

msmci

**MSM CORPORATION
INTERNATIONAL LIMITED**

ABN 51 002 529 160

UNAUDITED PRELIMINARY FINAL REPORT
30 JUNE 2017

	2017	2016		
	\$	\$		
Revenues from ordinary activities	67,363	29,230	increased	130%
Loss from ordinary activities after tax attributable to the members	13,296,093	8,305,667	increased loss	60%
Loss for the year attributable to the members	13,296,093	8,305,667	Increased loss	60%

DIVIDENDS

No dividends have been provided for or paid by the consolidated entity in respect of the year ended 30 June 2017 (2016 – nil).

	2017	2016
NET TANGIBLE ASSETS PER SECURITY (cents)	(0.07)	1.5

BASIS OF FINANCIAL REPORT PRESENTATION

This financial report is for the year ended 30 June 2017 and has been prepared in accordance with the Australian Securities Exchange Listing Rules as they relate to Appendix 4E and in accordance with the Corporations Act 2001. The accounting policies adopted with the contents of this report are consistent with those of the previous financial year and corresponding interim reporting period. Comments are for the twelve months ended 30 June 2017 with comparatives for the twelve months ended 30 June 2016. All amounts are measured in Australian dollars.

AUDIT STATUS

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

REVIEW AND RESULTS OF OPERATIONS

OPERATIONAL

SIGNIFICANT MILESTONES ACHIEVED

Phased Competition Launches

Marking the achievement of a major milestone for MSM, the Company successfully launched the Great Britain and South African Megastar competitions on 30 June 2017 and 1 July 2017, respectively as the Megastar app went live in these geographies. While the Great Britain competition initially commenced with a soft launch prior to June 2017, competition heats commenced on a weekly basis following 30 June 2017. Both geographic markets are important to Megastar, with Great Britain holding a potential viable audience reach of more than 11.6 million and the South African market encompassing a population of over 55 million with a high penetration of smartphone users.

REVIEW AND RESULTS OF OPERATIONS – continued

Following closely behind these two geographies, MSM launched competitions in New Zealand and Canada following the close of the financial year. The New Zealand competition was launched as the Megastar app went live on the 15 July 2017, with the Canadian launch taking place soon after on 31 July 2017. While New Zealand represents a relatively smaller geographic market for the Company, it boasts over 70% smartphone penetration with more than 90% of New Zealanders over the age of 15 years using social media on a frequent basis. Smartphone penetration is similarly high in Canada, with over 75% of its total population of 35 million people using smartphones.

With two key geographic launches remaining under MSM's phased launch approach, Australian and the US, the Company has further important milestones ahead to complete its global competition launch.

Usher appointed as Creative Director

Following the end of the financial year, the Company was excited to achieve another value enhancing milestone, with the appointment of Usher as its Chief Creative Director for Megastar. Usher was also appointed as the competition's headline judge, mentor and brand ambassador and brings a wealth of experience and insights to these roles.

Usher is an eight-time Grammy Award winning international superstar. He has been ranked by the Recording Industry Association of America as one of the best-selling artists in American music history, having sold over 65 million albums worldwide. He has won numerous awards including eight Grammy Awards and was named the #1 Hot 100 artist of the 2000s decade. Furthermore, Usher has a massive social media presence, adding over 68 million social media followers to the Company's total audience reach.

His engagement by the Company spans the duration of the Megastar competition and the immediate period following the Megastar finale which is expected to take place in late 2017. The consideration payable to Usher is comprised of staggered cash payments, performance rights and royalties, aligning him strongly with the success of the competition and MSM's shareholders.

Usher's appointment provides strong validation of the Company's world-class global talent competition product offering and marks the completion of much work by the team to attract an A-list celebrity.

GLOBAL REACH BUILT TO 120 MILLION+

50 Million Global Social Media reach by end of FY17

Leading with the appointment of dance group DanceOn in March 2017, MSM commenced its social influencer engagement campaign. Social influencers, users of social media that have established credibility in a specific industry, form a key part of the Company's broader marketing program. Building a large audience of social media users that can be reached for Megastar's marketing program, is a pivotal differentiator that will build the success of the mobile-first talent competition.

Co-founded by American singer Madonna, DanceOn is a global programming brand for dance entertainment and is one of the internet's largest digital communities for influential dancers. All 14 dancers in the group agreed to enter the Megastar competition as Sponsored Performers and leverage their combined 8.5 million social media followers to amplify awareness of the competition.

The momentum continued with MSM also selecting globally recognised comedy trio, SketcheSHE as hosts for the Megastar competition. SketcheSHE will guide both Performers and Fans through the competition app and help the audience discover new talent by providing weekly updates. In addition, they will encourage participation in the competition by harnessing their strong social media following.

REVIEW AND RESULTS OF OPERATIONS – continued

Additional social media influencers were subsequently appointed, including retired artistic gymnast, Shawn Johnson, who brings 2.7 million followers, and professional Frisbee player and trick master, Brodie Smith who brings over 4.3 million followers.

Talent Agency Partnerships – Fullscreen and Boomopolis

A further 11 million plus social media followers were added to the Company's social media reach in May 2017 when MSM signed an agreement with YouTube multichannel partner network, Fullscreen Media Inc, to provide seeded talent for the Megastar competition. Through the agreement, 22 of Fullscreen's creative talent will compete in Megastar's first global competition. The participants come from a range of genres including Alyssa Bernal in the music category, GingerNinjaTrickster in Sports and David Bonfadini in the magic category.

In June 2017, the Company signed another agreement with social media talent agency, Boomopolis, adding ten new Sponsored Performers for the competition. These Sponsored Performers brought a collective social media audience reach of more than 9 million to the Company.

By the end of the financial year, the Company had built its social media audience reach to 50 million followers through its social influencer network and the 48 Sponsored Performers enlisted to participate and promote the competition.

Total Reach Hits 120 Million+

Following the close of the financial year, and through the addition of further Sponsored Performers under its partnership with Boomopolis, the Company's total audience reach was strengthened to reach more than 60 million social media followers and pushed its Sponsored Performers to 79 in total.

Megastar's social media audience reach was considerably enhanced as the Company appointed Usher as its Chief Creative Director as well as headline judge, mentor and brand ambassador for the Megastar competition. Usher has a strong social media presence, reaching over 68 million social media followers. This is comprised of 46 million on Facebook, 12.3 million via Twitter, 6.7 million via Instagram and 3.3 million on YouTube.

TECHNICAL DEVELOPMENT & RESEARCH

Hub Research Results

Early in the financial year, the Company reported the results of a quantitative testing project, conducted by Hub Entertainment Research, to determine the commercial appeal of the Megastar competition. The rigorous and statistically significant research, completed in July 2016 revealed the enormous commercial upside potential of the competition.

The testing showed that 91% of respondents were interested in being a Fan and 54% are also interested in being a Performer. Importantly, the monetisation potential of the competition far exceeded the Company's expectations, with 83% of respondents finding the platform appealing on a paid for basis.

Closed Beta Testing

In a significant development milestone for the Company, it commenced beta testing of the competition platform in September 2016. The Closed beta competition involved over 1,000 participants over 30 days and included limited fan engagement, social gamification and contact functionality.

REVIEW AND RESULTS OF OPERATIONS – continued

Key results from the Beta tests reflected strong retention rates, with 19% of the users remaining engaged with the competition after day 28. This greatly exceeds industry norms of 6% user retention after day 28 for other digital applications. High user engagement was also reported, with the average user session time of approximately 19 minutes beating the industry average of just 7 minutes. Lastly, the Beta test revealed strong average push notification re-engagement of 86%, against an industry norm of just 15%.

All the results of the Closed Beta test were leveraged to guide the developmental refinements of the platform, ahead of its global launch.

Open Auditions

Following on from the Closed Beta tests, the MSM team commenced a program of Open Auditions in early 2017. These were smaller tournaments with smaller prizes that allowed the development team to continue to improve the competition platform's features and metrics. Taking place in Great Britain as part of the Company's soft launch of the Megastar competition, the open auditions provided another method for the Company gain insights into user behaviour prior to the competition's launch.

Live Streaming

With MSM's Canadian Megastar competition launch in late July 2017, the Company was pleased to add a new live streaming feature to the App for all four live territories. Via this feature, Performers can live stream their performances and engage directly with their audience in real-time, making it an extremely powerful tool for delivering content and driving Fan support.

TEAM STRENGTHENED

Former X Factor Boss Joins as Executive Producer

In March 2017, the Company secured industry renowned talent competition producer, Marion Farrelly as its Executive Producer. Ms Farrelly is an internationally award winning producer who has worked on several leading television programs in the US, UK and Australia. She is a former X Factor boss and has held producer roles for programs such as The Celebrity Apprentice and the Australian and UK versions of Big Brother.

In this key role, she oversees talent production and the development of the format of the host and celebrity talent videos to ensure that they reach the highest quality content standards for the competition. The appointment of such a high calibre Executive Producer formed a pivotal role in securing A-list celebrity talent for Megastar.

SUCCESSFUL CAPITAL RAISE

In September 2016, MSM successfully raised \$4.9 million from new and existing domestic and international shareholders by way of a Placement. The capital raised was utilised to accelerate platform development of the Megastar competition, as it approached launch.

CORPORATE

During the year, the Group incurred a loss after tax of \$13,296,093 (2016 – loss of \$8,305,667). The result included Project expenditure of \$7,908,036 (2016: \$2,059,503), share based payments expenses for options and shares issued as remuneration and payment of services of \$2,778,554 (2016: \$1,694,640) and the provision for the Megastar competition prize money of US\$1,000,000(A\$1,243,626) (2016 - \$nil). The Group had cash on hand of \$720,307 at the end of the year.

In August 2017, the Company successfully raised a further \$10.5 million through shares and loans. These funds will be leveraged for marketing, production and judges for the Megastar competition, along with general working capital.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	<i>Notes</i>	2017 \$	2016 \$
Revenue from continuing operations			
In App Purchases		102	-
Interest Income		67,261	29,230
	3	<u>67,363</u>	<u>29,230</u>
Expenses			
Finance cost	3	40,382	984,833
Administration expenses		983,168	947,566
Employee benefits and directors fees		1,326,878	498,573
Share based payments - reverse acquisition		-	2,335,265
Share based payments - options, shares, performance rights	2	2,778,554	1,694,640
Project expenditure		<u>7,908,036</u>	<u>2,059,503</u>
Loss from continuing operations before income tax expense		(12,969,655)	(8,491,150)
Income tax expense		<u>-</u>	<u>-</u>
Net loss from continuing operations for the period		<u>(12,969,655)</u>	<u>(8,491,150)</u>
Other comprehensive loss			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on foreign operations		<u>(326,438)</u>	<u>185,483</u>
Total comprehensive loss for the period		<u>(13,296,093)</u>	<u>(8,305,667)</u>
Loss for the period attributable to owners of the Company		(13,296,093)	(8,305,667)
Total comprehensive loss for the period attributable to owners of the Company		<u>(13,296,093)</u>	<u>(8,305,667)</u>
Loss per share from continuing operations attributable to owners of the Company			
Basic loss per share	8	\$0.04	\$0.05

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	2017 \$	2016 \$
ASSETS			
Current Assets			
Cash and cash equivalents		720,307	4,084,229
Other current assets	4	<u>281,803</u>	<u>173,153</u>
Total Current Assets		<u>1,002,110</u>	<u>4,257,382</u>
Non-Current Assets			
Property, plant & equipment		-	28,343
Other non-current assets	4	92,362	-
Investments	5	<u>604,402</u>	<u>538,003</u>
Total Non-Current Assets		<u>696,764</u>	<u>566,346</u>
TOTAL ASSETS		<u>1,698,874</u>	<u>4,823,728</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	6	609,199	628,470
Provisions	7	<u>1,297,708</u>	<u>66,944</u>
Total Current Liabilities		<u>1,906,907</u>	<u>695,414</u>
TOTAL LIABILITIES		<u>1,906,907</u>	<u>696,414</u>
NET ASSETS/(LIABILITIES)		<u>(208,033)</u>	<u>4,128,314</u>
EQUITY			
Issued capital	10	17,430,292	11,249,100
Reserves	9	4,948,798	2,496,682
Accumulated losses		<u>(22,587,123)</u>	<u>(9,617,468)</u>
TOTAL EQUITY		<u>(208,033)</u>	<u>4,128,314</u>

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2016

	Issued Capital	Reserves	Accumulated Losses	Total
	\$	\$	\$	\$
Balance at 1 July 2015	69,351	-	(1,126,318)	(1,056,967)
<i>Comprehensive loss</i>				
Net loss for the period	-	-	(8,491,150)	(8,491,150)
Other comprehensive income	-	185,483	-	185,483
Total comprehensive income/(loss) for the period	-	185,483	(8,491,150)	(8,305,667)
Transactions with owners in their capacity as owners				
Issue of shares - prospectus	7,000,000	-	-	7,000,000
Conversion of convertible notes	1,600,000	-	-	1,600,000
Share based payment - acquisition	2,636,304	-	-	2,636,304
Share based payments - options	951,104	2,311,199	-	3,262,303
Shares issued on conversion of options	129,454	-	-	129,454
Capital raising expenses	(1,137,113)	-	-	(1,137,113)
Total transactions with owners and other transfers	11,179,749	2,311,199	-	13,490,948
Balance at 30 June 2016	11,249,100	2,496,682	(9,617,468)	4,128,314

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

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 30 June 2017

	2017	2016
	\$	\$
Cash flows from operating activities		
Cash receipts from customers	102	-
Interest received	61,043	29,230
Project development payments	(6,578,652)	(2,104,986)
Payments to suppliers and employees	(2,822,740)	(984,078)
Net cash outflows from operating activities	<u>(9,340,247)</u>	<u>(216,397)</u>
Cash flows from investing activities		
Payments for investments	(204,867)	(329,338)
Purchase of property, plant and equipment	-	(28,343)
Net cash outflows from investing activities	<u>(204,867)</u>	<u>(357,681)</u>
Cash flows from financing activities		
Proceeds from issue of shares	6,437,112	7,437,903
Capital raising costs	(255,920)	(589,113)
Net cash inflows from financing activities	<u>6,181,192</u>	<u>6,848,790</u>
Net increase/(decrease) in cash and cash equivalents	(3,363,922)	3,431,275
Cash and cash equivalents at the beginning of the financial period	<u>4,084,229</u>	<u>652,954</u>
Cash at the end of the financial period	<u><u>720,307</u></u>	<u><u>4,084,229</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION

This preliminary final report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the financial report for the year ended 30 June 2016 and any public announcements made by MSM during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Statement of compliance

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

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

NOTE 2: SHARE BASED PAYMENTS

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

	2017	2016
	\$	\$
<i>Recognised as a share based payment expense:</i>		
Options issued to employees (Note 2(a)(i), Note 2(c))	212,129	7,034
Options issued to key management personnel (Note 2(a)(ii)(iii), Note 2(b))	2,566,425	494,159
Options issued for consulting services	-	235,116
Equity options issued to employees	-	47,238
Shares issued to employees	-	911,093
Reverse acquisition	-	2,335,265
Total share based payment expense	2,778,554	4,029,905
<i>Recognised as an administration expense:</i>		
Shares issued for corporate services	-	40,020
Total recognised in administration expenses	-	40,020
<i>Recognised in equity as capital raising expenses:</i>		
Options issued for corporate services	-	548,000
Total recognised in equity as capital raising expenses	-	548,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

(a) Fair value of options granted during the year

(i) Options issued to employees (prior period)

On 1 March 2016, the Company issued 900,000 unlisted options to three US Advisory Board members as part of their appointment remuneration package. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

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

The options above vest on 12 May 2018 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$21,219 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the current year.

(ii) Options issued for consideration of advisory services

On 20 September 2016, the Company issued 4,500,000 to EAS Advisors LLS and 1,500,000 options to CPS Capital for corporate advisory services. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of Grant	20/09/2016
Date of Expiry	19/09/2018
Exercise Price	\$0.350
Underlying share price (at issue date)	\$0.340
Risk free interest rate	1.56%
Volatility	95%
Years to expiry	2 years
Number of options granted	6,000,000
Fair Value of Options	\$1,016,650

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options above vested on 19 March 2017 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$1,016,650 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

On 20 September 2016, the Company issued 1,500,000 options to EAS Advisors LLS for US advisory services. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of Grant	20/09/2016
Date of Expiry	19/09/2019
Exercise Price	\$0.400
Underlying share price (at issue date)	\$0.340
Risk free interest rate	1.56%
Volatility	95%
Years to expiry	3 years
Number of options granted	1,500,000
Fair Value of Options	\$288,130

The options above vested on 19 March 2017 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$288,130 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

On 20 September 2016, the Company issued 1,500,000 options to EAS Advisors LLS for advisory services. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of Grant	20/09/2016
Date of Expiry	19/09/2019
Exercise Price	\$0.450
Underlying share price (at issue date)	\$0.340
Risk free interest rate	1.56%
Volatility	95%
Years to expiry	3 years
Number of options granted	1,500,000
Fair Value of Options	\$275,497

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options above vested on 19 March 2017 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$275,497 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

On 20 September 2016, the Company issued 1,500,000 options to EAS Advisors LLS for advisory services. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of Grant	20/09/2016
Date of Expiry	19/09/2018
Exercise Price	\$0.550
Underlying share price (at issue date)	\$0.340
Risk free interest rate	1.56%
Volatility	95%
Years to expiry	3 years
Number of options granted	1,500,000
Fair Value of Options	\$253,693

The options above vested on 19 March 2017 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$253,693 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

On 1 February 2017, the Company issued 2,000,000 options to Cadmon Advisory Pty Ltd for advisory services. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of Grant	01/02/2017
Date of Expiry	19/09/2018
Exercise Price	\$0.350
Underlying share price (at issue date)	\$0.220
Risk free interest rate	1.81%
Volatility	95%
Years to expiry	1.63 years
Number of options granted	2,000,000
Fair Value of Options	\$149,319

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options above vest on 31 July 2017 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$123,603 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

On 1 February 2017, the Company issued 2,000,000 options to Cadmon Advisory Pty Ltd for advisory services. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of Grant	01/02/2017
Date of Expiry	19/09/2019
Exercise Price	\$0.400
Underlying share price (at issue date)	\$0.220
Risk free interest rate	1.94%
Volatility	95%
Years to expiry	2.63 years
Number of options granted	2,000,000
Fair Value of Options	\$191,780

The options above vest on 31 July 2017 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$158,751 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

On 1 February 2017, the Company issued 2,000,000 options to Cadmon Advisory Pty Ltd for advisory services. Management could not reliably determine fair value of services received and accordingly the Company has internally measured the fair value of the options granted by adopting a Black-Scholes option pricing model. The model inputs are shown in the table below.

Black-Scholes Option Pricing Model

Date of Grant	01/02/2017
Date of Expiry	19/09/2019
Exercise Price	\$0.450
Underlying share price (at issue date)	\$0.220
Risk free interest rate	1.94%
Volatility	95%
Years to expiry	2.63 years
Number of options granted	2,000,000
Fair Value of Options	\$180,163

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options above vest on 31 July 2017 and have therefore been expensed over the vesting period. As a result, a share based payment expense of \$149,135 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

(iii) Options issued to Key Management Personnel

On 29 November 2016, the Company entered into an agreement to issue 2,000,000 unlisted options to Sophie McGill as part of her appointment remuneration package. These options are exercisable at \$0.125 on or before 18 March 2020 and will vest in six equal instalments (333,334 options) over a 3 year period.

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

Black-Scholes Option Pricing Model

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

The options vest over six equal instalments over a 3 year period and therefore the share based payment expense has been recognised over the respective vesting period of each instalment. As a result, a share based payment expense of \$194,191 has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the current year.

(b) Fair Value of Performance Rights issued

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

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

Management assessed each class as being probable of being achieved and have therefore recognised an expense over the expected vesting period. The details of each class are tabled below:

NOTES TO THE FINANCIAL STATEMENTS (continued)

Executive and non-executive directors

Class	Number	Grant Date	Exercise Price	Expiry Date of Milestone Achievements	Fair value per Right	Total Fair Value
A	2,000,000	29/11/2016	Nil	29/12/2021	\$0.175	\$350,000
B	2,000,000	29/11/2016	Nil	29/12/2021	\$0.119	\$238,000
C	2,000,000	29/11/2016	Nil	29/12/2021	\$0.078	\$156,000

Corporate advisors

Class	Number	Grant Date	Exercise Price	Expiry Date of Milestone Achievements	Fair value per Right	Total Fair Value
A	600,000	28/12/2016	Nil	29/12/2021	\$0.168	\$100,800
B	600,000	28/12/2016	Nil	29/12/2021	\$0.113	\$67,800
C	600,000	28/12/2016	Nil	29/12/2021	\$0.073	\$43,800

Performance Milestones

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

The total expense arising from share based payment transactions recognised during the period in relation to the performance rights issued was \$106,775.

(c) Equity options issued to Employees (MSM Music Inc.) - Stock Incentive Plan

During 2017, the Company issued various 'equity' components as part of the remuneration package offered to employees appointed by MSM Music Inc. The component entitles the employee to a fixed percentage of the total shares in MSM Corporation International Limited at grant date, which vests over periods of 12, 36 and 48 months, in equal instalments.

Under the 'option equity' agreements, eligible employees are entitled to 9,107,381 shares (30 June 2016: 6,737,790) in the Company.

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

As the equity option vests over 48 months, the share based payment expense has been expensed over this vesting period. As a result, a share based payment expense of \$190,910 (30 June 2016: \$47,238) has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

The weighted average remaining contractual life of the options outstanding as at 30 June 2017 is 2.8 years (30 June 2016: 3.3 years).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3: REVENUE AND EXPENSES

	2017	2016
	\$	\$
(a) Revenue and other income		
In App Purchases	102	-
Interest and other income	67,261	29,230
	<u>67,363</u>	<u>29,230</u>
(b) Expenses		
Wages, salaries, directors fees and other remuneration expenses	1,326,878	498,573
Administration expense	983,168	947,566
Employees benefits expense	-	26,283
Finance costs - convertible notes	-	979,652
Finance costs – other	40,382	5,181
	<u>2,350,428</u>	<u>2,457,255</u>

NOTE 4: OTHER ASSETS

Current other assets

Other receivables	85,818	99,263
GST recoverable	167,311	40,288
Prepayments	28,674	33,602
	<u>281,803</u>	<u>173,153</u>

Non-current other assets

Other receivables	<u>92,362</u>	<u>-</u>
-------------------	---------------	----------

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5: FINANCIAL ASSETS

	2017	2016
	\$	\$
Unlisted investments at cost	<u>604,402</u>	<u>538,003</u>

On 7 July 2016, the Company made a strategic investment of US\$100,000 (A\$124,362) into Influential, a Los-Angeles based, mobile-first influencer marketing technology company which works with more than 7,000 top influencers on Facebook, Instagram, Snapchat, Twitter, Vine and YouTube, representing more than 4.4 billion followers and is expected to enhance the Company's social media capabilities ahead of the launch of the Megastar competition platform.

On 5 April 2016, Megastar purchased 7,178,007 shares in WinWin Holdings Pty Ltd under Tranche 1 of a private placement agreement for US\$34,000 (A\$44,771).

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

- The payment of US\$100,000 (A\$124,363) on 7 August 2015;
- The payment of US\$50,000 (A\$62,181) on 8 December 2016; and
- US\$150,000 (A\$186,544) in the form of either cash or MSM shares, at MSM's election. This is accounted for under Trade and Other Payables (Note 6).

On 12 July 2015, Megastar entered into an unsecured convertible promissory note agreement with Digital Riot Media, LLC for the principal sum of US\$50,000 (A\$62,181).

The carrying amount of the unlisted investments is at cost as their fair value cannot be reliably measured at period end as the companies do not have quoted market prices. Investments denominated in US dollars are restated at the year-end Australian dollar equivalent.

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

NOTE 6: TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
Trade creditors	395,655	256,840
Accruals	27,000	102,491
Investment loan	<u>186,544</u>	<u>269,139</u>
Total trade and other payables	<u><u>609,199</u></u>	<u><u>628,470</u></u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7: PROVISIONS

	2017	2016
	\$	\$
Provision for employee benefits	54,082	66,944
Provision for prize money	1,243,626	-
	<u>1,297,708</u>	<u>66,944</u>

A provision for the Megastar competition prize money of US\$1,000,000 (A\$1,243,626) has been expensed to the profit or loss and other comprehensive income under project expenditure.

NOTE 8: BASIC LOSS PER SHARE

	2017	2016
	\$	\$
Basic loss per share	<u>0.04</u>	<u>0.05</u>
Diluted loss per share	<u>0.04</u>	<u>0.05</u>

Basic loss per share

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

	2017	2016
	\$	\$
Net loss	<u>(12,969,655)</u>	<u>(8,491,150)</u>
	Number	Number
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	<u>301,558,520</u>	<u>175,825,172</u>

(i) The prior year weighted average number of ordinary shares has been adjusted to reflect the reverse acquisition. Refer Note 2 for further detail.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9: RESERVES

	2017	2016
	\$	\$
Option Premium Reserve		
Opening Balance	2,311,199	-
Value of broker options issued	-	548,000
Options issued for the conversion of convertible notes	-	979,652
Options issued to key management personnel (Note 2(a)(ii)(iii), Note 2(b))	2,566,425	501,193
Options issued to other employees (Note 2(a)(i), Note 2(c))	212,129	47,238
Options issued for services rendered	-	235,115
	<u>5,089,753</u>	<u>2,311,199</u>
Foreign Exchange Translation Reserve		
Opening Balance	185,483	-
Exchange differences on foreign operations	(326,438)	185,483
	<u>(140,955)</u>	<u>185,483</u>
Total Reserves	<u><u>4,948,798</u></u>	<u><u>2,496,682</u></u>

NOTE 10: CONTRIBUTED EQUITY

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

NOTE 11: SUBSEQUENT EVENTS

Since the end of the year, 82,066 ordinary shares have been issued as a result of the exercise of options at \$0.10 each, increasing the Company's issued share capital by \$8,207.

On 3 July 2017, the Company advised that 757,576 unlisted \$0.30 options exercisable on or before 30 June 2017 had expired without exercise.

During July 2017, the Company announced it had successfully launched the Megastar App in Great Britain, South Africa, New Zealand and Canada.

On 7 July 2017, the Company announced eleven new Sponsored Performers were added through its agreement with social media talent agency, Boomopolis. The new Sponsored Performers brought the Megastar audience reach close to 60 million, rapidly approaching the Company's target of 80 million.

On 14 August 2017, the Company announced eight-time Grammy Award winning superstar, Usher, to join MSM as Megastar Chief Creative Director for its global talent competition, Megastar. Usher will perform the roles of headline celebrity Mentor, Judge and Brand Ambassador.

NOTES TO THE FINANCIAL STATEMENTS (continued)

On 14 August 2017, the Company announced it had successfully undertaken capital raising to raise a total of \$10,500,000 (before costs), towards marketing and production plans and talent acquisition costs for the Megastar competition. The capital raising comprised of:

- Firm commitments for a placement of shares to raise \$8,630,000 through the issue of 43,150,000 fully paid ordinary shares at an issue price of \$0.20.
- Convertible loans raising \$1,870,000 convertible at \$0.20 per share with a 10% coupon of which \$1,370,000 (plus interest) will be immediately converted through the issue of 7,210,000 fully paid ordinary shares and \$500,000 (plus interest) will be repaid.

On 17 August 2017, the Company issued:

- 279,276 ordinary shares as the incentive component of employee remuneration packages in accordance with the Company's Stock Incentive Plan approved by shareholders at the 2016 AGM.
- 1,000,000 ordinary shares for services rendered.
- 12,500,000 performance rights for services rendered issued pursuant to the Company's Performance Rights Plan. The performance rights were issued in three classes, each with different market based and financial performance milestones. Each performance share will convert into 1 ordinary share of MSM upon achievement of the performance milestone.

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

NOTE 12: COMMITMENTS AND CONTINGENCIES

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

The second part of the payment of US\$150,000 (A\$186,544) for the acquisition of 5% equity interest in ToneDen, Inc. which may be paid in either cash or shares and as referred to in Note 5 is yet to be settled.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Contingent Payments

	2017	2016
	\$	\$
Contingent Payments	311,831	-

During the year the Company entered into various contracts for the promotion of the Megastar brand, payment of contracts are contingent on the achievement of certain milestones.

Operating Lease Commitments

	2017	2016
	\$	\$
Non-cancellable operating leases contracted for but not recognised in the financial statements		
Payable – minimum lease payments		
• Not later than 12 months	173,369	1,673
• Later than 12 months	647,786	-
	<u>821,156</u>	<u>1,673</u>

There have been no other changes in contingent liabilities, contingent assets or other commitments since the last annual reporting date, 30 June 2016.

NOTE 13: SUBSIDIARIES

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

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

NOTE 14: OPERATING SEGMENTS

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