**MOQ LIMITED**
**AND ITS CONTROLLED ENTITIES**
**ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017**

**ABN: 94 050 240 330**

## INDEX

## CORPORATE DIRECTORY

**Board of Directors**

| | |
|---|---|
| Mr David Shein | Non Executive Chairman |
| Mr Joe D'Addio | Executive Director and Chief Executive Officer |
| Mr Scott McPherson | Executive Director |
| Mr Joey Fridman | Non Executive Director |
| Mr Michael Pollak | Non Executive Director |

**Company Secretary**
Brad Cohen

**Auditors**
Stantons International Audit and Consulting Pty Ltd
Level 2, 22 Pitt Street
Sydney NSW 2000

**Solicitors**
Thomson Geer
Level 25, 1 O'Connell Street
Sydney NSW 2000

**Bankers**
Westpac Banking Corporation
94 Church Street
Middle Brighton VIC 3186

St George Bank
Locked Bag 1
Kogarah NSW 1485

**Registered Office**
Suite 1, Ground Floor
3-5 West Street
North Sydney NSW 2060

**Share Registry**
Link Market Services Limited
Level 4 Central Park 152 St Georges Terrace
PERTH WA 6000
Investor Enquiries: 1300 554 474
Facsimile: +61 2 9287 0303

**Stock Exchange Listing**
Securities of MOQ Limited are listed on the Australian Securities Exchange (ASX).
ASX Code: MOQ

**Website**
www.MOQ.com.au

## DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to herein as the **"Group"**) consisting of MOQ Limited (**"Company"**) and its controlled entities for the financial year ended 30 June 2017. The information in the proceeding operating and financial review forms part of this directors' report for the financial year ended 30 June 2017 and is to be read in conjunction with the following information.

### General Information

### Officers and Directors

The names and particulars of the Directors during or since the end of the financial year are:

| Name | Particulars |
|---|---|
| Mr David Shein | Non Executive Chairman |
| Mr Joe D'Addio | Executive Director and Chief Executive Officer |
| Mr Scott McPherson | Executive Director and Solutions Director |
| Mr Joey Fridman | Non Executive Director |
| Mr Michael Pollak | Non Executive Director |
| Mr Don Francis Nanayakkara | Non Executive Director (resigned 5th July 2017) |
| Ms Nicola Page | Executive Director and Chief Executive Officer (resigned 27th April 2017) |
| Mr Jonathan Pager | Non Executive Director (resigned 31st July 2017) |

The above named Directors held office during and since the financial year, except as otherwise indicated.

Particulars of each director's experience and qualifications are set out later in this report.

### Meetings of Directors

During the financial year, 14 meetings of directors (including committees of directors) were held:

| Director | Board Member Since | Eligible Board Meetings | Attended | Eligible Audit & Risk Meetings | Attended |
|---|---|---|---|---|---|
| Mr David Shein | 17 February 2014 | 12 | 12 | | |
| Ms Nicola Page | 29 May 2015 | 10 | 10 | | |
| Mr Joe D'Addio | 29 May 2015 | 12 | 11 | 2 | 2 |
| Mr Scott McPherson | 29 May 2015 | 12 | 11 | | |
| Mr Joey Fridman | 17 February 2014 | 12 | 9 | | |
| Mr Jonathan Pager | 17 February 2014 | 12 | 9 | 2 | 2 |
| Mr Michael Pollak | 17 February 2014 | 12 | 11 | 2 | 2 |
| Mr Don Francis Nanayakkara | 20 May 2016 | 12 | 10 | | |

### Information Relating to Directors and Company Secretary

### David Shein (Non Executive Chairman)

Exactly 30 years ago, David, having recently migrated from South Africa, founded Com Tech Communications as a specialist supplier of networking and communications products. 14 years later, Com Tech was sold to Dimension Data at an enterprise value of over $1billion. At the time of sale, Com Tech employed over 1,400 people, had offices Australia wide and achieved revenues of $700 million with no external debt. David prides himself on the recognition Com Tech achieved being regularly recognised as one of the leading companies to work for in Australia. Since then, David has been actively involved in mentoring young management teams. David has been an investor and mentor to a number of start-ups, many of which have been successfully exited. These include Zipmoney, CalReply, Latam Autos, RangeMe, Pocketbook, Centric Wealth, MacromatiX and Holly Connects. David is also Co Founder of Our Innovation Fund, a $50million early stage venture capital fund that invests in exciting Australian startups as well as a founding partner in the Israeli venture capital enterprise, OurCrowd, the first Global Equity Based Crowd Funding Platform.

**DIRECTORS' REPORT (CONT.)**

| | |
|---|---|
| Interests in shares and options: | 4,083,335 fully paid ordinary shares |
| Other current directorships: | None |
| Former Directorships in last three years: | None |
| Special responsibilities: | None |

**Michael Pollak (Non-Executive Director)**

Michael holds a Bachelor of Commerce, is a Chartered Accountant and has an MBA in strategy from the Australian Graduate School of Management. Michael commenced his career at PricewaterhouseCoopers over 15 years ago. Michael has gained valuable experience in both Sydney and London in general management, audit, insolvency, corporate advisory and strategy across a wide range of industries, including financial services, professional services, retail, mining and manufacturing. Michael has been involved in the restructuring, recapitalisation and relisting of a number of ASX listed entities.

| | |
|---|---|
| Interests in shares and options: | 2,130,000 fully paid ordinary shares |
| Other current directorships: | None |
| Former Directorships in last three years: | UCW Limited (ASX: UCW) (Non-executive director)<br>HJB Corporation Limited (ASX: HJB) (Non-executive director) |
| Special responsibilities: | Chair of Audit and Risk Committee |

**Joey Fridman (Non-Executive Director)**

Joey is the co-founder and Chief Executive Officer of Monash Private Capital Pty Limited, a Sydney-based independent financial services firm investing across various asset classes as principal and through its managed funds. Joey is a director of various Monash related companies, including Alleasing Group, Wentworth Williamson Fund, Our Innovation Fund and OurCrowd Australia. Prior to establishing Monash Private Capital, Joey was Chief Financial Officer of Investec Bank (Australia) Limited, where he also chaired the bank's Investment Committee, had oversight for strategy and internal acquisitions, and was involved in a number of its funds management activities. Prior to his role as CFO, Joey was one of the founding members of the Bank's investment banking division working across a range of private equity and corporate clients on mergers, acquisitions, privatisations, capital raisings and strategic advice. Joey is a Chartered Accountant and has an M.B.A. from the Australian Graduate School of Management.

| | |
|---|---|
| Interests in shares and options: | 18,328,334 fully paid ordinary shares |
| Other current directorships: | None |
| Former Directorships in last three years: | None |
| Special responsibilities: | None |

**Joe D'Addio (Executive Director and Chief Executive Officer)**

Joe was a co-founder and Director of Tech Effect. Joe has over 35 years' experience in the IT industry, with a particular focus on areas of professional services, system and network engineering and technology consulting. Over the last 20 years, he has held a number of key management and director positions, building and leading businesses in the IT industry, specifically with Com Tech Communications and Dimension Data.

| | |
|---|---|
| Interests in shares and options: | 17,655,978 fully paid ordinary shares |
| Other current directorships: | None |
| Former Directorships in last three years: | None |
| Special responsibilities: | Chief Executive Officer, Member of Audit and Risk Committee |

**DIRECTORS' REPORT (CONT.)**

**Scott McPherson (Executive Director and Solutions Director)**

Scott was a co-founder and Director of Tech Effect. Since forming the company in 2005, Tech Effect grew from providing Infrastructure related Integration Services, to offering Consulting and Managed Services to assist their clients to overcome both business and technical ICT related challenges.

Scott's position draws upon more than two decades of industry experience where he has worked for iconic market leaders Com Tech Communications and Dimension Data. During this time, Scott has honed his engineering, management and people skills to create a customer-centric organisation that develops solutions that solve real business problems. These traits contributed to building Tech Effect into the successful, highly respected organisation.

As the business grow, Scott's responsibilities evolved to focus on managing the Integration Services Practice, along with setting the vision and go to market strategy for the 'Cloud World'. Scott's technology career started at Queensland University of Technology where he studied for his Bachelor of Business degree in Information Management.

| | |
|---|---|
| Interests in shares and options: | 17,708,478 fully paid ordinary shares |
| Other current directorships: | None |
| Former Directorships in last three years: | None |
| Special responsibilities: | Executive Director |

**Brad Cohen (Company Secretary) (appointed 7 August 2015)**

Brad also acts as the Chief Executive Officer of Skoolbag.

Prior to joining MOQ Limited, Brad worked at OurCrowd LLC where he was an investment professional focusing on Venture Capital investments. Previously, Brad worked in commercial transaction roles and began his career as a management consultant at KPMG.

Brad is a qualified Chartered Accountant and holds a Bachelor of Commerce-Accounting and a Bachelor of Laws from Macquarie University, Sydney.

**DIRECTORS' REPORT (CONT.)**

**Principal Activities**

The Group's principal activities were the provision of group ownership, strategy and oversight over a number of software and service enterprises.

**Operating and Financial Review**

Whilst FY17 has been a period dominated by a considerable investment and effort to integrate the key acquisitions made at the end of FY16 – Tetran and Skoolbag – into the MOQ Limited business, the Board is happy to report solid progress in the following key areas:

1. Revenue increase of 61% over FY16, noting that over 50% of the additional revenue was achieved from organic growth in the existing business model. This included:
    a. Recurring Services revenue growth over FY16 of 123% to $10,768,189
    b. Professional Services revenue growth over FY16 of 40% to $15,018,743
    c. Technology Sales revenue growth over FY16 of 58% to $29,082,073
2. A successful integration of Tetran into the MOQdigital line of business, featuring:
    a. Almost 100% Tetran client retention rate.
    b. Strong leverage back into MOQdigital's client base, providing an enhanced Managed Services offering, culminating in key new business wins;
    c. Service Management Consolidation and Improvement program, currently 95% completed (target completion end Q1 FY18), that will allow for improved business processes and scalability of Managed Services business. This program includes the roll out of a new Information Technology Service Management (ITSM) system; and
    d. Strong key Staff Retention
3. Management Team Consolidation – The departures of some senior management personnel in FY17 has also allowed us to streamline our management structure and keep our operational expenses at a level commensurate with our business model. This was completed in Q4 FY17.
4. Key personnel additions to the NSW business to enhance Go-To-Market and Service Delivery capability and capacity, positioning for FY18.

Whilst revenues and market presence grew substantially in FY17, operating performance for the year was impacted by the significant investment and re-shaping of the merged operations. The following items are of note:

1. Underlying EBITDA achieved by the Group for FY17 was $1,843,403*
2. This excluded non-recurring integration and restructuring costs of $1,070,000 consisting of:
    a. $469,000 in implementing the new Service Management System, scheduled to be completed in Q1FY18, enabling improved business processes and scalability;
    b. $278,000 invested in integration activities, mainly in H1FY17, including marketing, travel and strategic planning off-sites to bring together the Tetran and MOQdigital teams; and
    c. $323,000 due to restructures to some of the professional services practices, as well as the departures of some members of the senior management team, who have not been replaced.

FY18 now represents an opportunity for the Company to continue with its strategy to develop, build and acquire complementary Cloud focused technology businesses to pursue suitable growth opportunities by either organic investment or through synergistic acquisitions in the technology sector.

With a substantially lower cost base and a focused management team, we are confident that we will deliver our shareholders the growth fitting of our team, the market opportunity and the companies that we represent in the year ahead.

**Underlying EBITDA excludes one-off integration/restructuring costs*

**DIRECTORS' REPORT (CONT.)**

Priorities for the next 12 months include:

1. Continue to organically grow the NSW operation through new client acquisition and increasing breadth of sale to existing clients;
2. Leverage the FY17 investment in Managed Services business to win new clients and improve delivery efficiency;
3. Capitalise on our Education market vertical focus and the digital disruption opportunities to introduce new vendor application partners. (Announcement to be released in due course);
4. Further leverage the Skoolbag distribution platform (including over 3,200 customer subscriptions and over 1,000,000 end users) to offer the K-12 market access to an enhanced range of services and tools;
5. Continue to grow in the booming Data Analytics and Business Intelligence market;
6. Continue to assess acquisition opportunities focused on Recurring Services, SAAS applications and potential regional expansion into Victoria;
7. Leverage our strong partnership with Microsoft in the Cloud and Application platforms space, where Microsoft is growing market share significantly; and
8. Improve Operating Profit.

**Our Business Model and Objectives**

The Company's strategy is to develop, build and acquire complementary Cloud focussed technology businesses. The Directors of the Company have extensive experience and a proven track record in acquiring and building businesses, and providing strategic direction, in order to generate long term sustainable returns for shareholders. The Company is actively pursuing suitable growth opportunities by either organic investment or through synergistic acquisitions in the technology sector.

**Significant Changes in State of Affairs**

There are no other significant changes in the state of affairs of the group.

**Dividends Paid or Recommended**

In respect of the current year, no dividends have been declared or paid and none are recommended (2016: $nil).

**Significant Events after the Reporting Period**

On 5th July 2017, Don Francis Nanayakkara announced his resignation as a non-executive director from the board of MOQ Limited.

On 31st July 2017, Jonathan Pager announced his resignation as a non-executive director from the board of MOQ Limited.

**Likely developments and expected results**

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

**Environmental Issues**

There are no applicable environmental regulations that would have an effect on the Company.

**DIRECTORS' REPORT (CONT.)**

**Indemnifying Officers or Auditor**

During the year, the Company paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all directors. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

**Proceeding on Behalf of Company**

During the year, the company instituted legal proceedings against a client to recover outstanding amounts plus interest and costs as a result of the client terminating their contract with Tetran Pty Ltd. These amounts have been fully provided for in the accounts.

**Auditor**

Stantons International Audit and Consulting Pty Limited are the appointed auditors of the Company. The auditor has not been indemnified under any circumstance.

**Non-audit Services**

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to a company associated with Stantons International for non-audit services provided to the Company during the year ended 30 June 2017:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Completion Accounts Audit | - | 10,000 |
| **Total** | **-** | **10,000** |

The board of directors considers that there was no independence issue in the provision of these services.

**Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2017 can be found on page 56 of the financial report.

**DIRECTORS' REPORT (CONT.)**

**Options**

At the date of this report, the unissued ordinary shares of MOQ Limited under option are as follows:

| Grant Date | Balance at the date of this report | Exercise price | Expiry |
|---|---|---|---|
| 21/11/2012 | 16,667 | $7.00 | 12/02/2018 |
| 01/09/2016[1] | 3,690,901 | $0.275 | 01/09/2020 |
| **TOTAL** | **3,707,568** | | |

Option holders do not have any rights to participate in any issues of shares or other interests of the company or any other entity. For details of options issued to directors and executives as remuneration, refer to the remuneration report.

During the year ended 30 June 2017, the following ordinary shares of MOQ Limited were issued on the exercise of options granted. No amounts are unpaid on any of the shares.

- 6 December 2016: 900,000 options with exercise price $0.10
- 11 May 2017: 1,600,000 options with exercise price of $0.10

[1]On 1 September 2016, an Employee Option Plan was introduced, which provided certain key management and employees with 3,690,901 unlisted and unvested options. These options have an exercise price of $0.275 each, vest upon employee period of service milestones and expire on 1 September 2020.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

## REMUNERATION REPORT (AUDITED)

### Remuneration Policy

The remuneration policy of MOQ Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering performance incentives based on key performance areas affecting the consolidated group's financial results. The Board of MOQ Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the consolidated group is to have the remuneration policy developed by the Board after professional advice is sought where appropriate from independent external consultants. No external advice was sought for the current financial year.

- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met.
- The Board reviews KMP packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.
- Incentives paid in the form of options or rights are intended to align the interests of the KMP and the Group with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means. An incentive option plan for KMP was outlined on 24 April 2016.

The performance of KMP is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options.

KMP receive at a minimum, a superannuation guarantee contribution required by the government, which for the year ending 30 June 2017 was 9.50% (2016 : 9.5%) of the individual's average weekly ordinary time earnings. KMP do not receive any retirement benefits. All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders. Currently, the maximum aggregate remuneration of non-executive directors is $500,000.

### Performance-based Remuneration:

The KPIs are set annually, in consultation with KMP. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year. In determining whether or not a KPI has been achieved, the Board bases the assessment on the Company's performance using audited figures.

**REMUNERATION REPORT (AUDITED) (CONT.)**

**Remuneration Expense Details:**

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the consolidated group:

| Personnel | Year | Short-term benefits | | Other payments | Post-employment benefits | Share based payments | Total | Performance based percentage of remuneration |
|---|---|---|---|---|---|---|---|---|
| | | Salary & fees | Cash Bonus | | Superannuation | | | |
| **Executive Directors** | | | | | | | | |
| Ms Nicola Page (resigned 27th April 2017) | 2017 | 262,797 | - | - | 19,616 | - | 282,413 | - |
| | 2016 | 200,000 | - | - | 19,000 | - | 219,000 | - |
| Mr Joe D'Addio | 2017 | 200,000 | - | - | 19,000 | - | 219,000 | - |
| | 2016 | 200,000 | - | - | 19,000 | - | 219,000 | - |
| Mr Scott McPherson | 2017 | 233,000 | - | - | 19,616 | - | 252,616 | - |
| | 2016 | 200,000 | - | - | 19,000 | - | 219,000 | - |
| Mr Don Nanayakkara (resigned 5th July 2017) | 2017 | 321,256 | - | - | 21,744 | - | 343,000 | - |
| | 2016 | 9,518 | - | - | 904 | - | 10,422 | - |
| **Non-executive Directors** | | | | | | | | |
| Mr David Shein | 2017 | 56,530 | - | - | 3,470 | - | 60,000 | - |
| | 2016 | 54,795 | - | - | 5,205 | - | 60,000 | - |
| Mr Joey Fridman | 2017 | 60,000 | | - | - | - | 60,000 | - |
| | 2016 | 60,000 | | - | - | - | 60,000 | - |
| Mr Jonathan Pager (resigned 31st July 2017) | 2017 | 60,000 | - | 15,000(1) | - | - | 75,000 | - |
| | 2016 | 60,000 | - | - | - | - | 60,000 | - |
| Mr Michael Pollak | 2017 | 54,795 | - | 15,000(1) | 5,205 | - | 75,000 | - |
| | 2016 | 54,795 | - | - | 5,205 | - | 60,000 | - |
| **Key Management** | | | | | | | | |
| Mr Matthew Goggin (Director Sales) | 2017 | 233,000 | - | - | 19,616 | - | 252,616 | - |
| | 2016 | 200,000 | - | - | 19,000 | - | 219,000 | - |
| Mr Mick Badran (CTO) (resigned 28th February 2017) | 2017 | 151,010 | - | - | 12,667 | - | 163,677 | - |
| | 2016 | 200,000 | - | - | 19,000 | - | 219,000 | - |
| Mr Chad Lurie (GM Services) | 2017 | 200,000 | - | - | 19,000 | - | 219,000 | - |
| | 2016 | 9,589 | - | - | 911 | - | 10,500 | - |
| Mr (Danny) Wan Yee Loh (GM Finance) | 2017 | 184,000 | - | - | 17,480 | 6,599 | 208,079 | 3% |
| | 2016 | 109,154 | - | - | 10,370 | - | 119,524 | - |
| **2017 Total** | | **2,016,388** | **-** | **30,000** | **157,414** | **6,599** | **2,210,401** | **-** |
| **2016 Total** | | **1,357,851** | **-** | **-** | **117,595** | **-** | **1,475,446** | **-** |

(1) Other payments were fees for corporate advisory work undertaken.

**REMUNERATION REPORT (AUDITED) (CONT.)**

**The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:**

| Personnel | Fixed Remuneration | At Risk – Short Term Incentives | At Risk - Options |
|---|---|---|---|
| **Executive Directors** | | | |
| Mr Joe D'Addio | 100% | - | - |
| Mr Scott McPherson | 87% | 13% | - |
| **Other Key Management Personnel** | | | |
| Mr Matthew Goggin | 87% | 13% | - |
| Mr Chad Lurie | 100% | - | - |
| Mr (Danny) Wan Yee Loh | 97% | - | 3% |

**Service agreements (audited):**

The directors serve until they resign, are removed, cease to be a director or are prohibited from being a director under the provisions of the Corporations Act 2001, or are not re-elected to office.

The directors entered into service agreements on the following terms:

- Mr Shein, Mr Fridman, Mr Pager and Mr Pollak - Base salary (including director's fees) of $60,000 per annum (including superannuation or similar contributions).
- Ms Page (resigned 27th April 2017), Mr D'Addio and Mr McPherson - Base salary (including director's fees) of $200,000 per annum (plus superannuation or similar contributions).
    - Annual incentive payment of up to $81,217 each based on pre-determined key metrics.
    - The Company may also, in its absolute discretion, provide a bonus, the value of which, the conditions attached to and the frequency of such a bonus, remain matters over which the Company exercises sole discretion.
    - If the Company terminates the agreement with reason (such as gross misconduct, conviction of a major criminal offence or misuse of price sensitive information), the Company will provide the Director with no notice and will be summarily dismissed. If the Company terminates the agreement without reason (notwithstanding any other provision of the agreement), the Company will provide the Director with 3 months' written notice or make a payment of 3 months' salary in lieu of the notice period.
    - The Director may terminate the agreement at his or her sole discretion and at any time, and in doing so is entitled to payment of a fee equivalent to 3 months of their base fees.
    - After the termination of their employment with the Company and MOQdigital, the Director will be subject to a contractual restraint which may apply for up to 3 years after 29 May 2015 or 6 months after the termination (whichever is greater), and cover up to all of Australia.
- Mr Nanayakkara (resigned 5th July 2017) – Base salary of $200,000 per annum.
    - Annual incentive payment of up to $81,217 based on pre-determined key metrics.
    - The Company may also, in its absolute discretion, provide a bonus, the value of which, the conditions attached to and the frequency of such a bonus, remain matters over which the Company exercises sole discretion.
    - If the Company terminates the agreement with reason (such as gross misconduct, conviction of a major criminal offence or misuse of price sensitive information), the Company will provide the Director with no notice and will be summarily dismissed. If the Company terminates the agreement without reason (notwithstanding any other provision of the agreement) within 12 months of commencement, the Company will provide the Director with 6 months' written notice, and thereafter with 2 months' written notice.

Key Management Personnel entered into service agreements on the following terms:

- Mr Badran (resigned 28th February 2017) and Mr Goggin - Base salary of $200,000 per annum (plus superannuation or similar contributions).

- Mr Loh -Base salary of $196,000 per annum (plus superannuation or similar contributions).
  - The Company may also, in its absolute discretion, provide a bonus, the value of which, the conditions attached to and the frequency of such a bonus, remain matters over which the Company exercises sole discretion.
  - If the Company terminates the agreement with reason (such as gross misconduct, conviction of a major criminal offence or misuse of price sensitive information), the Company will provide the KMP with no notice and will be summarily dismissed. If the Company terminates the agreement without reason (notwithstanding any other provision of the agreement), the Company will provide the KMP with up to 3 months' written notice or make a payment of up to 3 months' salary in lieu of the notice period.
  - The KMP may terminate the agreement at his or her sole discretion and at any time, and in doing so is entitled to payment of a fee equivalent to 3 months of their base fees.
  - After the termination of their employment with the Company and MOQdigital, the KMP will be subject to a contractual restraint which may apply for up to 3 years after 29 May 2015 or 6 months after the termination (whichever is greater), and cover up to all of Australia.
- Mr Lurie – Base salary of $200,000 per annum (plus superannuation or similar contributions).
  - The Company may also, in its absolute discretion, provide a bonus, the value of which, the conditions attached to and the frequency of such a bonus, remain matters over which the Company exercises sole discretion.
  - If the Company terminates the agreement with reason (such as gross misconduct, conviction of a major criminal offence or misuse of price sensitive information), the Company will provide the Director with no notice and will be summarily dismissed. If the Company terminates the agreement without reason (notwithstanding any other provision of the agreement) within 12 months of commencement, the Company will provide the Director with 6 months' written notice, and thereafter with 2 months' written notice.

**Shareholding and option holding of directors and other key management personnel (audited)**

**Options held by Directors and Key Management Personnel**

The number of options in the Company during the 2017 reporting period held by each of the Group's Directors and Key Management Personnel, including their related parties, is set out below:

| Personnel | Year ended 30 June 2017 | | | | |
|---|---|---|---|---|---|
| | Balance at the start of the year | Options acquired | Received as part of remuneration | Options exercised / disposed | Held at the end of the year |
| Ms Nicola Page | - | - | - | - | - |
| Mr Joe D'Addio | - | - | - | - | - |
| Mr Scott McPherson | - | - | - | - | - |
| Mr Don Francis Nanayakkara | - | - | - | - | - |
| Mr David Shein | - | - | - | - | - |
| Mr Joey Fridman | - | - | - | - | - |
| Mr Jonathan Pager | 250,000 | - | - | (250,000) | - |
| Mr Michael Pollak | 900,000 | - | - | (900,000) | - |
| Mr Matthew Goggin | - | - | - | - | - |
| Mr Mick Badran | - | - | - | - | - |
| Mr Chad Lurie | - | - | - | - | - |
| Mr Danny Loh | - | - | 181,818 | - | 181,818 |

| Personnel | Year ended 30 June 2016 | | | | |
|---|---|---|---|---|---|
| | Balance at the start of the year | Options acquired | Received as part of remuneration | Options exercised / disposed[(1)] | Held at the end of the year |
| Ms Nicola Page | - | - | - | - | - |
| Mr Joe D'Addio | - | - | - | - | - |
| Mr Scott McPherson | - | - | - | - | - |
| Mr David Shein | - | - | - | - | - |
| Mr Joey Fridman | - | - | - | - | - |
| Mr Jonathan Pager | 2,500,000 | - | - | (2,250,000) | 250,000 |
| Mr Michael Pollak | 9,000,000 | - | - | (8,100,000) | 900,000 |
| Mr Matthew Goggin | - | - | - | - | - |
| Mr Mick Badran | - | - | - | - | - |

[(1)]A 10:1 Consolidation of shares occurred on the 31 May 2016.

**REMUNERATION REPORT (AUDITED) (CONT.)**

| Name | Grant Date | Held at 1 July 2016 | Granted as remuneration | Net change other | Held at 30 June 2017 | Vested during the year and as at 30 June 2017 | Total unvested at 30 June 2017 | Vesting Date | Expiry Date | Value per option at grant date | Total value of options at grant date | Exercise price per option |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Wan Yee (Danny) Loh | 05-September-2016 | - | 90,909 | - | 90,909 | - | 90,909 | 01-September-2018 | 01-September-2020 | $0.1045 | $9,500.00 | $0.275 |
| | 05-September-2016 | - | 90,909 | - | 90,909 | - | 90,909 | 01-September-2019 | 01-September-2020 | $0.1045 | $9,500.00 | $0.275 |

*No other Key Management Personnel were granted remuneration options during the year.

**REMUNERATION REPORT (AUDITED) (CONT.)**

**Shares held by Directors and Key Management Personnel**

The number of ordinary shares in the Company during the 2017 reporting period held by each of the Group's Key Management Personnel, including their related parties, is set out below:

| Personnel | Year ended 30 June 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Balance at the start of the year | Received as part of remuneration | Other changes | Acquired | Disposal | Held at the end of reporting period |
| Ms Nicola Page[1] | 7,083,335 | - | - | | - | 7,083,335 |
| Mr Joe D'Addio | 17,655,978 | - | - | | - | 17,655,978 |
| Mr Scott McPherson | 17,655,978 | - | - | 52,500 | - | 17,708,478 |
| Mr David Shein | 4,083,335 | - | - | | - | 4,083,335 |
| Mr Don Francis Nanayakkara[1] | 5,696,262 | - | - | 906,572 | - | 6,602,834 |
| Mr Joey Fridman | 18,328,334 | - | - | | - | 18,328,334 |
| Mr Jonathan Pager[1] | 745,000 | - | - | 250,000 | - | 995,000 |
| Mr Michael Pollak | 1,980,000 | - | - | 900,000 | (750,000) | 2,130,000 |
| Mr Matthew Goggin | 8,827,989 | - | - | | - | 8,827,989 |
| Mr Mick Badran[1] | 7,083,335 | - | - | | (293,886) | 6,789,449 |
| Mr Chad Lurie | 3,539,028 | - | - | 571,429 | - | 4,110,457 |
| Mr Danny Loh | - | - | - | - | - | - |

[1]Number of shares as reported on final director's interest notice.

| Personnel | Year ended 30 June 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Balance at the start of the year | Received as part of remuneration | Other changes[2] | Acquired[1] | Disposal | Held at the end of reporting period |
| Ms Nicola Page | 70,833,334 | - | - | (63,749,999) | - | 7,083,335 |
| Mr Joe D'Addio | 176,559,780 | - | - | (158,903,802) | - | 17,655,978 |
| Mr Scott McPherson | 176,559,780 | - | - | (158,903,802) | - | 17,655,978 |
| Mr David Shein | 40,833,334 | - | - | (36,749,999) | - | 4,083,335 |
| Mr Don Francis Nanayakkara[2] | - | - | 56,962,210 | (51,265,948) | - | 5,696,262 |
| Mr Joey Fridman | 182,283,334 | - | - | (163,955,000) | - | 18,328,334 |
| Mr Jonathan Pager | 7,450,000 | - | - | (6,705,000) | - | 745,000 |
| Mr Michael Pollak | 19,800,000 | - | - | (17,820,000) | - | 1,980,000 |
| Mr Matthew Goggin | 88,279,890 | - | - | (79,451,901) | - | 8,827,989 |
| Mr Mick Badran | 70,833,334 | - | - | (63,749,999) | - | 7,083,335 |
| Mr Chad Lurie[3] | - | - | 35,390,272 | (31,851,244) | - | 3,539,028 |
| Mr Danny Loh | - | - | - | - | - | - |

[1]A 10:1 Consolidation of shares occurred on the 31 May 2016.
[2] Shares issued as consideration as part of the acquisition of TETRAN group.
[3] Mr Chad Lurie's shares were incorrectly stated in the prior year audited accounts, and has been corrected in the 2016 table.

**Other Equity-related KMP Transactions**

On the 22nd December 2016, shares were issued to the vendors of Tetran which were related to achievement of certain performance conditions as part of the purchase. These shares were issued to KMPs, and have been reflected in the tables above where applicable.

**Loans to KMP**

No loans have been made to KMP during, or since, the year ended 30 June 2017 (2016:$Nil).

**REMUNERATION REPORT (AUDITED) (CONT.)**

**Other transactions with KMP or their related parties**

No related party transactions included.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

David Shein
Non-Executive Chairman
28 September 2017

## STATEMENT OF CORPORATE GOVERNANCE

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, MOQ Limited and its Group have adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Group's current Corporate Governance Statement for this reporting period is available on MOQ Limited's website at www.moq.com.au/corporate-governance/

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017**

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Revenue** | | | |
| Revenue | 6 | 54,869,005 | 33,934,350 |
| Other income | 6 | 149,973 | 222,646 |
| **Total Revenue** | | **55,018,978** | **34,156,996** |
| Cost of sales | 7 | (43,344,464) | (27,971,377) |
| Gross Profit | | 11,674,514 | 6,185,619 |
| **Expenses** | | | |
| Share based payments | | (111,630) | - |
| Depreciation & amortisation expenses | 7 | (519,007) | (110,009) |
| Employee costs | 7 | (7,303,695) | (4,414,010) |
| Legal costs | 7 | (128,949) | (33,978) |
| ASX and registry related expenses | | (65,979) | (80,219) |
| Marketing expense | | (490,113) | (308,205) |
| Occupancy expenses | | (861,191) | (520,778) |
| Professional fees | 7 | (303,434) | (337,317) |
| Telecommunication carrier expenses | | (375,366) | (141,439) |
| Other expenses | | (1,260,754) | (902,417) |
| **Total expenses** | | **(11,420,118)** | **(6,848,372)** |
| Profit / (Loss) before impairment | | 254,396 | (662,753) |
| **Profit / (Loss) before income tax expense** | | **254,396** | **(662,753)** |
| Income tax (expense) / credit | 8 | (153,420) | 128,149 |
| **Profit / (Loss) after income tax** | | **100,976** | **(534,604)** |
| **Other comprehensive (loss) for the year** | | | |
| Exchange differences on translating foreign subsidiaries | | (140,860) | (6,198) |
| **Total comprehensive (loss) for the year** | | **(39,884)** | **(540,802)** |

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| **Profit / (Loss) is attributable to** | | | |
| MOQ Limited | | 100,976 | (534,604) |
| | | 100,976 | (534,604) |
| **Total comprehensive (loss) is attributable to** | | | |
| MOQ Limited | | (39,884) | (540,802) |
| | | (39,884) | (540,802) |
| **Earnings / (Loss) per share attributable to equity holders of the parent entity** | | | |
| Basic (loss) / earnings per share (cents per share) | **28** | 0.06 | (0.05) |
| Diluted (loss) / earnings per share (cents per share) | **28** | 0.06 | (0.05) |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2017

| | Notes | 2017 $ | 2016 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | **9** | 3,265,859 | 3,078,326 |
| Trade and other receivables | **10** | 8,172,252 | 6,298,691 |
| Work In Progress | **11** | 309,578 | 220,676 |
| Other assets | **12** | 648,499 | 273,602 |
| | | 12,396,188 | 9,871,295 |
| **Non Current Assets** | | | |
| Other Assets | **12** | 377,460 | 187,540 |
| Deferred tax assets | **13** | 687,884 | 723,847 |
| Property plant and equipment | **14** | 525,536 | 452,350 |
| Intangibles | **15** | 14,142,826 | 14,455,829 |
| | | 15,733,706 | 15,819,566 |
| **Total assets** | | **28,129,894** | **25,690,861** |
| **Current Liabilities** | | | |
| Trade and other payables | **16** | 7,361,808 | 5,018,996 |
| Deferred revenue | **17** | 1,712,654 | 2,029,235 |
| Provisions | **18** | 1,413,944 | 1,352,621 |
| | | 10,488,406 | 8,400,852 |
| **Non - Current Liabilities** | | | |
| Provisions | **18** | 77,782 | 48,049 |
| **Total Liabilities** | | **10,566,188** | **8,448,901** |
| **Net Assets** | | **17,563,706** | **17,241,960** |
| **Equity** | | | |
| Issued capital | **19** | 49,615,752 | 49,365,752 |
| Reserves | **20** | (26,763) | 2,467 |
| Accumulated losses | **21** | (32,025,283) | (32,126,259) |
| **Total Equity** | | **17,563,706** | **17,241,960** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2017

| | Issued Capital | Reserves | Accumulated Losses | Total Equity |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Balance as at 1 July 2016** | **49,365,752** | **2,467** | **(32,126,259)** | **17,241,960** |
| Net profit for the year | - | - | 100,976 | 100,976 |
| Other comprehensive loss | - | (140,860) | - | (140,860) |
| **Total comprehensive income / (loss) for the year** | - | **(140,860)** | **100,976** | **(39,884)** |
| **Transactions with owners in their capacity as owners** | - | - | - | - |
| Issue of share capital | 250,000 | - | - | 250,000 |
| Option Premium Reserve | - | 111,630 | - | 111,630 |
| Capital raising costs | - | - | - | - |
| **Balance as at 30 June 2017** | **49,615,752** | **(26,763)** | **(32,025,283)** | **17,563,706** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2016

| | Issued Capital | Shares to be Issued | Reserves | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance as at 1 July 2015** | **33,285,143** | **8,333** | **8,665** | **(31,591,655)** | **1,710,486** |
| Net loss for the year | - | - | - | (534,604) | (534,604) |
| Other comprehensive loss for the year | - | - | (6,198) | - | (6,198) |
| **Total comprehensive loss for the year** | **-** | **-** | **(6,198)** | **(534,604)** | **(540,802)** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Issue of share capital | 14,013,133 | | - | | 14,013,133 |
| Shares to be issued | 2,500,000 | (8,333) | - | - | 2,491,667 |
| Option Premium Reserve | - | - | - | - | - |
| Capital raising costs | (432,524) | - | - | - | (432,524) |
| **Balance as at 30 June 2016** | **49,365,752** | **-** | **2,467** | **(32,126,259)** | **17,241,960** |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Receipts from customers | | 57,736,151 | 36,601,890 |
| Payments to suppliers and employees | | (56,682,702) | (38,186,980) |
| Interest received | | 15,683 | 7,055 |
| Income taxes received | | (202,909) | (52,676) |
| Net cash provided by / (used in) operating activities | 30 | 866,223 | (1,630,711) |
| | | | |
| **Cash flow from investing activities** | | | |
| Payment for property plant and equipment | | (336,465) | (345,261) |
| Payment for deposits | | (187,631) | (176,093) |
| Cash on acquisition of controlled entities | | - | 925,816 |
| Acquisition of subsidiaries | | (404,594) | (6,990,000) |
| Net cash (used in) investing activities | | (928,690) | (6,585,538) |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of shares | | 250,000 | 8,575,000 |
| Share issued costs | | - | (2,724) |
| Net cash provided by financing activities | | 250,000 | 8,572,276 |
| | | | |
| Net increase in cash and cash equivalents | | 187,533 | 356,027 |
| Cash and cash equivalents at beginning of year | | 3,078,326 | 2,722,299 |
| Cash and cash equivalents at end of year | | 3,265,859 | 3,078,326 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements cover MOQ Limited ("Company or "parent entity") and its controlled entity as a consolidated entity (also referred to as "the Group"). MOQ Limited is a company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity and is primarily involved in the information technology industry being the field of software and services.

The separate financial statements of the parent entity, MOQ Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The consolidated financial statements were authorised for issue by the Board of Directors on 28 September 2017.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (a) Basis of preparation of the financial report

**Statement of Compliance**

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law where possible.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS'). It is recommended that this financial report be read in conjunction with the public announcements made by MOQ Limited during the year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001*.

The financial report has been prepared on the historical cost basis.

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current year. When the Company applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

### (b) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

### (c) Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- the consideration transferred;
- any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- the acquisition date fair value of any previously held equity interest over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value re-measurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash –generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

### (d) Critical accounting estimates

The preparation of the financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

### (e) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (MOQ Limited) and all of the subsidiaries. Subsidiaries are entities that the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 32.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

### (f) Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard. Fair value is the price the Group would receive to sell an asset or

**NOTES TO THE CONSOLIDATED FINANCIAL REPORT**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Group would change the categorisation within the fair value hierarchy only in the following circumstances:

- if a market that was previously considered active (Level 1) became inactive (Level 2 or Level 3) or vice versa;
- if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

When a change in the categorisation occurs, the Group recognises transfers between levels of the fair value hierarchy (i.e. transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

**(g) Income tax**

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

Current income tax expense or revenue for the year is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred tax assets and liabilities offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax asset and tax liabilities are offset where the

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

entity has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (h) Tax Consolidation Legislation

The Company and its Australian wholly owned subsidiaries have formed an income tax consolidated group under the tax consolidation legislation for the whole of the financial year. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The Group notified the Australian tax Office it had formed an income tax consolidated group to apply from 1 June 2015. The tax consolidated group has entered a tax sharing agreement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

### (i) Plant and equipment

Each class of plant and equipment is carried at cost less any applicable accumulated depreciation and any accumulated impairment losses. Plant and equipment is measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets.

The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

The depreciated amount of all fixed assets including capitalised leased assets is depreciated on a straight line basis over their useful lives commencing from the time the asset is held ready for use.

The expected useful life of plant and equipment ranges from 3 to 15 years.

The assets' residual values and useful life are reviewed at the balances date. The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater that its estimated recoverable amount.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included net in profit or loss.

### Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Leasehold improvements | Term of lease |
| Plant and Equipment | 6.67 – 33.33% |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to accumulated losses.

### (j) Leases

At inception of an arrangement, the Group determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset. At inception, or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Leases reclassified at their inception as either operating or finance leases based on the economic substance of the arrangement so as to reflect the risks and benefits incidental to ownership.

Lease of fixed assets where substantially all the risks and rewards incidental to the ownership of the asset, but not the legal ownership, are transferred to the entity are classified as finance leases. Finance lease are capitalised by recording an asset and a liability equal to the fair value of the leased property or the present value of the minimum lease payments including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Statement of Profit or Loss and Other Comprehensive Income. Lease assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Lease payments for operating leases where substantially all the risks and benefits remain with the lessor are recognised as an expense in the year in which they are incurred. Lease incentives received under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

### (k) Financial instruments

The Group initially recognises financial assets on the trade date at which the Group becomes a party to a contractual provision of the instrument.

Financial assets are initially measured at cost. If the financial asset is not subsequently measured at fair value through profit or less, the initial measurement includes transaction costs that are directly attributed to the asset's acquisition. The Group subsequently measures financial assets at either amortised costs or fair value.

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

- The asset is held with an objective to collect cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets other than those classified as financial assets measured at amortised costs are subsequently measured at fair value with all changes in fair value recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Non derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payment and amortisation.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and financial liabilities are offset when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously.

### (l) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after the initial recognition of the asset and that the loss event has a negative effect on the estimated future cash flows of that assets which can be estimated reliably.

The Group considers evidence of impairment for receivables at both a specific and collective level. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

### (m) Impairment of non-financial assets

Intangible assets are tested annually for impairment or more frequently if changes in circumstances indicate that they might be impaired.

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current marked assessment of the time value of money and the risks specific to the asset.

### (n) Intangible assets

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at fair value at the date of acquisition less accumulated amortisation and impairment losses. Fair value is assessed based on the income streams generated from customer contracts after allowing for cost specific to the generation of those income streams. In the assessment of the carrying value of the intangible assets costs not related to the generation of the contract related income streams were excluded. These intangibles are separate from the business to which they relate and have been assessed on this basis. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which at present are 1.5 years to 8 years.

Software acquired as part of a business combination is recognised separately from goodwill. The software is carried at fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which at present are 4 years.

### (o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax.
If the entity reacquires its own equity instruments, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable costs net of any taxes is recognised directly in equity.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (p) Foreign currency transactions and balances

The functional currency of each entity in the consolidated entity is measured using the currency of the primary economic environment in which that consolidated entity operates. The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated using the spot rate at the end of the financial year. Non monetary items measured at historical cost continue to be carried at the date of the transaction. Non monetary items measured at fair value are reported at the exchange rate at the date when the fair values were determined. Material exchange differences arising on the translation of monetary items are recognised in profit or loss except where deferred in equity as a qualifying cash flow or net investment hedge. Material exchange differences arising on the translation of non monetary items are recognised inequity to the extent that the gain or loss is directly recognised in equity otherwise the exchange is recognised in profit or loss.

### (q) Employee benefits

**Wages and salaries, annual leave and sick leave**

Liabilities for wages and salaries, and annual leave, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in other payables, in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, on an undiscounted basis.

Liabilities for non accumulating sick leave are recognised when the leave is taken and measure at the rates paid or payable.

**Long service leave**

The liability for long service leave and annual leave which is not expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made for services provided by employees up to the reporting date.

Consideration is given to expected 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 national government bonds with terms to maturity and currency that match as closely as possible the estimated future cash outflows.

**Termination benefits**

Termination benefits are payable when employments are terminated before the normal retirement date, or when the employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

### (s) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, deposits held on call with banks, other short term highly liquid investments with an original maturity date of three months or less held and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in Statement of Financial Position.

### (t) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

Revenue for recurring services is recognised in equal amounts over the period for which service or support is to be provided to a customer, either quarterly or annually.

Revenue from technology sales in recognised upon delivery of the product to the customer.

Revenue from professional services is recognised in the accounting period in which the services are rendered. For time and materials contracts, revenue is recognised as the service is rendered.

Interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Revenue from other services is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

### (u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (v) Earnings per share

**Basic earnings per share**

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

**Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations.

### (w) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Refer to Note 1(l) for further discussion on determination of impairment losses.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (x) Work in progress

Work in progress is stated as the aggregate of costs incurred to date plus recognised profits less recognised losses and progress billings. Cost includes all costs directly related to specific contracts, and an allocation of overhead costs attributable to contract activity in general.

Project profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date as compared to expected total costs. Where losses are anticipated they are provided for in full.

Project revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract. Any credit balance in work in progress is reclassified as income in advance.

When the outcome of the project cannot be estimated reliably, revenue is only recognised to the extent that the costs incurred are recoverable.

### (y) Trade and other payables

Trade and other payables represent the principal amounts outstanding at balance date, plus, where applicable, any accrued interest. These amounts are unsecured and are usually settled within 30 days of recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (z) Operating segments

The Company has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) to make financial and operational decisions and to allocate resources. We attribute sales to an operating segment based on the type of product or service provided to the customer.

We have identified three reportable segments, as follows:

- Technology Sales – provision of vendor hardware, software and associated licenses and maintenance contracts;
- Professional Services – provision of a range of specialist services including consulting, project management, systems and software engineering services to assist clients with strategy, architecture, design, development and implementation of ICT solutions; and
- Recurring Services – a combination of managed services including operations, support and ICT management, as well as a range of in-house developed commercialised IP and Cloud (SAAS) based solutions.

The consolidated entity primarily services clients in one geographical segment being Australia, with support from Australia, Sri Lanka, Singapore and New Zealand. However, there are no material revenues generated outside of Australia, and as a result no additional geographical segment information has been provided.

### (aa) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

### (bb) New Accounting Standards for Application in Future Periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

**AASB 9: *Financial Instruments* and associated Amending Standards**
Applicable to annual reporting periods beginning on or after 1 January 2018.

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

**AASB 15: *Revenue from Contracts with Customers***
Applicable to annual reporting periods commencing on or after 1 January 2017. When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

(i) identify the contract(s) with a customer;
(ii) identify the performance obligations in the contract(s);
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligations in the contract(s); and
(v) recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, the quantum, if any, of impact has not yet been assessed.

**AASB 16: *Leases***
Applicable to annual reporting periods commencing on or after 1 January 2019. When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as either operating leases or finance leases. Lessor accounting remains similar to current practice.

The main changes introduced by the new Standard are as follows:

(i) recognition of the right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);
(ii) depreciating the right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;

(iii) inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;

(iv) application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and

(v) additional disclosure requirements.

The transitional provisions of AASB 16 allow a lease to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity at the date of initial application.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assumed a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

**Key Estimates**

*Impairment of Non-Current Assets*
The Company assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

*Debtors (Bad Debt Provision)*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, historical collection rates and specific knowledge of the individual debtors' financial position.

*Impairment of goodwill*
Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

*Taxation*
The Group's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and deferred tax liabilities are recognized in the Statement of Financial Position. Deferred tax assets, including those arising from un-recouped tax losses and temporary differences are recognized only where it is considered more likely than not that they will be recovered, which is dependent upon the generation of sufficient future taxable profits.

Assumptions about the generation of future profits depend upon management's estimates of future profitability and cash flows. These depend upon estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions. Judgments and assumptions are also required in relation to the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty. Therefore there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized in the Statement of Financial Position and the amount of tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amounts of recognized deferred tax assets and liabilities may require adjustment, resulting in a correction to the Statement of Comprehensive Income.

*Recoverability of Work in Progress*
The Company assesses work in progress on a monthly basis to determine whether the amounts accrued are recoverable to the Group when billed to customers. At the reporting date, the directors believe that the carrying value of work in progress is recoverable in full.

*Valuation of Provisions*
The Company has assessed the value of provisions at the reporting date in line with the accounting policy at Note 1(r).

Risk management is the role and responsibility of the board. The Group's current activities expose it to minimal risk. However, as activities increase there may be exposure to credit, liquidity, foreign currency and interest rate risks.

*Determination of Intangible Property Acquired*
The company has assessed the value of intangible property acquired from the acquisition of Skoolbag and Tetran using management's judgement in determining the fair values of the property acquired.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 3: FINANCIAL RISK MANAGEMENT

### (a) Credit Risk

The Group has no significant concentrations of credit risk and as such, no sensitivity analysis is prepared by the Group. The ageing of the Group's trade and other receivables net of bad debt provisions at the reporting date is:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Current | 7,159,229 | 5,044,156 |
| 30 - 60 days | 487,918 | 580,481 |
| 60 - 90 days | 154,535 | 324,828 |
| More than 90 days | 370,570 | 208,304 |
| | 8,172,252 | 6,157,769 |

The directors believe that the above stated balances are fully recoverable.

### (b) Liquidity

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Group manages liquidity risk by preparing forecasts and monitoring actual cash flows and requirements for future capital raisings. The Group has a committed credit line available, which is appropriate given the nature of its operations. Surplus funds are invested in a cash management account with Westpac Banking Corporation, St George and HSBC which is available as required.

The material liquidity risk for the Group is the ability to raise equity or access debt finance as required in the future.

### (c) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is:

| | 1 year or less | | | Over 1 to 5 years | |
|---|---|---|---|---|---|
| | Floating Interest Rate | Fixed Interest Rate | Non Interest Bearing | Non Interest Bearing | Total |
| **30 June 2017** | **$** | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | | |
| Cash and deposits | 354 | - | 3,265,505 | - | 3,265,859 |
| Current receivables | - | - | 8,172,252 | - | 8,172,252 |
| Other assets | - | - | 648,499 | - | 648,499 |
| | 354 | - | 12,086,256 | - | 12,086,610 |
| Weighted average interest rate | 0.00% | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | - | - | (7,361,808) | - | (7,361,808) |
| Borrowings | - | - | - | - | - |
| | - | - | (7,361,808) | - | (7,361,808) |
| Weighted average interest rate | Nil | | | | |
| Net financial assets / (liabilities) | 354 | - | 4,724,448 | - | 4,724,802 |

The directors do not consider the results of the Group to be subject to significant sensitivity arising from interest rate risks.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 3: FINANCIAL RISK MANAGEMENT (CONT.)

| | 1 year or less | | | Over 1 to 5 years | |
|---|---|---|---|---|---|
| **30 June 2016** | **Floating Interest Rate $** | **Fixed Interest Rate $** | **Non Interest Bearing $** | **Non Interest Bearing $** | **Total $** |
| **Financial assets** | | | | | |
| Cash and deposits | 1,102,024 | - | 1,976,302 | - | 3,078,326 |
| Current receivables | - | - | 6,298,691 | - | 6,298,691 |
| Other assets | - | - | 273,602 | - | 273,602 |
| | 1,102,024 | - | 8,548,595 | - | 9,650,619 |
| Weighted average interest rate | 0.75% | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | - | - | (5,018,996) | - | (5,018,996) |
| Borrowings | - | - | - | - | - |
| | - | - | (5,018,996) | - | (5,018,996) |
| Weighted average interest rate | Nil | | | | |
| Net financial assets / (liabilities) | 1,102,024 | - | 3,529,599 | - | 4,631,623 |

#### (d) Foreign currency risk

The Group has subsidiaries in Sri Lanka, Singapore and New Zealand, which serves primarily as service and support centres. As all intercompany loans are repayable in AUD$, the group is not materially exposed to foreign currency risk.

#### (e) Fair value hierarchy

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables because their carrying amounts are a reasonable approximation of their fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 4: SEGMENT INFORMATION

The segment information provided to the Board of directors, for the reportable segments is as follows:

| **30 June 2017** | **Recurring Services $** | **Professional Services $** | **Technology Sales $** | **Unallocated $** | **Total $** |
|---|---|---|---|---|---|
| **Revenue from external customers** | **10,768,189** | **15,018,743** | **29,082,073** | **-** | **54,869,005** |
| Other income | - | - | - | 149,973 | 149,973 |
| **Total Reportable Segment results** | **3,234,011** | **3,210,306** | **5,080,224** | **(11,270,145)** | **254,396** |
| Total segment assets | - | - | - | 28,129,894 | 28,129,894 |
| Total segment liabilities | - | - | - | 10,566,188 | 10,566,188 |

| **30 June 2016** | **Recurring Services $** | **Professional Services $** | **Technology Sales $** | **Unallocated $** | **Total $** |
|---|---|---|---|---|---|
| **Revenue from external customers** | **4,827,672** | **10,741,641** | **18,365,037** | **-** | **33,934,350** |
| Other income | - | - | - | 222,646 | 222,646 |
| **Total Reportable Segment results** | **1,778,251** | **963,751** | **3,220,971** | **(6,625,726)** | **(662,753)** |
| Total segment assets | - | - | - | 25,690,861 | 25,690,861 |
| Total segment liabilities | - | - | - | 8,448,901 | 8,448,901 |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 5: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, MOQ Limited:

**(a) Summarised statement of financial position**

| | 2017 $ | 2016 $ |
|---|---|---|
| **Assets** | | |
| Current assets | 488,874 | 3,408,248 |
| Non current assets | 18,947,414 | 15,007,478 |
| Total assets | 19,436,288 | 18,415,726 |
| **Liabilities** | | |
| Current liabilities | (129,718) | (1,113,951) |
| Non current liabilities | (1,377,674) | - |
| Total liabilities | (1,507,392) | (1,113,951) |
| Net assets | 17,928,896 | 17,301,775 |
| **Equity** | | |
| Share Capital | 49,615,752 | 49,365,752 |
| Reserves | 120,295 | 8,665 |
| Accumulated losses | (31,807,151) | (32,072,642) |
| Total equity | 17,928,896 | 17,301,775 |

| | 2017 $ | 2016 $ |
|---|---|---|
| **(b) Summarised statement of comprehensive income** | | |
| Profit / (Loss) for the year | 265,491 | (249,288) |
| Other comprehensive income for the year | - | - |
| Total comprehensive income / (loss) for the year | 265,491 | (249,288) |

**(c) Guarantees entered into by the parent**

The parent has not entered into any guarantees.

**(d) Contingent liabilities of the parent**

The parent notes that there may be a contingent liability in respect of the issue of shares related to performance hurdles in Skoolbag, subject to performance exceeding expectations.

**(e) Commitments of the parent**

The parent does not have any commitments.

### NOTE 6: REVENUE AND OTHER INCOME

| | 2017 $ | 2016 $ |
|---|---|---|
| **(a) Revenue from operations** | 54,869,005 | 33,934,350 |
| **(b) Other income** | | |
| Interest received | 15,684 | 7,055 |
| Other income | 134,289 | 215,591 |
| | 149,973 | 222,646 |
| Total revenue and other income | 55,018,978 | 34,156,996 |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 7: OPERATING PROFIT / LOSS

Loss before income tax includes the following expenses:

| | 2017 | 2016 |
|---|---|---|
| (a) Cost of sales | $ | $ |
| Technology | 24,001,849 | 15,144,066 |
| Recurring services | 7,534,178 | 3,049,421 |
| Professional services | 11,808,437 | 9,777,890 |
| | 43,344,464 | 27,971,377 |
| (b) Depreciation – office equipment and software | 206,004 | 110,009 |
| Amortisation – intangible assets | 313,003 | - |
| | 519,007 | 110,009 |
| (c) Employee benefits, other labour and related expenses | | |
| Wages and salaries | 5,903,807 | 2,869,523 |
| Superannuation | 460,240 | 283,170 |
| Other employee benefits expenses | 939,648 | 1,261,317 |
| | 7,303,695 | 4,414,010 |
| (d) Legal costs | 128,949 | 33,978 |
| (e) Professional fees | | |
| Consultants fees* | 97,833 | 107,033 |
| Compliance fees* | 205,601 | 230,284 |
| | 303,434 | 337,317 |

*Largely relates to the acquisition of TETRAN and Skoolbag in the prior year.

### NOTE 8: INCOME TAX

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **(a) The components of tax income / (expense) comprise:** | | |
| Current tax | (117,457) | (216,562) |
| Deferred tax | (35,963) | 344,711 |
| | (153,420) | 128,149 |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 8: INCOME TAX (CONT.)

| | 2017 $ | 2016 $ |
|---|---|---|
| **(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable** | | |
| Profit / (Loss) before income tax expense | 254,396 | (662,753) |
| Income tax calculated at 30% (2016: 30%) | (76,319) | 198,826 |
| Tax effect of amounts which are not taxable income | (77,101) | (70,677) |
| Tax loss not recognised | - | - |
| Income tax (expense) / benefit | (153,420) | 128,149 |
| The applicable weighted average effective tax rates are as follows: | (60.3%) | (19.3%) |

**(c) Tax effects relating to other comprehensive income**
There is no tax effect relating to components of other comprehensive income.

| | | |
|---|---|---|
| **(d) Tax losses** | | |
| Approximate unused tax losses for which no deferred tax asset has been recognised | - | - |
| Potential tax benefit at 30% (2016: 30%) | - | - |

Tax losses related to the entity prior to the reconstruction that were not used have been lost in accordance with the continuity of business rules under the Australian Taxation legislation.

### NOTE 9: CASH AND CASH EQUIVALENTS

| | 2017 $ | 2016 $ |
|---|---|---|
| Cash at bank | 3,265,859 | 3,078,326 |
| Term deposit | - | - |
| | 3,265,859 | 3,078,326 |

### NOTE 10: TRADE AND OTHER RECEIVABLES

| | 2017 $ | 2016 $ |
|---|---|---|
| Trade receivables | 8,277,188 | 5,701,823 |
| Provision for doubtful debts | (144,528) | (206,112) |
| Other receivables | 39,592 | 662,058 |
| | 8,172,252 | 6,157,769 |
| Accrued revenue | - | 140,922 |
| | - | 140,922 |
| | 8,172,252 | 6,298,691 |

Management believes that any debts that have not provided for and are past due by more than 30 days are still collectible in full based on historic payment behaviour.
Please refer to Note 3(a) for a further breakdown of the ageing of receivable amounts.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 11: WORK IN PROGRESS

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Work In Progress | 309,578 | 220,676 |
| | 309,578 | 220,676 |

### NOTE 12: OTHER ASSETS

(a) OTHER ASSETS - CURRENT

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Deposits | - | 2,289 |
| Inventory | - | 19,420 |
| Prepayments | 648,499 | 251,452 |
| Other | - | 441 |
| | 648,499 | 273,602 |

(b) OTHER ASSETS – NON-CURRENT

| | | |
|---|---|---|
| Deposits | 377,460 | 187,540 |
| | 377,460 | 187,540 |

### NOTE 13: DEFERRED TAX ASSETS

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Deferred Tax Assets | 687,884 | 723,847 |
| | 687,884 | 723,847 |

### NOTE 14: PROPERTY, PLANT AND EQUIPMENT

| At 30 June 2017 | Leasehold Improvements<br>$ | Office Equipment & Software<br>$ | Total<br>$ |
|---|---|---|---|
| Cost | 298,817 | 889,002 | 1,187,819 |
| Accumulated depreciation | (115,272) | (547,011) | (662,283) |
| | 183,545 | 341,991 | 525,536 |

| At 30 June 2016 | Leasehold Improvements<br>$ | Office Equipment & Software<br>$ | Total<br>$ |
|---|---|---|---|
| Cost | 299,619 | 734,769 | 1,034,388 |
| Accumulated depreciation | (54,893) | (527,145) | (582,038) |
| | 244,726 | 207,624 | 452,350 |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONT.)

**Reconciliation of carrying amounts at the beginning and end of the year:**

| | Leasehold Improvements<br>$ | Plant and Equipment<br>$ | Total<br>$ |
|---|---|---|---|
| At 1 July 2016 | 244,726 | 207,624 | 452,350 |
| Additions | - | 279,992 | 279,992 |
| Disposals | (802) | - | (802) |
| Depreciation | (60,379) | (145,625) | (206,004) |
| At 30 June 2017 | 183,545 | 341,991 | 525,536 |

| | Leasehold Improvements<br>$ | Plant and Equipment<br>$ | Total<br>$ |
|---|---|---|---|
| At 1 July 2015 | - | 94,451 | 94,451 |
| Additions [1] | 299,619 | 168,289 | 467,908 |
| Disposals | - | - | - |
| Depreciation | (54,893) | (55,116) | (110,009) |
| Impairment due to Administration | - | - | - |
| At 30 June 2016 | 244,726 | 207,624 | 452,350 |

[1] Acquired as part of the acquisition of Tech Effect.

### NOTE 15: INTANGIBLE ASSETS

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Goodwill on acquisition of TETRAN Group | 9,339,308 | 9,339,308 |
| Goodwill on acquisition of Skoolbag[1] | 3,942,630 | 4,650,428 |
| Intangible Property Acquired TETRAN Group | 74,607 | 223,821 |
| Intangible Property Acquired Skoolbag[1] | 786,281 | 242,272 |
| | 14,142,826 | 14,455,829 |

[1]AASB 3 Business Combinations allow a measurement period after a business combination to provide the acquirer a reasonable time to obtain the information necessary to identify and measure all the various components of the business combinations as of acquisition date. Accordingly the company has reallocated $707,798 to Relationships acquired for Skoolbag.

**Impairment Testing:**

Goodwill arising from a business combination is allocated to CGUs (cash generating units) or groups that are expected to benefit from the synergies of the combination. Accordingly, TETRAN's CGU includes certain MOQdigital income. For the purposes of impairment testing, goodwill has been allocated to MOQ's CGUs as follows:

| | 2017<br>$ |
|---|---|
| TETRAN | 9,339,308 |
| Skoolbag | 3,942,630 |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 15: INTANGIBLE ASSETS (CONT.)

The recoverable amounts were based on fair values estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represents management's assessment of future trends in the ICT industry and have been based on data from both external and internal sources.

| **TETRAN** | **2017** |
|---|---|
| Discount rate | 13% |
| Terminal Value Growth Rate | 2.5% |

| **Skoolbag** | **2017** |
|---|---|
| Discount rate | 13% |
| Terminal Value Growth Rate | 2.5% |

The discount rate was a post-tax measure estimated based on a conservative mix of historical weighted average cost of capital and debt.

The cashflow projections included specific estimates for 4 years for TETRAN and 3 years for Skoolbag. The basis of estimation of the four and three-year cash flows uses the following key operating assumptions:

- Four and three year budgeted EBITDA is based on management's forecasts of revenue from its operating segments. Revenue forecasts take into account historical revenue and consider external factors such as market sector.

- Costs are calculated taking into account historical margins, known increases and estimated inflation rates over the period.

The estimated recoverable amount of the CGUs exceeded their carrying amounts by $7.43 million for TETRAN and $290,000 for Skoolbag. Management recognises that actual results (EBITDA) may vary to what has been estimated. Management has identified that a possible change in either of two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

| | TETRAN-Managed Services | TETRAN-Professional Services | TETRAN-Technology | Skoolbag |
|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 |
| Discount Rate | 18% | 15% | 31% | 27% |
| Average Budgeted EBITDA growth rate | 91% | 183% | 134% | 69% |

### NOTE 16: TRADE AND OTHER PAYABLES

| | **2017** | **2016** |
|---|---|---|
| | **$** | **$** |
| Trade creditors | 6,222,582 | 2,716,459 |
| Other payables and accrued expenses | 1,139,226 | 2,302,537 |
| | 7,361,808 | 5,018,996 |

There are no trade and other payables that are considered past due.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 17: DEFERRED REVENUE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| CURRENT | | |
| Unearned income – subscription, consulting and licenses | 1,712,654 | 2,029,235 |
| | 1,712,654 | 2,029,235 |

### NOTE 18: PROVISIONS

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| CURRENT | | |
| Employee entitlements | | |
| - Provision for Annual Leave | 691,735 | 814,573 |
| - Provision for Long Service Leave | 722,209 | 538,048 |
| | 1,413,944 | 1,352,621 |
| NON-CURRENT | | |
| Employee entitlements | | |
| - Provision for Long Service Leave | 77,782 | 48,049 |
| | 77,782 | 48,049 |

Employee provisions includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the company does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the company does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 19: SHARE CAPITAL

#### (a) Details of share issues

For the 2017 financial year:

| Date | Details | Share Price $ | No. of Shares | Issue Value $ |
|---|---|---|---|---|
| | **Balance at the beginning of the year** | | **154,713,558** | **49,365,752** |
| Dec-16 | Securities issued for exercise of options | 0.10 | 900,000 | 90,000 |
| Dec-16 | Performance shares issued Tetran* | | 2,857,144 | - |
| Dec-16 | Performance shares issued Skoolbag* | | 1,250,000 | - |
| May-17 | Securities issued for exercise of options | 0.10 | 1,600,000 | 160,000 |
| | **Total share capital** | | **161,320,702** | **49,615,752** |

Holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at shareholder meetings, otherwise each member present at a meeting or by proxy has one vote on a show of hands. In the event of the winding up of the Company, ordinary shareholders rank after creditors and share in any proceeds on winding up in proportion to the number of shares held.

*Please refer to Note 31 for additional information on the Performance shares for TETRAN and Skoolbag.

Comparative information for share issues occurring in the 2016 financial year:

| Date | Details | Share Price $ | No. of Shares | Issue Value $ |
|---|---|---|---|---|
| | **Balance at the beginning of the year** | | **1,073,671,213** | **33,285,143** |
| Jul-15 | Securities issued for exercise of options | 0.01 | 833,333 | 8,333 |
| Sep-15 | Securities issued for exercise of options | 0.01 | 2,499,999 | 25,000 |
| Apr-16 | Capital raising pursuant to the offer under the prospectus dated 24 March 2016 | 0.0275 | 161,454,545 | 4,440,000 |
| May-16 | Capital raising pursuant to the offer under the prospectus dated 24 March 2016 | 0.0275 | 165,818,182 | 4,560,000 |
| May-16 | Consideration shares for TETRAN group of companies | 0.035 | 142,857,144 | 5,000,000 |
| May-16 | Consolidation of shares on a 10:1 basis | - | (1,392,420,858) | - |
| Jun-16 | Performance shares accrued Skoolbag | 0.04 | - | 1,500,000 |
| Jun-16 | Performance shares accrued TETRAN | 0.035 | - | 1,000,000 |
| | Capital raising costs | | | (452,724) |
| | **Total share capital** | | **154,713,558** | **49,365,752** |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 19: SHARE CAPITAL (CONT.)

**(b) Options**

| ASX Code | Balance at 30/06/2016 | Balance at 30/06/2017 | Exercise price | Expiry |
|---|---|---|---|---|
| MOQOPT7 | 16,667 | 16,667 | $7.00 | 12/02/2018 |
| Unlisted | | 3,690,901 | $0.275 | 01/09/2020 |

A summary of the movements of all company options issues is as follows:

| | No. of Options | Weighted Average Exercise Price |
|---|---|---|
| **Options outstanding at 30 June 2016** | **2,533,334** | **$0.19** |
| Granted | 3,690,901 | $0.275 |
| Forfeited | - | - |
| Exercised | (2,500,000) | $0.10 |
| Expired | (16,667) | $7.00 |
| **Options outstanding at 30 June 2017** | **3,707,568** | **$0.305** |
| Options exercisable as at 30 June 2017 | 16,667 | $7.00 |

| | No. of Options | Weighted Average Exercise Price |
|---|---|---|
| **Options outstanding at 30 June 2015** | **28,833,333** | **$0.01** |
| Granted | - | - |
| Forfeited | - | - |
| Exercised | (3,333,332) | $0.01 |
| Consolidation of options on 10:1 basis | (22,800,000) | |
| Expired | (166,667) | $0.70 |
| **Options outstanding at 30 June 2016** | **2,533,334** | **$0.19** |

**(d) Capital management**

Management controls the capital of the Group in order to generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's capital includes ordinary share capital supported by financial assets.

The Group is not subject to any externally imposed capital requirements.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 19: SHARE CAPITAL (CONT.)

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

### NOTE 20: RESERVES

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Reserves at the beginning of financial year | 2,467 | 8,665 |
| Option Premium Reserve | 111,630 | - |
| Foreign Exchange Translation Reserve | (140,860) | (6,198) |
| Reserves at end of financial year | (26,763) | 2,467 |

### NOTE 21: ACCUMULATED LOSSES

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Accumulated losses at beginning of financial year | (32,126,259) | (31,591,655) |
| Net profit / (loss) for the year after income tax | 100,976 | (534,604) |
| Accumulated losses at end of financial year | (32,025,283) | (32,126,259) |

### NOTE 22: FRANKING CREDITS

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% | 964,244 | 699,679 |

### NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Compensation received by key management personnel of the consolidated entity: | | |
| Short term employee benefits | 2,016,388 | 1,357,851 |
| Other payments | 30,000 | - |
| Other short term employee benefits | 6,599 | - |
| Post employment benefits | 157,414 | 117,595 |
| Termination benefits | - | - |
| | 2,210,401 | 1,475,446 |

**Short-term employee benefits**
These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

**Post-employment benefits**
These amounts are the current-year's estimated cost of providing for the Group's superannuation contributions made during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### 23: KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)

**Other long-term benefits**
These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

Further information in relation to KMP remuneration can be found in the directors' report.

### NOTE 24: RELATED PARTY TRANSACTIONS

**(a) The Group's main related parties are as follows:**

*(i) Key management personnel:*
Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 23.

*(ii) Other related parties:*
Other related parties include entities over which key management personnel have joint control.

**(b) Transactions with related parties:**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

MOQdigital provided professional services sales of $123,081 Alleasing group, a company that is controlled by Monash Private Capital. Monash Private Capital is an entity associated with Joey Fridman and David Shein. An amount of $21,450 related to these services were outstanding as at 30 June 2017.

**(c) Loans to/from related parties:**

There are no amounts outstanding or payable to related parties as at 30 June 2017 (2016: $Nil).

### NOTE 25: AUDITOR'S REMUNERATION

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Amounts paid / payable to Stantons International for audit and review work undertaken under the *Corporation Act 2001* | | |
| Auditing or reviewing the financial report | 81,596 | 64,064 |
| Completion accounts audit | - | 10,000 |
| | 81,596 | 74,064 |

### NOTE 26: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The company notes that there may be a contingent liability in respect of the issue of shares related to performance hurdles for FY17 in Skoolbag, subject to performance exceeding expectations.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 27: CAPITAL AND LEASING COMMITMENTS

**Operating lease commitments**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Payable - minimum lease payments | | |
| - not later than 1 year | 350,745 | 436,374 |
| - later than 1 year and not later than 5 years | 1,126,973 | 959,010 |
| - later than 5 years | - | - |
| | 1,477,718 | 1,395,384 |

### NOTE 28: EARNINGS / LOSS PER SHARE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **(a) Basic earnings / (loss) per share (cents per share)** | | |
| From continuing operations | 0.06 | (0.05) |
| **(b) Diluted earnings / (loss) per share (cents per share)** | | |
| From continuing operations | 0.06 | (0.05) |
| **(c) Reconciliation of earnings / (loss) in calculating earnings per share** | | |
| Basic and diluted (loss) / profit per share | | |
| Loss from continuing operations attributable to ordinary equity holders | 100,976 | (534,604) |
| **(d) Total shares** | | |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings / (loss) per share | 157,578,647 | 1,030,297,149 |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings / (loss) per share | 160,632,488 | 1,030,297,149 |

### NOTE 29: DISCONTINUED OPERATIONS

There were no discontinued operations in 2017 or 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 30: CASH FLOW INFORMATION

| Reconciliation of net cash provided by operating activities to net (loss) / profit after tax | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Profit / (loss) for the period after tax | 100,976 | (534,604) |
| Add back: Income tax expense / (credit) | 153,420 | (128,149) |
| (Loss) / profit for the period before tax | 254,396 | (662,753) |
| Non cashflows and non-operating cashflows in profit / (loss): | | |
| Depreciation / Amortisation | 519,007 | 110,009 |
| (Gains) / Losses on disposal of fixed assets | - | - |
| Assets acquired | - | (345,261) |
| Other items | - | - |
| *Change in assets and liabilities:* | | |
| Decrease / (Increase) in trade debtors | (2,348,561) | (779,977) |
| Decrease / (Increase) in work in progress | (88,902) | (73,831) |
| Decrease / (Increase) in current tax receivable | | 113,366 |
| Decrease / (Increase) in other current assets | (376,688) | 304,314 |
| Decrease / (Increase) in deferred tax assets | 35,963 | (344,711) |
| Increase / (Decrease) in payables | 3,096,533 | (461,561) |
| Increase / (Decrease) in loans | - | - |
| Increase / (Decrease) in other liabilities | - | - |
| Increase / (Decrease) in unearned revenue | (316,581) | 26,872 |
| Increase / (Decrease) Short term borrowings | - | - |
| Increase / (Decrease) in provision for employee entitlements | 91,056 | 482,822 |
| Cash flow from operations | 866,223 | (1,630,711) |

## NOTES TO THE CONSOLIDATED FINANCIAL REPORT

### NOTE 31: SHARE BASED PAYMENTS

On 22 December 2016, the Company issued 2,857,144 shares at a deemed issue price of $0.35 per share which were conditional upon TETRAN achieving certain EBITDA targets in FY16.

On the 22 December 2016, the Company issued 1,250,000 shares at a deemed issue price of $0.40 per share which were conditional upon Skoolbag achieving certain performance targets in FY16.

On 1 September 2016, an Employee Option Plan was introduced, which provided certain key management and employees with 3,690,901 unlisted and unvested options. These options have an exercise price of $0.275 each, vest upon employee period of service milestones and expire on 1 September 2020.

### NOTE 32: CONTROLLED ENTITIES

| Name of entity | Country of Incorporation | Class of Shares | Equity holding 2017 | Equity holding 2016 |
|---|---|---|---|---|
| iimage Technical Services Pty Ltd | Australia | Ordinary | 100% | 100% |
| TETRAN Pty Ltd | Australia | Ordinary | 100% | 100% |
| TETRAN NZ Limited | New Zealand | Ordinary | 100% | 100% |
| TETRAN (Singapore) Pte Limited | Singapore | Ordinary | 100% | 100% |
| T.I.M. Asia Pacific (PVT) Limited | Sri Lanka | Ordinary | 100% | 100% |
| MOQdigital Pty Ltd | Australia | Ordinary | 100% | 100% |
| Breeze Training Pty Ltd | Australia | Ordinary | 100% | 100% |
| Pinnacle Software (Australia) Pty Ltd | Australia | Ordinary | 100% | 100% |
| OneBet IP Pty Ltd | Australia | Ordinary | 100% | 100% |
| OneBet Trading Pty Ltd | Australia | Ordinary | 100% | 100% |

### NOTE 33: EVENTS SUBSEQUENT TO REPORTING DATE

On 5th July 2017, Don Francis Nanayakkara announced his resignation as a non-executive director from the board of MOQ Limited.

On 31st July 2017, Jonathan Pager announced his resignation as a non-executive director from the board of MOQ Limited.

END OF AUDITED STATEMENTS

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of MOQ Limited (the "Company"), the directors of the company declare that:

1. In the opinion of the directors of the Company, the financial statements and notes, as set out on pages 19 to 55 are in accordance with the *Corporations Act 2001* and

   i. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

   ii. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the consolidated group;

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

3. the audited remuneration disclosures set out on pages 11 to 18 of the directors' report comply with accounting standard AASB 124 *Related Party Disclosures* and the Corporation Regulations 2001; and

4. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer.

On behalf of the Directors

David Shein
Non Executive Chairman
28 September 2017

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
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28 September 2017

Board of Directors
MOQ Limited
Suite 1,Ground Floor
3-5 West Street
North Sydney,NSW,2060

Dear Sirs

**RE: MOQ LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of MOQ Limited.

As Audit Director for the audit of the financial statements of MOQ Limited for the year ended 30 June 2017, 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.

Yours faithfully,

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

Martin Michalik

**Martin Michalik**
**Director**

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF**
**MOQ LIMITED**

## Report on the Audit of the Financial Report

### *Opinion*

We have audited the financial report of MOQ Limited, the Company and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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 2017 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

We have defined the matters described below to be key audit matters to be communicated in our report.

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 | How the matter was addressed in the audit |
|---|---|

***Revenue recognition***

There is an inherent risk with the recording of revenue given the different activities and revenue streams, and their resulting quantum for the Group.

The application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates, including the assessment of performance obligations.

Revenue recognition has been assessed as a key audit matter due to the significant evaluation involving the assessment of management's judgement and estimates.

Inter alia, our audit procedures included the following:

i. Performing tests for accuracy, completeness and cut-off of customer invoicing on a sample basis;

ii. Testing the reconciliation from the business support systems (billing systems) to the general ledger. These tests included, inter alia, validation of material journals processed between the business systems and general ledger;

iii. Testing cash receipts for a sample of customers back to invoices; and

iv. Considering the accuracy, and discussion with management, of the assumptions used in revenue recognition and appropriate disclosure in the financial statements.

***Goodwill and Intangibles***

The Group carries Goodwill and Intangibles totalling $14,142,826 (refer to Note 15) as per the application of the Group's accounting policy for Goodwill and Intangible assets, as set out in Notes 1(c) and 1(n).

The carrying value of Goodwill and Intangible is a key audit matter due to:

- The significance of the total balance (50% of total assets);
- For the Cash Generating Units (CGU's) which contain goodwill, the determination of recoverable amounts, being the higher of fair value less costs to sell and value-in-use, requires judgement on the part of management in both identifying and then valuing the relevant CGU's; and
- The assessment of impairment of the Group's goodwill and Other Intangibles balances incorporated significant judgement in respect of factors such as discount rates and growth rates.

Goodwill is also considered to be a key audit matter as the Group's value in use model for impairment included appropriate consideration of these factors on their significant estimates and judgements and the selection of key external and internal inputs.

Inter alia, our audit procedures included the following:

i. The assessment of management's determination of the Group's CGUs based on our understanding of the nature of the Group's business and economic environment in which the segments operate. We also analysed the internal reporting of the Group to assess how earnings streams are monitored and reported;

ii. The evaluation of management's process regarding the valuation of the Group's goodwill assets to determine any potential asset impairment. We have tested management's models, including the preparation and review of forecasts;

iii. The audit of the Group's assumptions and estimates used to determine the recoverable value of its Goodwill and Intangible assets, including those relating to forecasted revenue, cost and discount rates;

iv. Checking the cash flow models and corroboration of underlying data; and

vi. Performing a sensitivity analysis on the main areas. These included the appropriateness of the discount rate used and growth assumptions for the CGUs with a higher risk of impairment.

***Recoverability of Trade and Other Receivables***

As at 30 June 2017, the Group had Trade and Other Receivables totalling $8,172,252.

Management assesses the recoverability of trade receivables by reviewing customers' aging profiles, credit history and status of subsequent settlement, and determines whether an impairment provision is required.

Trade and Other Receivables is a key audit matter due to the significance of the total balance (approximately 29% of total assets), in addition to the inherent subjectivity that is involved in the Group making judgements in relation to credit risk exposures, to identify impairment events, if any, and ultimately to determine the recoverability of Receivables.

Inter alia, our audit procedures included the following:

i. Testing key controls, approval processes and verifying subsequent receipts of trade receivables;

ii. Obtaining a list of outstanding receivables and identifying, and adjusting for, any debtors with financial difficulty through discussion with management; and

iii. Assessing the recoverability of the balances by comparing the outstanding amounts as at year end against subsequent settlements.

### *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 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

### *Responsibilities of the Directors for the Financial Report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has 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.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in Internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 11 to 18 of the directors’ report for the year ended 30 June 2017.

In our opinion the Remuneration Report of MOQ Limited for the year ended 30 June 2017 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.

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

Stantons International Audit & Consulting Pty Ltd

Martin Michalik

**Martin Michalik**
Director

West Perth, Western Australia
28 September 2017

The following information is current as at 22 September 2017.

**ORDINARY SHARES**

161,320,702 fully paid ordinary shares held by 741 individual shareholders. All ordinary shares carry one vote per share.

**UNQUOTED OPTIONS**

The Company has on issue:

- 16,667 options exercisable at $7.00 expiring on 12 February 2018 across 1 holder.
- 3,690,901 options exercisable at 27.5 cents expiring on 1 September 2020 amongst MOQ employees.

Options do not carry any votes

**DISTRIBUTION OF HOLDERS FULLY PAID ORDINARY SHARES**

| Category | Number of holders | Number held | % of issued shares |
|---|---|---|---|
| 100,001 and Over | 98 | 149,373,394 | 92.60 |
| 10,001 to 100,000 | 268 | 11,293,783 | 7.00 |
| 5,001 to 10,000 | 56 | 455,865 | 0.28 |
| 1,001 to 5,000 | 59 | 167,322 | 0.10 |
| 1 to 1,000 | 260 | 30,338 | 0.02 |
| **Total** | **741** | **161,320,702** | **100.00** |

The number of holders who held less than a marketable parcel of shares was nil.

**SUBSTANTIAL SHAREHOLDERS**

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act are:

| Holder | No. of ordinary shares | % ordinary shares |
|---|---|---|
| MONASH PRIVATE CAPITAL PTY LTD | 18,228,334 | 11.30 |
| MR SCOTT MCPHERSON | 17,708,478 | 10.98 |
| KATHY LOUISE EDWARDS | 17,655,978 | 10.94 |
| MATTHEW CHARLES GOGGIN & ROMILY JANE GOGGIN | 8,827,989 | 5.47 |

**TOP 20 HOLDERS OF EQUITY SECURITIES**

| Rank | Name | | 06 Sep 2017 | %IC |
|---|---|---|---|---|
| 1 | MONASH PRIVATE CAPITAL PTY LTD | | 18,228,334 | 11.30 |
| 2 | KATHY LOUISE EDWARDS | | 17,655,978 | 10.94 |
| 2 | MR SCOTT MCPHERSON | | 17,655,978 | 10.94 |
| 3 | J P MORGAN NOMINEES AUSTRALIA LIMITED | | 17,112,854 | 10.61 |
| 4 | MATTHEW CHARLES GOGGIN & ROMILY JANE GOGGIN | | 8,827,989 | 5.47 |
| 5 | DON FRANCIS NANAYAKKARA | | 6,602,834 | 4.09 |
| 6 | CITICORP NOMINEES PTY LIMITED | | 6,262,296 | 3.88 |
| 7 | NICOLA JANINE PAGE | | 4,892,957 | 3.03 |
| 8 | NATIONAL NOMINEES LIMITED | | 4,207,433 | 2.61 |
| 9 | ANACACIA PTY LIMITED | | 4,174,883 | 2.59 |
| 10 | KOMATIE PTY LTD | | 4,110,457 | 2.55 |
| 11 | OSKA INDIA PTY LTD | | 3,125,000 | 1.94 |
| 12 | DAVCOL NOMINEES PTY LTD | | 2,500,001 | 1.55 |
| 13 | UNITED EQUITY PARTNERS PTY LTD | | 2,130,000 | 1.32 |
| 14 | HOLLOWAY COVE PTY LTD | | 2,050,000 | 1.27 |
| 15 | JARREN INVESTMENTS PTY LTD | | 1,583,334 | 0.98 |
| 16 | INFLECTION INVESTMENTS PTY LTD | | 1,490,303 | 0.92 |
| 17 | MR MARLON LUKE DE CRUZ | | 1,488,589 | 0.92 |
| 18 | MR KAI MYSLIWIECZ | | 1,135,625 | 0.70 |
| 19 | POLFAM PTY LTD | | 850,000 | 0.53 |
| 20 | INFLECTION INVESTMENTS PTY LTD | | 835,143 | 0.52 |
| | | **Total** | **126,919,988** | **78.68** |
| | | **Grand total** | **161,320,702** | **100.00** |