- ments	TOTAL
CONSOLIDATED	\$	\$	\$	\$
<b>2020</b>				
Cost	97,220	415,859	7,364	520,443
Accumulated depreciation	(51,737)	(280,057)	(7,364)	(339,158)
<b>Net carrying value at 30 June 2020</b>	<b>45,483</b>	<b>135,802</b>	<b>–</b>	<b>181,285</b>
<b>Movement in carrying value</b>				
At 1 July 2019	57,765	129,488	179	187,432
Additions	5,932	66,481	–	72,413
Disposals	–	–	–	–
Depreciation expense	(19,004)	(64,019)	(187)	(83,210)
Foreign exchange revaluations	790	3,852	8	4,650
<b>Net carrying value at 30 June 2020</b>	<b>45,483</b>	<b>135,802</b>	<b>–</b>	<b>181,285</b>
<b>2021</b>				
Cost	323,763	944,657	226,606	1,495,026
Accumulated depreciation	(217,094)	(743,428)	(114,608)	(1,075,130)
<b>Net carrying value at 30 June 2021</b>	<b>106,669</b>	<b>201,229</b>	<b>111,998</b>	<b>419,896</b>
<b>Movement in carrying value</b>				
At 1 July 2020	45,483	135,802	–	181,285
Additions	106,323	212,412	142,608	461,343
Disposals	(572)	(181)	–	(753)
Depreciation expense	(42,270)	(135,594)	(31,687)	(209,551)
Foreign exchange revaluations	(2,295)	(11,210)	1,077	(12,428)
<b>Net carrying value at 30 June 2021</b>	<b>106,669</b>	<b>201,229</b>	<b>111,998</b>	<b>419,896</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 17. INTANGIBLE ASSETS

	Patents	Customer Contracts	Brand Names	Software	Goodwill	TOTAL
CONSOLIDATED	\$	\$	\$	\$	\$	\$
<b>2020</b>						
Cost	811,832	8,824,764	1,557,974	14,465,116	–	25,659,686
Accumulated amortisation	(432,139)	(7,642,114)	(1,034,695)	(9,606,695)	–	(18,715,643)
Net carrying value	379,693	1,182,650	523,279	4,858,421	–	6,944,043
<b>Movement in carrying value</b>						
Balance 1 July 2019	486,828	2,759,517	713,562	6,625,119	–	10,585,026
Amortisation expense	(109,533)	(1,576,866)	(190,283)	(1,766,699)	–	(3,643,381)
Additions	178	–	–	–	–	178
Foreign exchange	2,220	–	–	–	–	2,220
Balance 30 June 2020	379,693	1,182,651	523,279	4,858,420	–	6,944,043
<b>2021</b>						
Cost	991,780	11,491,206	5,902,924	55,733,272	4,099,854	78,219,036
Accumulated amortisation	(729,171)	(9,339,416)	(1,224,978)	(17,062,821)	–	(28,356,386)
Net carrying value	262,609	2,151,790	4,677,946	38,670,451	4,099,854	49,862,650
<b>Movement in carrying value</b>						
Balance 1 July 2020	379,693	1,182,651	523,279	4,858,420	–	6,944,043
Additions	–	2,629,181	4,284,231	40,691,453	4,042,562	51,647,427
Amortisation expense	(108,975)	(1,682,393)	(190,283)	(7,291,300)	–	(9,272,951)
Foreign exchange	(8,109)	22,351	60,719	411,878	57,292	544,131
Balance 30 June 2021	262,609	2,151,790	4,677,946	38,670,451	4,099,854	49,862,650

### (i) Amortisation methods and useful lives

The group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Patents and software acquired – 7 years
- Customer contracts – 5 years
- Brand names – 7 years and indefinite

### (ii) Customer contracts, software, brand names and patents

The customer contracts, software, brand names and patents were acquired as part of two business combinations. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

### (iii) Impairment tests for goodwill and indefinite useful life brand names

Goodwill has arisen as a result of a business combination completed on 13 July 2020. The group tests whether goodwill has suffered any impairment on an annual basis, and as such the goodwill balance was tested for impairment for the first time at 30 June 2021. Goodwill has been allocated to the Group's Enterprise Imaging Segment, being the only segment in the business. There are no other separately identifiable cash generating units in the business. The recoverable amount of that segment (cash generating unit) was determined based on a value-in-use calculation using a discounted cash flow valuation which requires the use of assumptions. The valuation estimates future cash flows for the next seven years, which management believe is an appropriate estimate of the life of the assets.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 17. INTANGIBLE ASSETS (continued)

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive. The following table sets out the key assumptions for the Enterprise Imaging cash-generating unit to which goodwill and indefinite life intangible have been allocated:

Item	Key Assumption	Rationale
Revenue Growth Rates	First year = Budget Year 2 = 10.5%, Year 3 – 6 years = 8.9% (CAGR from Signify research for Enterprise Imaging)	Market estimates which are less than the CAGR achieved by Mach7 over last 3 years, such that this is a conservative basis.
Expenditure Growth Rates	First year = Budget 2 – 6 years = 5%, except for general administration expenses which is 2%	In line with expected EBITDA margins
Tax Rate	23.8%	Average tax rate between USA and Canada on the assumption profits will be earned evenly across the two jurisdictions
Working Capital	First year = budget Years 2–6 = budget + 5%	In line with expenditure growth rates and debtor/creditor payment terms
Discount Rate	12.5% post-tax; 16.4% pre-tax	As per management's estimate of the Group's weighted average cost of capital and risk-free rate

### (iv) Impairment assessment

Based on the discounted cash flow valuation using the assumptions above, the recoverable amount of goodwill and other intangible assets exceeds the carrying amount by \$4,967,573.

### (v) Impact of possible changes in key assumptions

Key Assumption Change	Impairment Impact
Revenue growth rates Years 2 – 6 are reduced by 15%	The Group would recognize an impairment charge of \$132,109
Expenditure growth rates Year 2–6 increase by 20%	No impairment
Working Capital balances Year 2–6 increase by 10%	No impairment
Year 1 Budget is reduced by 10%	The Group would recognize an impairment charge of \$96,679
Discount Rate is increased from 12.5% to 15% post tax	No impairment

## 18. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2021	2020
	\$	\$
Trade creditors <sup>1</sup>	252,390	1,474,384
Accrued expenses <sup>2</sup>	165,510	908,558
Distributor/reseller commissions payable <sup>3</sup>	588,771	90,660
Employee entitlements and related costs <sup>4</sup>	633,345	1,142,898
	1,640,016	3,616,500

<sup>1</sup> Trade creditors are non-interest bearing and are normally settled on 30-day terms.

<sup>2</sup> Accrued expenses comprise general operating expenses where costs are incurred but have not yet been invoiced.

<sup>3</sup> Commission will become payable at the time the customer pays their invoice, usually within 30–45 days.

<sup>4</sup> Employee entitlements includes sales commissions, redundancy provisions, withholding taxes, superannuation etc. Due to the short-term nature of trade and other payables, their carrying value is assumed to approximate their fair value.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 19. CUSTOMER CONTRACT LIABILITIES

	CONSOLIDATED	
	2021	2020
	\$	\$
Annual support and maintenance fees received in advance	3,940,689	2,280,960
Professional service fees received in advance	779,846	496,522
Subscription fees received in advance	857,815	–
Software license fees received in advance	1,995	–
	<b>5,580,345</b>	<b>2,777,482</b>

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 and subscription fees received in advance are expected to grow year on year as the Group signs new customer contracts, i.e. every new support & subscription 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. Software fees received in advance will likely be immaterial or nil as software is normally recognised as revenue immediately on delivery and is seldom deferred.

## 20. INTEREST-BEARING LIABILITIES

	CONSOLIDATED	
	2021	2020
	\$	\$
<b>(a) Current</b>		
Current portion of lease liability	274,111	133,399
<b>(b) Non-current</b>		
Non-current portion of lease liability	804,017	187,080

## 21. DEFERRED TAX LIABILITY

	CONSOLIDATED	
	2021	2020
	\$	\$
Initial recognition value	17,945,734	6,303,066
Accumulated amortisation of deferred tax liability	(7,189,680)	(4,864,404)
	<b>10,756,055</b>	<b>1,438,662</b>
Carrying value at the beginning of the year	1,438,662	2,202,642
Acquired through business combination	11,479,968	–
Amortisation credit for the year	(2,277,646)	(763,980)
Foreign exchange movement	115,071	–
Carrying value at the end of the year	<b>10,756,055</b>	<b>1,438,662</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 22. CONTRIBUTED EQUITY

Ordinary shares on issue	CONSOLIDATED	
	2021	2020
	\$	\$
Issued and fully paid	113,746,239	101,791,997
	No.	No.
Total ordinary shares on issue	236,341,050	217,581,854

Movements in ordinary shares on issue	No. of Ordinary Shares	\$
At 30 June 2019	148,642,734	58,845,390
Issue of shares pursuant to capital raising, at 62 cents per share	32,258,065	20,000,000
Costs associated with issue of new shares during the year	na	(2,270,904)
Options exercised during the year	2,293,334	677,060
Repayment of loan for employee loan-funded shares	na	1,156,800
Issue of shares pursuant to capital raising, at 68 cents per share	34,387,721	23,383,651
At 30 June 2020	217,581,854	101,791,997
Issue of shares pursuant to capital raising, at 68 cents per share	16,794,848	11,420,497
Costs associated with issue of new shares during the year	na	(518,850)
Options exercised during the year	1,891,668	955,931
Issue of shares to Directors pursuant to 2020 AGM	72,680	96,664
At 30 June 2021	236,341,050	113,746,239

### Performance rights outstanding

The Company has 540,115 performance rights ("Rights") outstanding at the end of the financial year (2020: nil). The Rights commence vesting upon achieving total shareholder return (TSR) equal to the 50th percentile of the S&P/ASX All Technology Index and vest fully at the 75th percentile. The vesting will occur on a pro-rata basis between 50<sup>th</sup> and 75<sup>th</sup> percentiles. The TSR will be measured over the three-year period ending on 30 June 2023 (Performance Period). If the performance rights do not vest, they will expire on 30 September 2023.

### 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:

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 23. RESERVES

CONSOLIDATED			
	Options Reserve	Foreign Exchange Translation Reserve	Total Reserves
	\$	\$	\$
<b>At 30 June 2019</b>	2,949,030	394,704	3,343,734
Share based payments	702,630	–	702,630
Foreign exchange on share-based payments	(14,330)	–	(14,330)
Transfers to share capital	(153,520)	–	(153,520)
Foreign exchange on translation of subsidiaries	–	(231,158)	(231,158)
<b>At 30 June 2020</b>	3,483,810	163,546	3,647,356
Share based payments	1,834,884	–	1,834,884
Foreign exchange on share-based payments	7,536	–	7,536
Transfers to share capital	(347,313)	–	(347,313)
Foreign exchange on translation of subsidiaries	–	355,409	355,409
<b>At 30 June 2021</b>	4,978,917	518,955	5,497,872

### 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		
	2021	2020
	\$	\$
Net loss after tax	(9,357,196)	169,293
<b>Adjustments for financing/investing activities, and non-cash items, included in net loss after tax</b>		
Income tax benefit	(2,277,646)	(763,980)
Amortisation	9,272,951	3,643,381
Depreciation	489,376	222,066
Net loss on fixed asset disposals	753	–
Share-based payments expense	1,931,548	702,630
Lease interest expense	51,014	20,100
Net foreign exchange differences relating to cash & non-operating items	841,235	(278,023)
<b>Changes in current assets and current liabilities</b>		
Decrease/(increase) in trade and other receivables	(432,711)	249,614
Decrease/(increase) in customer contract deposits	(1,472,550)	(1,073,492)
Decrease/(increase) in other current assets	(167,632)	(58,908)
Increase/(decrease) in trade and other payables	(1,394,583)	2,503,908
Increase/(decrease) in deferred revenues	2,802,864	(700,707)
Other adjusting items	9,186	112,529
Net operating assets acquired	1,199,574	–
<b>Net cash used in operating activities</b>	<b>1,496,183</b>	<b>4,748,411</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 25. RELATED PARTY DISCLOSURE

### Transaction with related parties

There were no transactions with related parties during the year.

### Key management personnel (KMP)

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

### 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:

		% of equity interest held by the consolidated entity	
Name	Country of Incorporation	2021	2020
<i>Direct subsidiaries</i>			
Mach7 Technologies International Pty Ltd	Australia	100	100
<i>Indirect subsidiaries</i>			
Mach7 Technologies UK Ltd	UK	100	100
Mach7 Technologies Pte Ltd	Singapore	100	100
Mach7 Technologies, Inc.	U.S.A	100	100
Mach7 Technologies Canada Inc.	Canada	100	–
Client Outlook Inc.	Canada	100	–
Mach7 Technologies Pvt Ltd	India	100	100

## 26. KEY MANAGEMENT PERSONNEL

### Compensation for Key Management Personnel

	CONSOLIDATED	
	2021	2020
	\$	\$
Short-term employee benefits	1,338,141	1,584,838
Termination benefits	–	–
Post-employment benefits	42,120	50,526
Equity-based payment	584,331	544,502
	1,964,592	2,179,866

### Shareholdings of key management personnel

Ordinary shares held in Mach7 Technologies Limited by key management personnel during 2021 are shown in table 1:

Table 1.

30 June 2021	Balance 1 July 2020	Granted as remuneration	On-market purchases/(sales)	Exercise Options	Balance 30 June 2021
Directors	42,399	72,680	72,121	–	187,200
Executives	245,668	98,262	(112,200)	425,001	656,731
<b>Total</b>	<b>288,067</b>	<b>170,942</b>	<b>(40,079)</b>	<b>425,001</b>	<b>843,931</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 26. KEY MANAGEMENT PERSONNEL (continued)

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

Table 2.	Balance 1 July 2020	Additions	Disposals	Balance 30 June 2021
<b>Directors (non-executive)</b>				
Mr D Chambers	42,399	77,601	–	120,000
Mr R Bazzani	–	46,100	–	46,100
Dr E Siegel	–	21,100	–	21,100
<b>Executives</b>				
Mr M Lampron	29,000	172,815	(116,607)	85,208
Ms J Pilcher	216,668	459,823	(104,968)	571,523
<b>Total</b>	<b>288,067</b>	<b>777,439</b>	<b>(221,575)</b>	<b>843,931</b>

### Option holdings of Key Management Personnel

30 June 2021	Balance 1 July 2020	Granted as remuneration	Options forfeited/lapsed	Options exercised	Balance 30 June 2021	Exercisable	Not exercisable
Directors	735,000	85,000	–	–	820,000	395,000	425,000
Executives	2,815,000	940,115	–	(425,001)	3,330,114	1,365,000	1,965,114
	<b>3,550,000</b>	<b>1,025,115</b>	<b>–</b>	<b>(425,001)</b>	<b>4,150,114</b>	<b>1,760,000</b>	<b>2,390,114</b>

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 2020	Options/Performance rights granted	Options forfeited/lapsed	Options exercised	Balance 30 June 2021
<b>Directors (non-executive)</b>					
Mr D Chambers	260,000	35,000	–	–	295,000
Dr E Siegel	250,000	25,000	–	–	275,000
Mr R Bazzani	225,000	25,000	–	–	250,000
<b>Executives</b>					
Mr M Lampron	1,450,000	378,114	–	(116,667)	1,711,447
Ms J Pilcher	1,365,000	162,001	–	(308,334)	1,218,667
Mr S Rankin	–	400,000	–	–	400,000
	<b>3,550,000</b>	<b>1,025,115</b>	<b>–</b>	<b>(425,001)</b>	<b>4,150,114</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 26. KEY MANAGEMENT PERSONNEL (continued)

Share options and performance rights 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	2021 Number	2020 Number
08-Apr-16	08-Apr-21	\$1.000	–	100,000
27-Jan-17	27-Jan-22	\$0.410	340,000	680,000
03-Nov-17	03-Nov-22	\$0.170	299,999	750,000
17-Oct-18	17-Oct-12	\$0.185	500,000	800,000
12-Nov-18	12-Nov-23	\$0.244	450,000	450,000
11-Oct-19	1-Oct-24	\$0.680	500,000	500,000
18-Nov-19	17-Nov-24	\$0.820	285,000	285,000
18-Nov-19	17-Nov-24	\$0.800	250,000	250,000
18-Nov-19	17-Nov-24	\$0.950	250,000	250,000
18-Nov-19	17-Nov-24	\$1.100	250,000	250,000
13-Jul-20	30-Nov-25	\$0.900	400,000	–
01-Dec-20	30-Jun-25	\$1.400	85,000	–
01-Dec-20	30-Sep-23	\$0	540,115*	–
			<b>4,150,114</b>	<b>4,315,000</b>

\*Performance Rights, refer Note 22 for terms and conditions.

## 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	
	2021	2020
	\$	\$
Expenses arising from equity-settled share-based payment transactions	<b>1,931,548</b>	702,630

### 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 Company has on issue 540,115 performance rights which expire on 30 September 2023. These rights are subject to Total Shareholder Return (TSR) hurdles tested at 30 June 2023.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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

	2021		2020	
	Number of options / rights	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	8,746,669	\$0.174	8,883,336	\$0.302
– granted	4,160,000	\$1.297	3,025,000	\$0.760
– exercised	(1,891,668)	(\$0.322)	(881,667)	(\$0.227)
– forfeited/lapsed	(851,670)	(\$0.864)	(2,280,000)	(\$0.809)
Balance at end of year	10,163,331	\$0.729	8,746,669	\$0.174
Exercisable at end of year	4,019,997	\$0.354	3,573,349	\$0.303

### Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2021 is 2 years 10 month (2020: 3 years 4 months).

### Range of exercise price

The range of exercise prices for options outstanding at end of the year was \$0.17 – \$1.48 (2020: \$0.17 – \$1.01).

### Weighted average fair value

The weighted average fair value of options granted during the year was \$0.726 (2020: \$0.415).

### 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 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	Exercise price	Share Price at Grant Date	Expected Volatility	Dividend yield	Risk-free interest	Fair value at grant date
13-07-20	30-06-25	\$0.90	\$0.88	80.94%	–	0.44%	\$0.56
01-12-20	30-11-25	\$1.40	\$1.325	76.88%	–	0.31%	\$0.79
18-02-21	30-06-25	\$1.48	\$1.45	74.45%	–	0.48%	\$0.8012
01-12-20	30-06-23	None*	\$1.325	na	–	0.11%	\$0.8353

\*Performance Rights subject to performance hurdles

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

Options and performance rights held as at the end of the reporting period

Grant Date	Expiry Date	Vesting Date	Exercise Price	Balance
27-01-17	27-01-22	27-01-18	\$0.410	300,005
27-01-17	27-01-22	27-01-19	\$0.410	306,668
27-01-17	27-01-22	27-01-20	\$0.410	306,660
03-11-17	03-11-22	03-11-18	\$0.170	281,674
03-11-17	03-11-22	03-11-19	\$0.170	398,332
03-11-17	03-11-22	03-11-20	\$0.170	464,993
17-10-18	17-10-23	17-10-19	\$0.185	346,668
17-10-18	17-10-23	17-10-20	\$0.185	421,668
17-10-18	17-10-23	17-10-21	\$0.185	583,330
12-11-18	12-11-23	12-11-19	\$0.244	150,000
12-11-18	12-11-23	12-11-20	\$0.244	150,000
12-11-18	12-11-23	12-11-21	\$0.244	150,000
02-05-19	02-05-24	02-05-20	\$0.265	16,667
02-05-19	02-05-24	02-05-21	\$0.265	16,667
02-05-19	02-05-24	02-05-22	\$0.265	16,666
11-10-19	01-10-24	01-10-20	\$0.680	514,995
11-10-19	01-10-24	01-10-21	\$0.680	559,995
11-10-19	01-10-24	01-10-22	\$0.680	560,010
18-11-19	17-11-24	01-07-20	\$0.800	250,000
18-11-19	17-11-24	18-11-20	\$0.820	20,000
18-11-19	17-11-24	01-01-21	\$0.820	75,000
18-11-19	17-11-24	01-07-21	\$0.950	250,000
18-11-19	17-11-24	18-11-21	\$0.820	20,000
18-11-19	17-11-24	01-01-22	\$0.820	75,000
18-11-19	17-11-24	01-07-22	\$1.100	250,000
18-11-19	17-11-24	18-11-22	\$0.820	20,000
18-11-19	17-11-24	01-01-23	\$0.820	75,000
13-07-20	30-06-25	01-07-21	\$0.90	458,332
13-07-20	30-06-25	01-07-22	\$0.90	200,000
13-07-20	30-06-25	01-07-23	\$0.90	200,001
01-12-20	30-11-25	01-12-21	\$1.40	28,333
01-12-20	30-11-25	01-12-22	\$1.40	28,333
01-12-20	30-11-25	01-12-23	\$1.40	28,334
18-02-21	30-06-25	01-07-21	\$1.48	879,997
18-02-21	30-06-25	01-07-22	\$1.48	879,997
18-02-21	30-06-25	01-07-23	\$1.48	880,006
<b>Total Options</b>				<b>10,163,331</b>
01-12-20	30-09-23	30-06-23	0	540,115*
<b>Total Options &amp; Rights</b>				<b>10,703,446</b>

\*Performance rights subject to performance hurdles

## 28. EXPENDITURE COMMITMENTS

There are no expenditure commitments as at 30 June 2021 (2020: nil).

## 29. CONTINGENT ASSETS AND LIABILITIES

The Group has no contingent liabilities or contingent assets at 30 June 2021 (2020: none).



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 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	
	2021	2020
	\$	\$
Amounts received or due and receivable by the auditor of the company for:		
<i>Audit services – RSM Australia Partners</i>		
Audit or review of the financial statements	141,000	101,200
<i>Other services – RSM Australia Partners</i>		
Taxation services	22,250	5,891
	163,250	107,091
<i>Audit services – unrelated firms</i>		
Audit or review of the financial statements	–	–

## 31. PARENT ENTITY DISCLOSURE

	PARENT	
	2021	2020
	\$	\$
Current assets	13,019,953	43,728,576
Non-current assets	70,786,788	28,580,189
<b>TOTAL ASSETS</b>	<b>83,806,741</b>	<b>72,308,765</b>
Current liabilities	410,631	990,706
Non-current liabilities	–	–
<b>TOTAL LIABILITIES</b>	<b>410,631</b>	<b>990,706</b>
Issued capital	113,746,239	101,791,997
Reserves	4,978,917	3,483,810
Retained earnings	(35,329,046)	(33,957,748)
<b>TOTAL EQUITY</b>	<b>83,396,110</b>	<b>71,318,059</b>
<b>Total comprehensive income/(loss) attributable to equity</b>	<b>(1,371,298)</b>	<b>(2,051,806)</b>

## 32. SUBSEQUENT EVENTS

The Company is not aware of any subsequent events that have occurred since 30 June 2021 that may materially affect the financial information in this report.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 33. BUSINESS COMBINATIONS

### Summary of acquisition

On 13 July 2020, the Company acquired all the issued share capital of Client Outlook Inc. ("Client Outlook"), a business specialising in enterprise viewing software for the healthcare industry. Prior to the acquisition, the Company was a reseller for Client Outlook's software globally.

The Company has paid (in cash) \$41,856,005 to the vendors as consideration as outlined in the table below.

During the year, the Company finalised the purchase price allocation of identifiable intangible assets. The final amounts recorded as a result of this business combination are shown in the table below. There were no acquisitions in the prior period.

	Final Values
	At 13 July 2020
	\$
<b>Purchase consideration</b>	
Cash consideration paid/payable to vendors	41,856,005
<b>Fair value of net intangible assets acquired<sup>1</sup></b>	
Software intellectual property	40,691,453
Customer contracts	2,629,181
Brand names	4,284,231
Goodwill	4,042,562
Deferred tax liabilities	(11,479,968)
<b>Intangible assets acquired, net of deferred tax liability</b>	<b>40,167,459</b>
<b>Fair value of net tangible assets acquired</b>	
Cash and cash equivalents	1,102,554
Trade and other receivables	4,065,207
Deposits and prepayments	104,652
Fixed assets	362,241
Future income tax benefit	544,970
Trade payables	(1,703,678)
Deferred revenue	(1,533,527)
Bank loans	(1,247,402)
Other liabilities	(6,471)
<b>Net tangible assets acquired</b>	<b>1,688,547</b>
<b>Net assets acquired (fair value)</b>	<b>41,856,005</b>

### Goodwill

Goodwill is attributed to the assembled work force in place, key management personnel, access to new territories and markets, preservation of key reseller technology, and regulatory approvals.

### Acquired receivables

The net fair value of acquired trade receivables is \$3,265,523. The gross contractual amount for trade receivables due is \$3,805,511, with a loss allowance of \$539,988.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 33. BUSINESS COMBINATIONS (continued)

### Revenue and profit contribution

The acquired business contributed revenues of \$5,812,590 and a net operating loss of \$1,701,619 to the group for the period from 14 July to 30 June 2021. In addition, the Group recognised an amortization charge of \$6,024,344 and an income tax benefit of \$1,596,451 related to the acquisition of Client Outlook intangible assets, taking the total loss contribution to \$6,129,512. If the acquisition had occurred on 1 July 2020 (rather than 14 July), consolidated pro-forma revenue and loss for the year would not be materially different (< 5%) given there is only 13 days of extra trading that would have occurred.

### Purchase consideration – cash outflow

	A\$
Purchase consideration paid to vendors	41,856,005
Debt and debt-like items repaid on behalf of vendors	1,511,951
Cash acquired	(1,100,915)
FX gain on working capital payment	(33,3845)
Net outflow of cash – investing activities	<u>42,233,656</u>

In addition to the purchase consideration, the Company has incurred \$825,085 of acquisition related expenses. Of this amount, \$59,946 has been recognised in the statement of profit and loss statement during the current period (2020: \$765,139).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

## 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 2021 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 2021.

On behalf of the Board



David Chambers  
Chairman

Signed on 23 August 2021

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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 2021, 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 2021 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
<b>Recognition of Revenue</b> Refer to Note 6 in the financial statements	
<p>Revenue recognition was considered a key audit matter, as it involves significant management estimates and judgement.</p> <p>The Group's revenue is derived from the sale of software licenses and provision of professional services e.g. implementation &amp; training, migration, support and maintenance services.</p> <p>Revenue in respect of some of the service contracts is based on percentage of completion, which involved management's estimate and judgement.</p>	<p>Our audit procedures in relation to the recognition of revenue included, among others:</p> <ul style="list-style-type: none"> <li>Assessing whether the Group's revenue recognition policies were in compliance with AASB 15 <i>Revenue from Contracts with Customers</i>;</li> <li>For a sample of revenue transactions, we substantiated transactions by agreeing to supporting documentation, including contracts with customers;</li> <li>For a sample of revenue transactions that were recognised on a percentage of completion basis, our testing included: <ul style="list-style-type: none"> <li>Agreeing the contract price to customer contracts; and</li> <li>Assessing the reasonableness of management's estimated percentage of completion for services delivered up to 30 June 2021.</li> </ul> </li> </ul>
<b>Acquisition accounting of Client Outlook Inc.</b> Refer to Note 33 in the financial statements	
<p>On 13 July 2020 the Company acquired all the issued share capital of Client Outlook Inc. ("Client Outlook"), a business specialising in enterprise viewing software for the healthcare industry. Management determined the acquisition to be a business combination under AASB 3 <i>Business Combinations</i>.</p> <p>The terms of the agreement involved the transfer of cash consideration. The purchase price is allocated between the acquired assets and liabilities, at their respective fair values, with any difference recognised as goodwill on consolidation.</p> <p>Management finalised the purchase price allocation which resulted in goodwill of \$4m and other intangible assets of \$47.6m being recognised.</p> <p>This accounting for this acquisition is considered a Key Audit Matter as it involved the exercise of judgement in relation to the fair value of acquired assets and liabilities and due to the material nature of the intangibles and goodwill.</p>	<p>Our audit procedures in relation to the acquisition of Client Outlook Inc. included:</p> <ul style="list-style-type: none"> <li>Reviewing the share sale agreement and understanding the nature of the transaction to confirm that it met the definition of Business Combination under AASB 3;</li> <li>Tracing the values for the consideration paid to the share sale agreement and to bank statements;</li> <li>Assessing management's determination of the fair value of the consideration paid and net assets acquired;</li> <li>Assessing the valuation models prepared by management to value the intangible assets identified in the acquired business, which includes challenging the assumptions and methodology used by management; and</li> <li>Reviewing the disclosures in Note 33 to the financial statements to assess compliance with the disclosure requirements of AASB 3.</li> </ul>

## Key Audit Matters (continued)

Key Audit Matter	How our audit addressed this matter
<b>Impairment assessment of Goodwill and Intangibles</b> Refer to Note 17 in the financial statements	
<p>At 30 June 2021, the Group has intangible assets and goodwill (collectively known as intangibles) with carrying values of \$45.7m and \$4.1m respectively.</p> <p>We determine this to be a Key Audit Matter due to the materiality of the intangibles. In addition, the directors' assessment of the recoverable amount of the cash generating unit ("CGU") to which these intangibles relate to involves significant judgments and estimates.</p> <p>Namely, the calculation of the recoverable amount of the CGU involves judgements about the future underlying cashflows of the CGU, estimated growth rates for the CGU, and judgments of an appropriate discount rate to apply to the estimated cashflows.</p> <p>Management also performed sensitivity analysis over the calculations, by varying the assumptions used (growth rates, working capital, discount rate) to assess the impact on the valuations.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>Assessing management's determination that the intangible assets should be allocated to a single CGU, based on the nature of the Group's operating business;</li> <li>Assessing the valuation methodology used to determine the recoverable amount of the intangible assets and CGU to which the goodwill has been allocated to;</li> <li>Verifying the mathematical accuracy of the impairment assessment calculations;</li> <li>Evaluating the reasonableness of the assumptions built into the model which includes the future growth rates, discount rate, working capital and performing sensitivity analysis on growth rates applied to cash flows, to determine the extent of headroom for the intangibles; and</li> <li>Reviewing the adequacy of disclosures against the requirements of AASB 136.</li> </ul>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, 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.

## **Responsibilities of the Directors for the Financial Report (continued)**

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: [https://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar2.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 16 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Mach7 Technologies Limited, for the year ended 30 June 2021, complies with section 300A of the Corporations Act 2001.

### *Responsibilities*

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



**RSM AUSTRALIA PARTNERS**



**R B MIANO**  
Partner

Dated: 23 August 2021  
Melbourne, Victoria