

Directors' Report

The Directors present their report on Engage BDR, LLC for the year ended 31 December 2016 (referred to hereafter as "Engage BDR" or "the Company").

Directors

The following persons were directors of Engage BDR during the 2016 financial year (FY2016) and until the date of this report. Directors were in office for the entire period unless otherwise stated. The office is registered at 9000 W. Sunset Blvd, Fifth Floor, West Hollywood, CA 90069.

Mr. Ted Dhanik

Director and Chief Executive Officer (CEO)

Mr. Kurtis Rintala

Director, Secretary, and Chief Operating Officer (COO)

Mr. Kenneth Kwan

Director and Chief Information Officer (CIO)

Company secretary

Kurtis Rintala is the Chief Operating Officer, a co-founder of Engage BDR, as well as serving as the Company Secretary.

Principal activities

Engage BDR is an internet-based marketplace platform and associated technology solution provider. Engage BDR's proprietary technology is used to facilitate the sale of advertising inventory from digital publishers (websites and apps) to advertisers and their agents (brands, agencies and advertising platforms). The Company allows digital publishers to monetise their available advertising space by making the inventory available to multiple advertisers, as well as providing various technologies designed to help publishers create incremental streams of revenue. An example of this technology would be the Engage BDR's OutStream advertising unit, which allows publishers to sell space for video advertising on webpages that do not have video content.

Results from operations

Engage BDR's operating loss after tax amounted to \$3,671,809 (2015: loss of \$3,664,495).

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Review of operations

Engage BDR generates revenue from three principal activities:

1. Non-programmatic display advertising sales - tag-based, traditionally-sold and managed banner advertising campaigns run for direct advertisers. This was our first product, initially launched in 2009 and it was still a significant revenue contributor in 2016. We anticipate the degradation of this revenue stream in coming years, as buyers will fully migrate to programmatic buying eventually.
2. Programmatic display ad sales - banner advertising inventory sold through digital auctioning technology to platforms and marketplaces. We developed this product to replace the non-programmatic display advertising channel. Many of our non-programmatic buyers are currently bidding on our inventory through server-to-server connections now; the adoption to programmatic was tremendously successful in 2016 and opened additional revenue opportunities with the same clients, specifically because programmatic buying and selling is much more efficient and significantly more cost effective to operate, thus increasing overall operating and gross profit margins.
3. Programmatic video ad sales - video advertising inventory sold through digital auctioning technology to platforms and marketplaces. We spent the past two years developing our proprietary video advertising technologies and further maturing it by enabling both buying and selling or auctioning and bidding for video as well. We increased revenue per customer by integrating the video channel with the display buyers and sellers and opening business on the display ad side to customers that were integrating video business initially. We anticipate programmatic video business will eclipse all other ad formats over the next five years and we have spent significant resources in 2016 to lead this shift.

The year ending on 31 December 2016 was significant for Engage BDR as the Company continued to progress the development of its programmatic and video advertising platforms. Significant achievements in 2016 include:

- Significant expansion of programmatic display and video partnerships and integrations
- The launch of its real-time bidding buy-side and sell-side marketplace
- #9 US comScore video ranking of all video ad companies measured in the U.S.

Our programmatic technology greatly increases the Company's net margin by reducing payroll and related sales commissions. With the significant adoption of programmatic buying, brands, agencies and digital media buyers have moved their budgets to auction-based buying, in contrast to buying from sales people, individual RFP (request for proposal) and insertion orders. This behavioral change had made the marketplace very efficient, reducing the overhead required to sell advertising. Buyers are essentially bidding for ad inventory in real time in auctions which conclude in 200 millisecond intervals. This new format had created significant barriers to entry for new companies looking to enter the digital advertising arena; companies must own and develop proprietary technology to participate. Licensing third-party technologies is cost-prohibitive; the Group has developed its own real-time auctioning and bidding technologies from the ground up, this is a significant competitive advantage. The Group has thousands of direct publisher relationships; this is a key differentiator in an ecosystem troubled with inventory quality issues, brokers, and middlemen.

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Significant changes in the state of affairs

During the year, the following changes occurred within the Company:

- Corporate reorganization:
 - On 1 July 2016 the Company began a multi-step corporate reorganization process. Prior to 1 July 2016 Engage BDR, Inc. was a California corporation, treated under the Internal Revenue Code (“IRC”) as a Subchapter S corporation (“S corporation”). An S corporation is a “flow-through” entity for federal and state tax purposes. This means that the entity’s items of income, deduction and credits are not subject to entity level income tax, but instead flow through to the shareholders who bear any income tax liability or benefit associated with profits, losses and other attributes sourced from the entity.
 - On 1 July 2016 the Company formed Engage BDR Holdings Inc., a California corporation. Immediately following the creation of Engage Holdings, the shareholders of Engage BDR, Inc. transferred 100% of their stock to Engage Holdings. Immediately upon contribution, EBDR Inc. elected to be treated as a Qualified Subchapter S Subsidiary (“QSub”) in order to maintain its flow-through status and not revert to a C corporation for U.S. tax purposes.
 - Engage BDR, Inc. then converted to a limited liability company (“EBDR LLC”) through a statutory conversion under California law.
- Acquisition of Tiveo LLC:
 - On 16 August 2016, the Company acquired 100% of the shares of Tiveo LLC, (dba MyDiveo), a private company based in the United States of America. MyDiveo provides a global talent discovery platform and creative social network that cultivates discovery and collaboration by providing artists with a mobile portfolio to showcase their talent in exchange for the shares in the Company.
 - The acquisition is expected to provide benefits to brands and agencies that work directly with the Company, since it will own and operate the artist network. Customers will be allowed to directly access MyDiveo’s ad inventory, extending their reach to independent music artists and their fans.
 - The cost of the acquisition was \$7,533,155, which was settled by exchanging 8,550,000 shares of Engage BDR, LLC to MyDiveo’s owners.
 - The transaction is discussed in detail in note 26 to the financial report.
- Integration of partners into the video platform:
 - After completion of the proprietary video platform in late 2015, the company embarked on selling and integrating several demand partnerships. With these relationships established and technologically integrated, the company will be able to auction video advertising on a larger scale.
- Divestment of non-programmatic display business:
 - As planned, the company grew programmatic display revenues, and further scaled back resources and attention devoted to the non-programmatic display business.
- Development of influencer marketing platform:
 - As the market for influencer-based advertising grew, the company developed a platform that will allow brands and influencers to connect and transact digitally. This technology utilizes best practices from the shift to programmatic in display advertising, and applies those principles to a space currently lacking in much infrastructure.

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Strategy and likely developments in operations

Growth of video revenue on the proprietary platform

Now that the company's platform is complete and several partnerships have been established, the company expects to grow video revenues in 2017. This stream of revenue will be less dependent on third parties than prior video revenue. The gross margins are expected to increase significantly as the company no longer relies on third-party platforms which charge a significant (almost half) portion of its gross margin. In addition to the growth of the video business (tag-based), the addition of programmatic video will enable much quicker scale and revenue per client (shorter ramp-up periods); once the supply and demand partnerships are integrated by the engineering teams, the revenue steadily grows in parallel with seasonal demand throughout the year.

Continued growth of programmatic display revenue

Consistent with the previous upward trend, the company expects to see continued growth of its programmatic display business. Through monetization of existing partnerships and creation of new ones, the company expects to scale revenue while maintaining streamlined operations. As more non-programmatic buyers and sellers migrate to purely programmatic environments, we expect revenue per customer to increase sharply. This is optimization of our existing relationships and attractive to new buyers and sellers and the marketplace's supply and demand increases.

Introduction of influencer marketing revenue

The company plans to launch its social influencer marketing platform mid-year. It expects to bring in incremental revenue through this platform and further diversify its offering. With Instagram influencers becoming extremely popular new marketing channels for advertisers, platform efficiencies are required to scale this new form of media. IconicReach, the Group's Instagram influencer self-serve platform, is focused on being the largest marketplace focused on advertiser-supplied creative, creating a scalable and efficient revenue stream for micro-and influencers with large audiences. We anticipate several thousand influencers to join and hundreds of brands over the next year.

Information on directors

Mr. Ted Dhanik

Ted Dhanik is one of the co-founders of Engage BDR. He serves as Chief Executive Officer overseeing strategic marketing, sales and business development, corporate development, and product strategy.

Prior to founding Engage BDR., Ted was an early team member at MySpace, where he worked closely with founders Chris DeWolfe and Tom Anderson to develop strategic marketing initiatives and launch the brand into a household name. Ted also worked in business development at LowerMyBills.com from its early days through its acquisition by Experian. Additionally, he was an integral part of the development and launch of the consumer lending program at NexTag Corporation. He has worked for, or been a partner at, several other companies in business development, sales, and managerial positions, including Xoriant Corporation, Atesto Technologies, Brigade Solutions, Beyond.com/Cybersource Corporation and Merrill Corporation.

He sits on the board or advises other tech startups such as Fighter, LottoGopher, Schizo Pictures, and Roofshoot, and is an active mentor in the Silicon Beach community. Ted is passionate about being a thought leader in the industry, and his writing is regularly published in publications including Ad Age and VentureBeat. He is actively involved in trade organizations including the IAB and TAG, playing an influential role in several private working groups that set industry-wide standards for the global digital advertising community.

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Mr. Kurtis Rintala

Kurtis Rintala is the Chief Operating Officer and a co-founder of Engage BDR. In his role, he is responsible for overseeing day to day operations and helping steer the strategic direction of the Company. He oversees all Accounting, Financial, Legal, and Human Resource matters.

Kurtis was an early member of the successful Internet startup, LowerMyBills.com, before co-founding Engage BDR. He grew up in the San Francisco area and earned a Bachelor of Arts at California State University.

Mr. Kenneth Kwan

Kenneth Kwan is the Chief Information Officer and a co-founder of Engage BDR. Prior to his current role, Kenneth served as Senior Software Engineer at Buzznet Media. He held senior positions at Fox Interactive and Slingshot Labs. Kenneth also worked at Valueclick where he helped design, implement, and maintain various key components of their delivery engine.

The Engage BDR Senior Leadership Team

Mr. Ted Dhanik

See above.

Mr. Kurtis Rintala

See above.

Mr. Kenneth Kwan

See above.

Mr. Youqi Li, Chief Technology Officer (CTO)

Youqi Li joined Engage BDR in April of 2010 as a Director of Engineering. In December of 2014 he was promoted to VP of Engineering, and was promoted again to Chief Technology Officer (CTO) in October of 2015. In his role he leads the engineering team in Research and Development, planning and execution of the product roadmap, as well as developing and executing the strategic technical direction of the Company. He has over ten years of experience in software development, as well as six years of experience within the digital advertising industry. Youqi received his Master's Degree in Computer Science from the University of Southern California.

Mr. Ryan Davidson, Senior Vice President of Finance

Ryan Davidson joined Engage BDR in September of 2012 as its Controller. In December of 2015, he was promoted to SVP of Finance. In this role, he manages all accounting and finance matters, including financial reporting, planning and analysis, internal controls, tax, and treasury functions. Ryan is a Certified Public Accountant (CPA), and holds the Certified Management Accounting (CMA) designation. He earned a Master of Science in Accounting from Old Dominion University, and a Master of Business Administration from California State University Long Beach.

Ms. Sarah Wetzel, Vice President of Operations

Sarah Wetzel joined Engage BDR in December of 2012 as its Human Resources Manager. In June of 2014 she was promoted to Director of Human Resources, and was promoted again to VP of Operations in April of 2016. In her role, Sarah oversees the extended leadership team (which includes all department heads), inter-department

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relations, streamlining and improvement of processes within and across departments, tracking of company and individual performance, and all Human Resources functions. Sarah came to Engage BDR from Celgene, a Fortune 500 global biopharmaceutical company. She earned a Masters of Human Relations from The University of Oklahoma and a Bachelor of Arts in Biology from Saint Anselm College.

Proceedings against the Company

We were not a party to any legal proceedings, litigation, or claims that could materially affect our business, results of operations, cash flows, or financial position. We may, from time to time, be party to litigation and subject to claims incident to the ordinary course of business. As our growth continues, we may become party to an increasing number of litigation matters and claims. The outcome of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect our future financial position, results of operations or cash flows.

Rounding of Amounts

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, related to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Legislative Instrument to the nearest dollar unless otherwise stated.

Significant events subsequent to balance date

(a) Galaxy Group – IPO of associate

The Group holds an investment in a previously unlisted entity, **Galaxy Group LA, LLC**, as detailed in Note 24 which is accounted for as an associate and has a carrying value of nil at 31 December 2016. On 23 May 2017, Galaxy Group listed on the Canadian Stock Exchange as LottoGopher Holdings Inc. The fair value of the Group's investment in LottoGopher as at the date of this financial report is \$2,556,100 (US\$1,840,775) for which the related securities are held in escrow and will be released in tranches between six to thirty-six months after the listing date. As a result of this listing, the Company will no longer have significant influence over LottoGopher and hence the entity will cease to be an associate of the Company, instead it will become an available-for-sale investment from the date of this listing. No adjustment has been recognised for this event at 31 December 2016.

Dividends

No dividend was declared and paid during the year (2015: \$nil).

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Shares under options

There were no unissued shares or interests under option as at the date of signing this report.

Likely developments

Refer to the Review of Operations for further details.

Environmental regulation

The Company's operations are not regulated by any significant environmental regulation under a law of a country or of a state or territory.

Indemnification and Insurance of officers

The Company's Constitution requires the Company to indemnify current and former Directors, alternate Directors, executive officers and such other officers of the Company as the Board determines on a full indemnity basis and to the full extent permitted by law against all liabilities incurred as an officer of the Group. Further, the Company's Constitution permits the Company to maintain and pay insurance premiums for Director and Officer liability insurance, to the extent permitted by law.

Consistent with (and in addition to) the provisions in the Company's Constitution outlined above, the Company has also entered into deeds of access, indemnity and insurance with all Directors of the Company and the Company Secretary which provide indemnities against losses incurred in their role as Directors or Company Secretary, subject to certain exclusions, including to the extent that such indemnity is prohibited by any applicable law.

During the financial year the Company paid insurance premiums for a Directors and Officers liability insurance contract that provides cover for the current and former Directors, alternate Directors, secretaries, executive officers and officers of the Group. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

Indemnification of auditors

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

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Signed in accordance with a resolution of the Board of Directors:

Ted Dhanik

Ted Dhanik
Chief Executive Officer

08 September 2017

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2016 Financial Statements

Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

	Notes	2016 AUD \$	2015 AUD \$
Revenue	4	21,845,216	36,919,027
Cost of sales	5	(12,981,251)	(25,974,830)
Gross profit		8,863,965	10,944,197
Other income	6	98,140	166,590
Gain on bargain purchase	26	76,759	-
Employee and contractor costs	7	(5,953,094)	(7,953,974)
Operations and administrative expense	8	(4,235,029)	(4,881,731)
Depreciation and amortisation	9	(1,471,767)	(811,820)
Advertising and marketing expense	10	(317,526)	(589,045)
Finance costs	11	(743,007)	(360,466)
Other (expenses) / income	12	10,825	(177,049)
(Loss) before income tax		(3,670,735)	(3,663,298)
Income tax (expense)	13	(1,075)	(1,197)
(Loss) after tax from continuing operations		(3,671,809)	(3,664,495)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(188,690)	(217,459)
Total Comprehensive (loss) for the year attributable to the owners		(3,860,499)	(3,881,954)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Loss per share for loss attributable to ordinary equity holders of the Group from:

	Notes	2016 AUD \$	2015 AUD \$
Continuing operations:			
Basic earnings (loss) per share	29	(0.06)	(0.06)
Diluted earnings (loss) per share	29	(0.06)	(0.06)
Total operations			
Basic earnings (loss) per share	29	(0.06)	(0.06)
Diluted earnings (loss) per share	29	(0.06)	(0.06)

2016 Financial Statements

Consolidated Statement of Financial Position at 31 December 2016

	Notes	2016 AUD \$	2015 AUD \$
ASSETS			
Current assets			
Prepaid expenses		442,944	366,664
Trade and other receivables	18	6,697,104	11,665,535
Cash and cash equivalents	14	986,603	1,870,597
		<u>8,126,651</u>	<u>13,902,796</u>
Non-current assets			
Property, plant & equipment	15	1,354,117	987,740
Intangible assets	16	5,431,473	1,395,713
Related party receivables	23	2,812,334	1,517,832
		<u>9,597,924</u>	<u>3,901,285</u>
Total assets		<u>17,724,575</u>	<u>17,804,081</u>
EQUITY & LIABILITIES			
Current liabilities			
Lease liability	20(a)	505,048	241,083
Trade and other payables	21(a)	12,095,879	17,554,736
Employee liabilities	22	92,675	73,622
Borrowings	17	3,637,378	3,527,380
Other Financial Liability	26	7,533,155	-
		<u>23,864,135</u>	<u>21,396,821</u>
Non-current liabilities			
Borrowings	17	1,532,537	275,672
Trade and other payables	21(b)	162,186	339,973
Embedded derivative	28	140,808	-
Lease liability	20(a)	649,457	555,664
		<u>2,484,988</u>	<u>1,171,309</u>
Total liabilities		<u>26,349,123</u>	<u>22,568,130</u>
Net Liabilities		<u>(8,624,548)</u>	<u>(4,764,049)</u>
Equity			
Share capital	19	1,178	1,178
Accumulated losses		(8,151,694)	(4,479,885)
Foreign currency translation reserve		(474,032)	(285,342)
Total equity		<u>(8,624,548)</u>	<u>(4,764,049)</u>

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

2016 Financial Statements

Consolidated Statement of changes in equity for the year ended 31 December 2016

	Share Capital <u>AUD \$</u>	Accumulated Losses <u>AUD \$</u>	Foreign Currency Translation Reserve <u>AUD \$</u>	Total <u>AUD \$</u>
At 01 January 2015	1,178	(815,390)	(67,883)	(882,095)
Comprehensive income / (loss) for the year	-	(3,664,495)	-	(3,664,495)
Movement in foreign currency translation reserve	-	-	(217,459)	(217,459)
At 31 December 2015	1,178	(4,479,885)	(285,342)	(4,764,049)
Comprehensive loss for the year	-	(3,671,809)	-	(3,671,809)
Movement in foreign currency translation reserve	-	-	(188,690)	(188,690)
At 31 December 2016	1,178	(8,151,694)	(474,032)	(8,624,548)

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

2016 Financial Statements

Consolidated Statement of Cash Flows for the year ended 31 December 2016

	Notes	2016 <u>AUD \$</u>	2015 <u>AUD \$</u>
Cash flows from operating activities			
(Loss) after tax from continuing operations		(3,671,809)	(3,664,493)
- Finance costs	11	743,007	360,466
<i>Adjustments for non-cash income and expenses:</i>			
- Depreciation		502,890	380,546
- Amortisation		968,877	431,274
- Gain on bargain purchase		(57,078)	-
<i>Changes in operating assets and liabilities:</i>			
- (Increase) / Decrease in trade and other receivables		5,039,820	(4,160,823)
- Decrease / (Increase) in prepayments		(76,280)	19,509
- Increase / (Decrease) in trade and other payables		(5,458,857)	4,344,782
- Increase / (Decrease) in factoring liability		109,998	3,527,380
Cash (used in) operations		(1,899,432)	1,238,641
Interest paid		(811,318)	(286,412)
Net cash from / (used in) operating activities		(2,710,750)	952,228
 Cash flows from investing activities			
Purchases of property, plant & equipment		(40,437)	(70,707)
Capitalized software development		(1,401,592)	(957,875)
Loans to related parties		(113,084)	(155,687)
Related party loan repayments		107,625	98,227
Loans to shareholders		(2,887,691)	(1,378,844)
Shareholder loan repayments received		1,985,074	99,683
Acquisition of subsidiary – cash acquired		3,995,683	-
Net cash from/(used) in investing activities		1,645,578	(2,365,203)
 Cash flows from financing activities			
Proceeds from loans		534,611	-
Repayment of finance leases		(438,520)	(159,339)
Net cash from / (used in) financing activities		96,091	(159,339)
 Net increase / (decrease) in cash and cash equivalents	14	(969,081)	(1,572,314)
Cash and cash equivalents at beginning of year	14	1,870,597	3,354,072
Effects of currency translation		85,087	88,838
Cash and cash equivalents at end of year	14	986,603	1,870,597

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

2016 Financial Statements

1. Corporate information

The consolidated financial report covers Engage BDR, LLC, the parent, and its subsidiary (collectively referred to as 'the Group' or 'Engage BDR'). Engage BDR, LLC is a private company, incorporated and domiciled in the United States of America. The financial statements are for the year ended 31 December 2016 and are presented in Australian Dollars (AUD). These policies have been consistently applied to all the years presented, unless otherwise stated.

On 1 July 2016, the Company began a multi-step corporate reorganization process. Prior to 1 July 2016 Engage BDR, Inc. was a California corporation, treated under the Internal Revenue Code ("IRC") as a Subchapter S corporation ("S corporation"). An S corporation is a "flow-through" entity for federal and state tax purposes. This means that the entity's items of income, deduction and credits are not subject to federal income tax, but instead flow through to the shareholders who bear any income tax liability or benefit associated with profits, losses and other attributes sourced from the entity. The exception is a 1.5% tax levied by the state of California on net income (losses are subject to a US\$800 minimum tax).

On 1 July 2016, the Company formed Engage BDR Holdings Inc., a California corporation. The nature and purpose of Engage BDR Holdings Inc. ('Engage Holdings Inc.') was to act as a mechanism to efficiently acquire Tiveo LLC (see note 26 for further detail) while maintaining pre-existing tax attributes and benefits belonging to both the buyer and seller. Furthermore, the formation of Engage Holdings Inc. meets the requirements of a tax-free contribution under U.S. law IRC § 351. Immediately following the creation of Engage Holdings Inc, the shareholders of Engage BDR, Inc. transferred 100% of their stock to Engage Holdings Inc. Immediately upon contribution, Engage BDR Inc. elected to be treated as a Qualified Subchapter S Subsidiary ("QSub") in order to maintain its flow-through status and not revert to a C corporation for U.S. tax purposes. Engage BDR, Inc. then converted to a limited liability company ("Engage BDR LLC") through a statutory conversion under California law.

Engage BDR LLC is a company limited by shares, incorporated and domiciled in the United States of America. Its registered office is:

Engage BDR, LLC.
9000 Sunset Boulevard, 5th Floor
West Hollywood, CA 90069

The financial report of Engage BDR LLC for the year ended 31 December 2016 was authorised for issue by a resolution of the Directors on 8 September 2017.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

(i) Statement of Compliance

The financial report is a general purpose financial report, which complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The consolidated financial statements provide comparative information in respect to the previous period.

(ii) Historical cost convention

The financial report has been prepared under the historical cost convention unless otherwise stated.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)

2016 Financial Statements

- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest, and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(c) Going concern

The financial report has been prepared on a going concern basis which takes account of the Group's assets and liabilities and assumes that funds either will be or could be obtained from several sources from the date of authorizing the financial report including:

- planned IPO on the Australian Securities Exchange (ASX) in the near term
- sales revenue is anticipated to be generated over the next twelve months
- the Group has successfully raised private capital in the past
- management could reduce the level of resources dedicated to expanding the business if so required;
- the Group could further draw down on convertible note facilities (which requires approval of lender) which is detailed in note 17(b)(i); and/or
- the Group could sell down its investment in LottoGopher Holdings Inc (previously named Galaxy Group LA, LLC) which is detailed in Note 30.

Other than management's ability to reduce the level of resources dedicated to the business, the Directors cannot be certain of the success or timing of these receipts, however, the Directors will continue to plan the Group's operations on the basis that the sources identified above are in progress and believe that its activities will allow the availability of sufficient funds together with the existing assets, for the Group to operate for a period of not less than twelve months from the date of this financial report.

In the event that the planned IPO on the ASX is not completed and the Majority Member of Tiveo LLC exercise the put option right granted to them, as detailed in Note 26, the Majority Members shall return the Engage Units and Engage shall deliver to the Members the Tiveo units acquired and shall ensure that Tiveo has a minimum amount of cash equal to US\$3,000,000 plus ten percent (10%) interest per annum, or interest at the maximum legal rate at that time, whichever is lesser, from the date of acquisition to date of option exercise. Engage would then lose control of Tiveo from the date this put right is exercisable and therefore Tiveo would be de-consolidated from this date.

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In the event that such activities are not entered into or concluded on a timely basis or the put option right is exercised, there is likely to be material uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial statements take no account of the consequences, if any, of the effect of:

- An inability to generate sales revenue and the associated cash flows;
- An inability of the Group to obtain adequate funding; or
- The progress of capital raisings to meet repayment requirements.

The carrying value of the Group's assets are assessed on the basis that the Group will continue as a going concern. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

(d) Foreign currencies

(i) Functional and presentation currency

The functional currency of each of the entities in the Group is the currency of the primary economic environment in which each of the entities operate, which is US Dollars. The financial report is presented in Australian Dollars which is the presentation currency of the Group.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of any allowances, duties and taxes paid.

Revenue is recognised for the major business activities as follows:

(i) Rendering of services

Engage BDR is an internet-based marketplace platform and associated technology solution provider. Engage BDR's proprietary technology is used to facilitate the sale of advertising inventory from digital publishers (websites and apps) to advertisers and their agents (brands, agencies and advertising platforms). The Group allows digital publishers to monetise their available advertising space by making the inventory available to multiple advertisers, as well as providing various technologies designed to help publishers create incremental streams of revenue. An example of this technology would be the Engage BDR's OutStream advertising unit, which allows publishers to sell space for video advertising on webpages that do not have video content.

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Revenue is recognised on an accruals basis as and when the service has been provided to the customer. Revenue from the rendering of services can be recognized by reference to the stage of completion if the final outcome can be reliably estimated. This would be the case if:

- (a) The amount of revenue can be measured reliably.
- (b) It is probable that economic benefits associated with the transaction will flow to the seller.
- (c) The stage of completion can be measured reliably.
- (d) The costs incurred and the cost to complete can be measured reliably.

Where the Group receives payment for advertising campaigns up front and, at the reporting date, the underlying campaign is either ongoing or has not commenced, the portion that extends beyond the reporting period is not taken up as revenue, but rather recognised as unearned revenue in the Statement of Financial Position.

(ii) Interest revenue

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably. Interest revenue is measured using the effective interest method ("EIR"). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

(f) Income tax

The tax expense recognised in the statement of comprehensive income relates to current income tax expense plus deferred tax expense (being the movement in deferred tax assets and liabilities and unused tax losses during the year).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax is provided using the liability method on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax

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assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset where there is or would be a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

Depreciation is calculated on a straight line basis for all plant and equipment. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

Leasehold improvements are depreciated over the estimated useful life using the straight-line method with any balance written off at termination of the lease.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of asset and is recognised in profit or loss.

The following depreciation rates are used for each class of depreciable asset:

Class of Fixed Assets	Useful life
Plant & Computer equipment ^[1]	2-3 years
Furniture and equipment	2-6 years

^[1]Leasehold improvements are contained within plant & computer equipment.

(h) Intangible assets other than goodwill

Capitalised development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the assets to be carried at cost less any accumulated amortisation and accumulated impairment losses. Expenditure is amortised over the period of expected benefits from the related project, being a period of 3 to 4 years.

(i) Impairment of non-financial assets (excluding goodwill)

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The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, being the cash generating units ("CGU")

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

(j) Financial assets

(i) Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

At 31 December 2016 and 2015 the Group held cash and cash equivalents, loans, and receivables.

(ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

(iii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss. Derivatives embedded in host contracts are accounted for as separate

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derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

(iv) Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the profit or loss in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the profit or loss in the Statement of Comprehensive Income in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. Trade accounts receivable are generally settled between 30 and 90 days and carried at amounts recoverable.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off.

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

(vi) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(k) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits at call which are readily convertible to cash and are not subject to significant risk of changes in value, net of bank overdrafts.

(l) Financial liabilities

(i) Classification

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at FVTPL, loans and borrowing, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

(ii) Initial recognition and measurement

All financial liabilities are recognised initially at fair value.

(iii) Subsequent measurement

The measurement of financial liabilities depends on their classification as follow:

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as FVTPL, when the financial liability is either held for trading or it is designated as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value and are subsequently measured to their fair value at each Statement of Financial Position date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Further details of derivative financial instruments are disclosed in note 27.

Embedded derivatives

Derivatives embedded in financial instruments are treated as separate financial instruments when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. Management has made an assessment of the convertible note contracts and separated out the portion that related to the notes liability and the portion that relates to the embedded derivative and valued and disclosed these separately.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowing are subsequently measured at amortised cost using the EIR method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in profit or loss respectively in finance revenue and finance cost.

De-recognition of financial liabilities

A liability is generally derecognized when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the differences in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short position), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 17.

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(m) Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in excess of fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

(n) Trade and other payables

Trade accounts payable and other creditors represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured, and are measured subsequently at amortised cost using the EIR method. Payment terms vary by creditor, but are typically 60 days.

(o) Employee benefits

Wages and salaries, sick leave and short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(i) Wages, salaries, annual and long service leave

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Changes in the measurement of the liability are recognised in profit or loss in the Statement of Comprehensive Income.

Employee benefits are presented as current liabilities in the Statement of Financial Position if the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(ii) Termination benefits

Termination benefits are those benefits paid to an employee as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Termination benefits are recorded as a provision when the Group can no longer withdraw the offer of those benefits.

(iii) Defined contribution schemes

The Group has a defined contribution savings plan as defined in subsection 401(k) of the United States Internal Revenue Code. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation. Group contributions to the plan may be made at the discretion of the Board of Directors.

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(p) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(i) Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

Rights to assets held under finance leases are recognised as assets of the Group at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

(ii) Rentals and operating leases

Rentals payable under operating leases are charged to the profit or loss in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. They are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in profit or loss over the period of the borrowing using the EIR method.

Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as transaction costs of the loan to the extent that it is probable that some or all the facility will be drawn down.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision makers, who provide the strategic direction and management oversight of the Group in terms of monitoring results and approving strategic planning for the business. Since the date of acquisition the operations of Tiveo have been consolidated and recorded within the operations of Engage and are not tracked or reported separately. Tiveo does not have any revenue and has only one material intangible asset, for further details refer to Note 26.

Given that the internal reporting provided is not disaggregated in a way that identifies any unique reportable segments, the Group has effectively assessed its operations as comprising of only one reportable segment.

(s) Provisions

Provisions are recognized when the Group has an obligation as a result of a past event and it is probable that the Group will be required to settle the obligation and that a reliable estimate of the amount of the obligation can be made. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Present obligations arising under onerous contracts are recognised and measured as provisions.

(t) Interests in equity-accounted investees

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The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and Other Comprehensive Income of equity-accounted investees, until the date on which significant influence ceases.

(u) Comparative amounts

Comparatives are consistent with prior years, unless otherwise stated.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Development costs – capitalisation, valuation and impairment

Distinguishing the research and development phases of software projects and determining whether the recognition requirements for the capitalisation of development costs are met, requires judgement. Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Determining the feasibility of the project and the likelihood of the project delivering future economic benefits, which can be measured reliably, is a significant management estimate and judgement.

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project, typically between 3 and 4 years, and are considered for impairment at each reporting date.

After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired. Determining whether intangible assets are impaired requires an estimation of the recoverable amount of the CGU to which intangible assets have been allocated. The recoverable amount calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

In the event that these assets do not generate revenues as planned an impairment of the related intangible assets may result. The carrying amount of intangible assets at the reporting date was \$5,431,473 (2015: \$1,395,713) and there were no impairment losses (2015: nil) recognised during the current financial year.

(ii) Recoverability of debtors

The determination of the recoverability of trade debtors requires the Directors to exercise their judgement. In reviewing trade debtors, the Group considers any recent history of payments and the status of the projects to which the debt relates. No payment terms have been renegotiated. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further provision required in excess of the allowance for impairment. Refer to note 18 for additional detail.

(iii) Recognition of deferred tax assets

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense, the incurrence of tax losses and entitlement to non-refundable tax offsets. In evaluating the Group's ability to recover deferred tax assets within the jurisdiction from which they arise, the Group considers all available positive and negative evidence, including probability of achieving appropriate continuity of ownership levels, likelihood of meeting relevant definitions of "same business",

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scheduled reversals of deferred tax liabilities, projected future taxable income and results of recent operations. This evaluation requires significant management judgment. Refer to note 13 for more details.

(iv) Valuation of embedded derivatives

The US\$385,000 convertible notes issued between 6 June 2016 and 30 August 2016 have two components, being the debt portion of the instrument and the option to convert the debt into shares in the Group. IAS 32 *Financial Instruments: Presentation* requires that, as the number of shares to be converted is not fixed, these need to be valued separately. IAS 39 requires the calculation of the fair value of the option to be performed at each reporting period. The embedded derivative (option to convert the loan note into shares in the Group) has been fair valued using the Black Scholes model which requires critical judgements in order to ascertain the Group share price variability. At 31 December 2016 the fair value of the embedded derivatives was \$140,808 (2015: \$Nil). For further details see note 28.

By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the consolidated financial statements of future periods could be significant.

4. Revenue

	2016 AUD \$	2015 AUD \$
Rendering of services	21,845,216	36,919,027

5. Cost of sales

	2016 AUD \$	2015 AUD \$
Online media costs	12,552,263	25,204,044
Platform service fees ^[1]	406,465	757,615
Merchant banking fees	22,523	13,171
Total cost of sales	12,981,251	25,974,830

^[1]Platform service fees are charged by third-party platforms used for programmatic purchase, sale, and delivery of digital media. Typically, the purchase and sale of media is charged as a percentage of the gross volume; the delivery of media is charged at a fixed rate.

6. Other income

	2016 AUD \$	2015 AUD \$
Finance income	57,340	24,777
Other income	40,800	141,813
Total other income	98,140	166,590

7. Employee and contractor costs

	2016 AUD \$	2015 AUD \$
Salary costs	5,568,829	7,239,176
Defined contribution plan (401(k))	124,868	75,829
Insurance costs (medical and worker's compensation)	259,397	293,612
Other personnel costs	-	345,357
Total employee and contractor costs	5,953,094	7,953,974

8. Operations and administration expense

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	2016 AUD \$	2015 AUD \$
Technology infrastructure and software costs	1,101,234	1,255,071
Legal and accounting expense	788,740	495,795
Technical and corporate development expense	222,885	561,527
Bad debt expense	251,172	433,741
Travel expenses	150,347	337,441
Office and other rental expenditure	852,552	1,207,749
Recruiting expenses	8,852	28,527
Human resource expenses	149,663	296,781
Municipal and other taxes	23,829	45,204
Other operations and administration expenses	685,755	219,895
Total operations and administration	4,235,029	4,881,731

9. Depreciation and amortisation

	2016 AUD \$	2015 AUD \$
Depreciation of property, plant, and equipment	502,890	380,546
Amortisation of capitalised software development costs	968,877	431,274
Total depreciation and amortisation	1,471,767	811,820

10. Advertising and marketing expense

	2016 AUD \$	2015 AUD \$
Advertising and marketing expenses	317,526	589,045

11. Finance costs

	2016 AUD \$	2015 AUD \$
Interest on financing arrangements ^[1]	93,757	-
Interest on finance leases	115,578	114,922
Interest on receivables factoring ^[2]	499,874	239,543
Interest on credit line ^[3]	10,381	-
Interest on loan from related party	3,117	1,869
Interest on corporate credit cards	20,300	4,132
Total finance costs	743,007	360,466

^[1] The Group issued a promissory note to a supplier with a simple interest rate of 7% per annum and maturity date in Jan 2018. Also included is interest payable to investors that were issued convertible notes.

^[2] The Group is involved in a cash enhancement activity commonly referred to as factoring. Advancement on receivables is charged interest however, in accordance with IAS 39, the Group still, substantially, retains all the risk and rewards related to the underlying receivable and hence it is not derecognized.

^[3] The Group stopped using the factoring facility in December 2016 and moved to an Asset-based lending (ABL) credit line. The ABL still involves the transfer of receivables without derecognition. See note 18a for further detail on the transfer of receivables.

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12. Other (income) / expenses

	2016 AUD \$	2015 AUD \$
Net foreign exchange (gain) / loss	(2,293)	(799)
Other (income) / expenses	(8,532)	177,847
Total other expenses / (income)	(10,825)	177,048

13. Income tax expense

Consolidated statement of comprehensive income

Current income tax

Current income tax

Adjustments in respect of current income tax of previous year

Deferred income tax

Relating to origination and reversal of temporary differences

Total income tax expense / (benefit) in the statement of comprehensive income

	2016 AUD \$	2015 AUD \$
	1,075	1,197
	-	-
	-	-
	1,075	1,197

A reconciliation between income tax expense and the product of accounting profit multiplied by the U.S. domestic statutory tax rate for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Accounting profit/(loss) before income tax	(3,670,735)	(3,663,297)
Taxes computed at statutory rate of 0% ^[1]	-	-
Increase/(decrease) in income taxes resulting from:	-	-
State and local taxes ^[1]	1,075	1,197
Provision/(benefit) for income taxes	1,075	1,197

Deferred tax relates to the following temporary differences:

Deferred tax assets:

Accrued expenses and reserves

Losses available for offsetting against future taxable income

Research and development credits

	2016	2015
	13,319	9,566
	120,075	62,703
	304,766	218,282
	438,160	290,551

Items that give rise to a deferred tax liability related to the following temporary differences:

Deferred tax liabilities

Accelerated depreciation and amortisation for tax purposes

	(32,138)	(29,350)
	(32,138)	(29,350)

Reconciliation of recognised deferred tax

Deferred tax asset

Deferred tax assets not recognised

	438,160	290,551
	(406,022)	(261,201)

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	32,138	29,350
Deferred tax liability	(32,138)	(29,350)
Net deferred tax	-	-

^[1] Conversion to LLC corporate structure, the Group maintains the ability to elect taxation as an S-type corporation and accordingly it is not subject to federal tax. The rate applicable to the Group is a 1.5% tax on net income which is payable to the state of California, however if the Group has made a loss (which in this reporting period it did), it is only subject to an US\$800 minimum tax

14. Cash and cash equivalents

	2016 AUD \$	2015 AUD \$
Cash at bank and in hand	986,603	1,870,597

15. Property, plant & equipment

	Plant & Computer Equipment 2016 AUD \$	Furniture & Fittings 2016 AUD \$	Total 2016 AUD \$
Cost			
At 01 January 2016	1,988,478	209,041	2,197,518
Additions	829,153	7,563	836,716
Additions from business combination	9,578	-	9,578
Disposals	-	-	-
Exchange difference	56,514	3,280	59,794
At 31 December 2016	2,883,722	219,883	3,103,606
Accumulated depreciation			
At 01 January 2016	1,117,453	92,325	1,209,778
Depreciation for the year	469,439	36,251	505,689
Impairment	-	-	-
Disposals	-	-	-
Exchange difference	31,501	2,520	34,021
At 31 December 2016	1,618,392	131,096	1,749,489
	2015 AUD \$	2015 AUD \$	2015 AUD \$
Cost			
At 01 January 2015	1,512,482	135,992	1,648,475
Additions	282,094	54,738	336,832
Disposals	-	-	-
Exchange difference	193,902	18,310	212,211
At 31 December 2016	1,988,478	209,041	2,197,518
Accumulated depreciation			
At 01 January 2015	721,131	7,408	728,539
Depreciation for the year	298,967	81,576	380,543
Impairment	-	-	-
Disposals	-	-	-
Exchange difference	97,354	3,341	100,695
At 31 December 2016	1,117,453	92,325	1,209,778

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Carrying Amount			
At 31 December 2016	1,265,330	88,787	1,354,117
At 31 December 2015	871,025	116,716	987,740

The carrying amount of the Group's property, plant & equipment includes an amount of \$1,200,275 (2015: \$796,258) in respect of assets held under finance leases.

16. Intangible assets

Capitalised Software Development Costs	2016	2015
	AUD \$	AUD \$
Cost		
At 01 January	1,925,194	836,203
Additions	1,401,592	957,875
Additions from business combination	3,338,529	-
Exchange difference	303,747	131,116
At 31 December	6,969,062	1,925,194
Accumulated amortization		
At 01 January	529,481	76,023
Amortisation for the year	968,877	431,274
Exchange difference	39,231	22,184
At 31 December	1,537,589	529,481
Carrying amount		
At 31 December	5,431,473	1,395,713

Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefit and these benefits can be measured reliably. The development costs have finite useful lives typically between 3 and 4 years, with a weighted average of 3 years (2015: 3 years).

17. Financial risk management

This note explains the Group's financial risk management and how the exposure to these risks affects the Group's future financial performance.

The Group's risk management is carried out by the senior management through delegation from the Board of Directors. Risk management programmes and policies are employed to mitigate the potential adverse effects of these exposures on the results of the Group.

The Group holds the following financial instruments:

	2016	2015
	AUD \$	AUD \$
Financial assets		
Cash and cash equivalents	986,603	1,870,597
Trade and other receivables	6,697,104	11,665,535
Related party receivables	2,812,334	1,517,832
Total	10,496,041	15,053,964
Financial liabilities		
Trade and other payables – current	10,702,394	15,981,083
Other Financial Liability	7,533,155	-

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Current portion of lease liability	505,048	241,083
Trade and other payables – non-current	162,186	339,973
Non-current portion of lease liability	649,457	555,664
Borrowings – due to factor	3,637,378	3,527,380
Borrowings	1,532,537	275,672
Embedded derivative	140,808	-
Total	24,862,963	20,920,855

(a) Credit risk

Credit risk is a risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group faces primary credit risk from potential default on receivables by payment service providers. The credit risk on financial assets of the Group which have been recognised in the Consolidated Statement of Financial Position is the carrying amount net of any provision for doubtful debts.

(i) Cash and bank balances/financial assets

As at 31 December 2016, the Company has \$986,603 (2015: \$1,870,597) held in bank deposits, classified as cash and cash equivalents.

(ii) Trade receivables

Credit risk represents the loss that would be recognised if counterparties failed to meet their obligations under a contract or arrangement. The Group is exposed to credit risk arising from its operating activities (primarily from customer receivables) and is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and the country in which customers operate.

The Group's exposure to credit risk is managed through its credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, bank references, and as well as reviewing third party business references of the applicant. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from finance and accounting management.

The concentration of credit risk is limited due to the customer base being large and unrelated.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount as presented in the Consolidated Statement of Financial Position.

The credit risk from related parties is the same as external parties.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and ensuring that all term deposits can be converted to funds in accordance with forecast cash usage. Due to the dynamic nature of the underlying business, flexibility in funding is maintained by ensuring ready access to the cash reserves of the business. The Group's policy is to try and ensure that it will have sufficient cash to allow it to meet its liabilities when they become due.

The ongoing maintenance of the Group's policy is characterized by ongoing cash flow forecast analysis and detailed budgeting processes which, combined with continual development of banking relationships, is directed at providing a sound financial positioning for the Group's operations and financial management activities. In addition, the Group monitors both the debt and equity markets for additional funding opportunities.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on a basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls.

(i) Financial arrangements

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The Group had the following borrowing facilities at the end of the reporting period.

	Drawn		Undrawn		Total	
	2016	2015	2016	2015	2016	2015
	AUD \$	AUD \$	AUD \$	AUD \$	AUD \$	AUD \$
Fixed rate						
Expiring within one year	-	-	-	-	-	-
Expiring beyond one year	534,611 ^[1]	275,672 ^[2]	6,873,570 ^{[1] [3]}	-	7,408,181 ^[1]	275,672 ^[2]
Total	534,611	275,672	6,873,570	-	7,408,181	275,672

^[1] Convertible note borrowings start between June and August 2016 with a maturity of 18 to 24 months. Interest is calculated at a simple interest rate of 7.0% per annum payable at maturity date. Face value of drawn portion is US\$385,000 (AU\$534,611).

^[2] Related party borrowings is comprised of a loan from a director for US\$200,000 (AU\$275,672). Start date was 30 Sept 2015 with a maturity date of 30 Sept 2017 at a simple interest rate of 2.78% per annum; this borrowing and accrued interest were netted against amounts owed to the Group by the director in June 2016.

^[3] Undrawn portion of this note is funded at the approval of the lender. Total undrawn amount is US\$4,950,000 (AU\$6,873,570)

(ii) Maturities of financial liabilities

The following table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	Less than 6 months	Between 6 to 12 months	Between 1 and 2 years	Between 2 and 3 years	Total contractual cash flows
2016	AUD \$	AUD \$	AUD \$	AUD \$	AUD \$
Trade and other payables	10,702,394	61,040	101,146	-	10,864,580
Borrowings – Due to factor	3,637,378	-	-	-	3,637,378
Borrowings (principal) – Promissory notes ^[1]	-	-	1,138,615	-	1,138,615
Borrowings (principal) – Convertible notes ^[2]	-	-	393,922	-	393,922
Embedded derivative liability ^[2]	-	-	140,808	-	140,808
Total financial liabilities	14,339,772	61,040	1,774,491	-	16,175,303
2015	AUD \$	AUD \$	AUD \$	AUD \$	AUD \$
Trade and other payables	15,981,083	169,986	169,986	-	16,321,055
Borrowings – Due to factor	3,527,380	-	-	-	3,527,380
Borrowings (principal) – Related parties ^[3]	-	-	275,672	-	275,672
Total financial liabilities	19,508,463	169,986	445,658	-	20,124,107

^[1] Promissory notes to suppliers total US\$819,973 (AU\$1,138,615) all with a simple interest rate of 7.0% per annum paid monthly.

^[2] Convertible note borrowings start between June and August 2016 with a maturity of 18 to 24 months. Interest is calculated at a simple interest rate of 7.0% per annum payable at maturity date. Amounts shown in the table above represents the convertible note borrowing which has been split from the related embedded derivative liability. Refer to Note 27 for details on the split.

^[3] Related party borrowings is comprised of a loan from a director for US\$200,000 (AU\$275,672). Start date was 30 Sept 2015 with a maturity date of 30 Sept 2017 at a simple interest rate of 2.78% per annum; this borrowing and accrued interest were netted against amounts owed to the Company by the director in June 2016.

(iii) Fair values

The carrying values of the Group's financial assets and financial liabilities approximately equate their fair values due to the short term nature of the financial assets and liabilities as well as time to maturity from balance sheet date.

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The only items where the carrying value differs from the fair value relates to the promissory and convertible notes and lease liabilities – which are different due to the interest rate applied to the financial instruments being different to that of a deemed market interest rate. This difference is shown in the table below:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	AUD \$	AUD \$	AUD \$	AUD \$
Financial liabilities				
Promissory notes	1,138,615	1,189,716	-	-
Convertible Notes	393,922	397,223	-	-
Lease liability	1,238,333	1,154,504	826,192	796,747
Total	2,770,870	2,741,443	826,192	796,747

(c) Capital management strategy

The Group's policy is to maintain a capital structure for the business which ensures sufficient liquidity, provides support for business operations, maintains shareholder confidence and positions the business for future growth. The Group manages its capital structure and makes adjustments in light of changes in economic conditions.

The ongoing maintenance of the Group's policy is characterised by ongoing cash flow forecast analysis and detailed budgeting processes which, combined with continual development of banking relationships, is directed at providing a sound financial positioning for the Group's operations and financial management activities.

The Group is not subject to externally imposed capital requirements.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management has deemed that interest rate risk is not significant for the Group due to the majority of the Group's financial assets and liabilities being fixed rate.

(e) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to changes in foreign exchange rates is due to the functional currency of the Group being USD and the presentation currency AUD. The following table demonstrates the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Group's net liabilities and net loss after tax upon translation into AUD is shown below.

Foreign currency sensitivity	Change in USD Rate	Effect on net loss after tax	Effect on net liabilities
		AUD \$	AUD \$
2016	+5%	183,587	431,227
	-5%	(183,587)	(431,227)
2015	+5%	183,165	238,202
	-5%	(183,165)	(238,202)

18. Trade and other receivables

	2016 AUD \$	2015 AUD \$
Trade debtors ^[1]	6,697,104	11,665,535

^[1]The Group is involved in the cash enhancement activity commonly referred to as factoring. Under this arrangement, advances are recorded against certain receivables balances which are factored under the facility. All amounts invoiced are in US Dollars. In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, an evaluation is performed to establish whether,

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substantially, all the risks and rewards have been transferred to the factoring provider. Where the Group concludes this is not the case, the portion of the financial assets corresponding to the Group's continuous involvement continues to be recognised. When all the risk and rewards are not considered to be transferred, the amount is kept on the balance sheet. Based upon management's assessment, the Group believes that it has retained risk and rewards, and therefore has not derecognized any financial assets.

(a) Transfer of trade receivables

The Group has retained the credit risk associated with the trade receivables, due to the obligation to repurchase from the factoring company any receivables that are deemed uncollectible, and therefore the risks and rewards of the asset resides with the Group. The total carrying amount (which is approximate to fair value) of the trade receivables transferred is \$3,629,830 (2015 \$3,452,338) and the associated borrowing is \$3,637,378 (2015 \$3,527,385).

	2016 AUD \$	2015 AUD \$
Carrying amount of trade receivables transferred	3,629,830	3,452,338

(b) Current receivables

	2016 AUD \$	2015 AUD \$
Current:		
Trade debtors	6,908,368	12,122,178
Less: Allowance for impairment	(225,752)	(513,661)
Net trade debtors	6,682,617	11,608,516
Other receivables	14,487	57,019
Total current receivables	6,697,104	11,665,535

(c) Ageing of past due but not impaired

	2016 AUD \$	2015 AUD \$
0 – 30 days	933,459	1,796,273
31 – 60 days	843,207	719,287
61 – 90 days	250,074	144,135
Over 91 days	386,722	383,466
Total ageing of past due but not impaired	2,413,462	3,043,161

The average age of the Company's trade receivables is 48 days (2015: 117 days).

(d) Movement in the provision for impairment

	2016 AUD \$	2015 AUD \$
Balance at beginning of year	(513,661)	(1,042,768)
Impairment recognized during the year	(251,172)	(433,741)
Amounts written off as uncollectible	537,221	1,071,706
Exchange difference	1,860	(108,859)
Balance at the end of the year	(225,752)	(513,662)

In determining the recoverability of a trade receivable, the Group considers any recent history of payments and the status of the projects to which the debt relates. No payment terms have been renegotiated. The concentration of credit risk is limited due to the customer based being large and unrelated. Accordingly, the Directors believe that there is no further provision required in excess of the allowance for impairment.

(e) Fair value of receivables

Fair value of receivables at year end is considered to be the same as receivables net of the allowance for impairment.

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19. Share capital

	2016 AUD \$	2015 AUD \$
At 01 January	1,178	1,178
Shares issued during the year	-	-
At 31 December	1,178	1,178
	# shares	# shares
<i>Issued shares</i>		
At 01 January	92,000	92,000
Stock splits ^[1]	99,908,000	-
Acquisition ^[2]	8,550,000	-
At 31 December	108,550,000	92,000
	# shares	# shares
<i>Authorised shares</i>		
At 01 January	100,000	100,000
Additional authorized shares	299,900,000	-
At 31 December	300,000,000	100,000

^[1] Refer to Note 29 for details of stock splits that occurred during the year.

^[2] Refer to Note 26 for details of the acquisition of Tiveo LLC that occurred during the year.

20. Commitments for expenditure

(a) Finance lease commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery. Finance lease commitments are contracted in US Dollars. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

	2016 AUD \$	2015 AUD \$
Gross finance lease liabilities – minimum lease payments:		
Within 1 year	566,209	299,120
Later than 1 year and no later than 5 years	672,124	527,072
Total minimum lease payments	1,238,333	826,192
Less amounts representing finance charges	(83,828)	(29,445)
Present value of minimum lease payments	1,154,505	796,747
<i>Within 1 year</i>	505,048	241,083
<i>Later than 1 year and no later than 5 years</i>	649,457	555,664
Present value of minimum lease payments	1,154,505	796,747

(b) Operating lease commitments

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	2016 AUD \$	2015 AUD \$
Within one year	950,590	1,008,789
Later than one year but not later than five years	711,133	1,466,997
	1,661,723	2,475,786

The Group leases offices under non-cancellable operating leases for periods ranging within one to five years, with rent payable monthly in advance. The leases have varying terms, escalation clauses and renewal rights. Rental provisions within the lease agreement provide for increase in the minimum lease payments as contracted. Operating lease commitments are contracted in US Dollars

21. Trade and other payables

(a) Current

	2016 AUD \$	2015 AUD \$
Trade payables ^[1]	8,726,316	8,614,564
Accrued expenses ^[1]	1,736,360	7,165,435
Unearned revenue	887,903	1,113,292
Accrued payroll liabilities ^[2]	474,754	460,362
Accrued municipal tax	30,829	-
Deferred service costs ^[3]	239,717	201,083
	12,095,879	17,554,736

Trade creditors and accruals principally comprise of amounts outstanding for trade purchases and ongoing costs.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. No interest has been charged by any suppliers as a result of late payment of invoices during the year.

The carrying amount of trade and other payables approximates their fair value.

^[1] Trade payables and accrued expenses are non-interest bearing and are normally settled on 60-day terms.

^[2] Accrued payroll liabilities is comprised of salary wages, commissions, and benefits (mainly accrued paid-time off, pension, and insurance related liabilities). Wages are settled on semi-monthly terms, commission is settled on quarterly terms, pension is settled on an annual basis, and insurance related items are on an annual basis.

^[3] Deferred service costs relate to contractor fees that were paid upfront by an external provider for with the Group has negotiated a contractually agreed repayment term. Deferred service costs are contracted in US Dollars

(b) Non-current

	2016 AUD \$	2015 AUD \$
Deferred service costs	162,186	339,973

Deferred service costs relate to contractor fees that were paid upfront by an external provider for with the Group has negotiated a contractually agreed repayment term. Deferred service costs are contracted in US Dollars

22. Employee benefit liabilities

(a) Current employee benefit liabilities

	2016 AUD \$	2015 AUD \$
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Annual leave	92,675	73,622
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(b) Non-current employee benefit liability

There are no non-current employee benefit liabilities as at 31 December 2016 (2015: \$Nil).

23. Related party disclosures

The Group's related parties include its associates, key management personnel, post-employment benefit plans for the Group's employees and other as described below. In addition, the Group had an unsubordinated loan from a shareholder, as well as having made multiple unsubordinated loans to shareholders and key employees.

(a) Transactions with associates

During the year, the Group entered into the following trading transactions with an associate. The services provided to the associate were the same services provided to the Group's customers related to advertising technology.

	2016 AUD \$	2015 AUD \$
Galaxy Company, LLC	-	11,667

(b) Outstanding balances arising from sales of goods and services associates

	2016 AUD \$	2015 AUD \$
Galaxy Group, LLC ^[1]	-	-

^[1] In September 2015 the Company converted the total outstanding receivable of AUD\$21,733 into a Convertible Promissory Note with Galaxy Group. The note accrued simple interest at a rate equal to five percent (5%) per annum, was due and payable in cash on or after the earlier of (i) June 30, 2016; and (ii) the closing of a Change of Control transaction. The note converted with a conversion price of AUD\$0.01 per share, resulting in 288,536 new shares being issued to the Group from Galaxy Group, LLC. Refer to note 24 for additional detail.

(c) Loans to/from related parties

(i) Loans to key management personnel

	2016 AUD \$	2015 AUD \$
Beginning of the year	1,489,254	130,435
Loans advanced ^[1]	2,887,691	1,378,844
Loan repayments received	(1,716,112)	(99,683)
Interest charged	52,332	24,777
Interest receivable forgiven	-	-
Exchange difference	61,464	54,881
End of year	2,774,629	1,489,254

^[1] Included within loans advances are costs relating to key management personnel entering into operating leases under the Group's name related to motor vehicles. Whatever payments the Group makes on the employee's behalf are the sole responsibility of the employee.

(ii) Loans from key management personnel

	2016 AUD \$	2015 AUD \$
Beginning of the year	275,673	-
Loans advanced ^[1]	-	265,821
Loan repayments made ^[1]	(268,962)	-
Interest charged	-	1,869

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Interest paid	(1,891)	-
Exchange difference	(4,820)	7,983
End of year	-	275,673

^[1] Start date was 30 Sept 2015 with a maturity date of 30 Sept 2017 at a simple interest rate of 2.78% per annum; this borrowing and accrued interest were netted against amounts owed to the Group by the director in June 2016.

See Note 23(e) Terms and conditions below for additional details.

(iii) Loans to related parties

	2016	2015
	AUD \$	AUD \$
Beginning of the year	-	48,472
Loans advanced	113,084	155,687
Loan repayments received	(107,625)	(98,227)
Loans written off as uncollectable	(5,459)	(110,301)
Exchange difference	-	4,369
End of year	-	-

(iv) Loans to an associate

	2016	2015
	AUD \$	AUD \$
Beginning of the year	28,577	-
Loans advanced	8,439	27,749
Exchange difference	689	828
End of year	37,705	28,577

Aggregate total of loans to related parties ^[1]	2,812,334	1,517,832
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^[1] Representing sum of loans to key management personnel and loans to associates

(d) Compensation of the key management personnel of the Group

	2016	2015
	AUD \$	AUD \$
Short-term employee benefits	772,349	1,295,647
401(k) withholdings	19,747	70,960
Total short-term employee benefits	792,096	1,366,607

In addition to the totals outlined in the table above, the Group allows key management personnel to enter into operating leases under the Group's name related to motor vehicles. The key management personnel are solely responsible for all payments resulting from these operating leases. Refer to note 23(e) for more detail.

(e) Terms and conditions

Goods were sold to related parties during the year based on the price lists in force and terms that would be available to third parties, unless otherwise noted below.

Outstanding trade balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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Outstanding loans at year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party loans. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Loans to directors and key management personnel are charged interest at a simple interest rate of 2.78% per annum, calculated monthly. The loans made to both directors and key management personnel are repayable within two years. The loan amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. All loans were approved by the Board of Directors of the Group.

(f) Liabilities assumed by directors and other key management personnel of the Group

In connection with the acquisition of Tiveo LLC and under the transaction documents dated 12 August 2016, Ted Dhanik, Ken Kwan and Kurtis Rintala (or their successors) undertook to issue additional shares of their Trading Stock in Engage on a pro-rata basis to the Majority Members of Tiveo (being Abdulaziz Alrajhi, BODO LLC, Neston Property Ltd. and David Cure) in the event that after Engage Units are listed for trading on the ASX the value of Engage Units held by the Majority Members is below an amount of US\$6,693,120. This is not an obligation of the Group but rather of the aforementioned individuals.

24. Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method.

Galaxy Group LA, LLC	2016	2015
Equity holding %	23.30%	23.34%
Investment in associate	-	-

The aggregate of the Group's investment in an associate is shown on the statement of financial position. The cost value of the Group's investment in Galaxy Group is \$84,560. The Group uses equity method and losses have kept the carrying value of this investment at nil. Refer to Note 30 for details of IPO successfully completed by Galaxy Group subsequent to year end.

25. Contingencies

No contingent assets or liabilities are noted.

26. Business combinations

On 16 August 2016, the Company acquired 100% of the shares of Tiveo LLC, (dba Tiveo), a private company based in the United States of America, by issuing 8,550,000 of Engage common shares. Tiveo operates a talent discovery platform, which focuses on collaborations and connections between artists, music lovers, music industry professionals, artists and repertoire (A&R), talent scouts and brands. Tiveo's platform enables users to find, book and connect with local talent worldwide, and artists to engage with each other and their communities. The acquisition is expected to provide benefits to brands and agencies that work directly with the Group, since it will own and operate the artist network. Customers will be allowed to directly access Tiveo's advertising inventory, extending their reach to independent music artists and their fans. The Group will gain access to Tiveo's intelligent leadership and unique social platform offering.

Assets acquired and liabilities assumed

The fair value assessment of the acquired assets and liabilities has been reviewed in accordance with the provisions of IFRS 3 *Business Combinations*.

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

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	AUD \$
Amount settled in cash	-
Other financial liability	7,533,155
Fair value of contingent consideration	-
Fair value of consideration transferred	7,533,155
Recognised amounts of identifiable net assets:	
Cash and cash equivalents	3,995,683
Intangible assets	3,568,702
Other assets	64,266
Property plant and equipment	10,238
Gain on bargain purchase	(76,759)
Other liabilities	(26,475)
Exchange difference	(2,500)
Net identifiable assets and liabilities	7,533,155

The fair value of consideration transferred to the former owners of Tiveo was based upon a valuation of the Company of US\$65,940,756. This fair value was derived using the income approach, a risk weighted discounted cash flow (DCF) method. Tiveo is an unlisted company and as such no market information is available. The fair value estimates are based on:

(a) assumed pre-tax discount rate of 28.0%

(b) assumed long-term growth rate of 5.0%

As part of the contribution agreement the Majority Members of Tiveo were granted an ASX Listing put right which could be exercised if Engage Units had not been listed for trading on the ASX within a specified Listing Deadline (effectively twelve months from the date of the contribution agreement, being August 12, 2016). If the Majority Members exercise the put right within 30 days of the Listing Deadline expiring, the Majority Members shall return the Engage Units and Engage shall deliver to the Members the Tiveo units acquired and shall ensure that Tiveo has a minimum amount of cash equal to US\$3,000,000 plus ten percent (10%) interest per annum, or interest at the maximum legal rate at that time, whichever is lesser, from the date of acquisition to date of option exercise. Engage would then lose control of Tiveo from the date this put right is exercisable and therefore Tiveo would be de-consolidated from this date. As of 8 September 2017 the Directors had not received notification of the exercise of the ASX Listing put right held by the Majority Members of Tiveo.

This put right has resulted in the fair value of the consideration transferred being recorded as a liability (as opposed to equity) as it was deemed that the existence of this right caused the issued Engage Units to be precluded from being recognised as equity. In the event that the Engage Units are listed for trading on the ASX before the put right is exercised or the put right expires, this liability will convert to equity.

From the date of acquisition, Tiveo contributed revenue of \$1,345, and a loss of (\$394,959) before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been \$48,436, and (loss) before tax from continuing operations for the Group would have been (\$769,512).

Transaction costs of \$17,082 were expensed and are included in administrative expenses.

27. Convertible loan notes

Between 6 June 2016 and 30 August 2016 the Group entered into convertible note agreements in the aggregate principal amount of US\$385,000 (AU\$534,611). Each note has a two-year term, bears simple interest at the rate of 7.0% per annum, is unsecured and ranks pari passu with other unsecured debt obligations of the Group.

If, prior to maturity, the Group completes a financing or related financing of equity securities with aggregate gross proceeds of at least US\$1,000,000 - a "Qualified Financing" ('QF') - not including through the conversion of these notes or similar convertible promissory

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notes, then, effective automatically upon the QF Closing Date, the entire unpaid portion of the Outstanding Amount as of the QF Closing Date shall be converted into that number of shares of capital stock issued by the Company in the Qualified Financing (the “Qualified Financing Stock”).

The number of shares to be issued is determined by dividing the outstanding amount of the convertible notes including the accrued interest by the QF Conversion Price. “QF Conversion Price” means the lesser of (i) eighty percent (80%) of the lowest price per share of the Qualified Financing Stock sold by the Company in the Qualified Financing, and (ii) the amount equal to US\$65,940,756 divided by the total issued and outstanding shares of Common Stock of the Company, on a fully-diluted and as-converted basis as of the QF Closing Date.

At any time prior to the Maturity Date, the Holder may elect, by written notice delivered to the Company at least five (5) business days prior to the Maturity Date, to convert the Outstanding Amount into that number of shares of common stock of the Company, determined by dividing the Outstanding Amount by US\$0.65.

In the event the Company’s capital stock is listed for trading on the Australian Securities Exchange (the “ASX”), and the daily closing price of such capital stock traded on the ASX (the “Trading Stock”) for each trading day during the six (6) month period immediately following such commencement of listing (the “Review Period”) is below the price at which Holder actually converted their convertible note, then the Company shall issue additional shares to the holder as if the principal amount and accrued interest under such Note was converted at a conversion price equal to the average daily closing price of such Trading Stock during the Review Period.

<i>Non-current</i>	2016	2015
	AUD \$	AUD \$
Convertible notes issued	393,922	-
Embedded derivative liability ^[1]	140,808	-
Total notes liability	534,730	-

^[1] See Note 3(iv) and Note 28 for further details.

28. Embedded derivative liability

The embedded derivative element of the convertible bond has been valued as a forward.

	2016	2015
	AUD \$	AUD \$
Initial value of embedded derivatives	140,689	-
Change in fair value	119	-
At 31 December 2016	140,808	-

The fair value of this derivative has been classified as a Level 3 input. The change in fair value of the derivative element of the US\$385,000 (AU\$564,611) convertible notes from \$140,689 to \$140,808 is the result of change in assumptions used to value the embedded derivatives:

	2016	2015
Risk free interest rate	2.00%	-
Expected life (years)	.35	-
Expected volatility	65.00%	-

29. Loss per share

Basic earnings (loss) per share is calculated by dividing the net profit (loss) attributable to ordinary equity holders by the weighted-average number of shares outstanding during the year.

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On 6 June 2016, shares issuable by the Company increase from 92,000 common shares issued and outstanding, to a new total of 300,000,000 shares authorized; 200,000,000 shares of authorized common stock, and an additional 100,000,000 shares of preferred stock. In addition, upon the effective filing of Amended and Restated Articles of Incorporation, an effected 1,000-for-1 stock split occurred, such that each (1) outstanding share of common stock of the Company was converted and reconstituted into one thousand (1,000) shares of common stock.

On 16 June 2016, Engage BDR Inc., by unanimous written consent of the Board of Directors, issued an effected 1.09-for-1 forward stock split of the Corporation's capital stock.

Due to two share splits conducted in July 2016, all numbers of shares have been restated for prior periods.

Dilutive potential shares have arisen from the convertible note issuances that took place between 6 June 2016 and 30 August 2016. The convertible notes are assumed to have been converted into ordinary shares and the net income (loss) is adjusted to eliminate the interest expense. Diluted loss per share is calculated by dividing the profit (loss) attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The impact of the above mentioned stock splits has been reflected in the prior period earnings (loss) per share and updated in the weighted average number of shares used in the calculation as shown below. For actual shares on issue and authorized at 31 December 2015 refer to Note 19.

	Basic	Consolidated	Diluted	
	2016	2015	2016	2015
Continuing operations	(0.06)	(0.06)	(0.06)	(0.06)
Loss per share	(0.06)	(0.06)	(0.06)	(0.06)
(a) Earnings used in calculating earnings (loss) per share				
			2016	2015
			AUD \$	AUD \$
Profit (loss) used in calculating basic earnings (loss) per share:				
Continuing operations			(3,671,809)	(3,664,495)
			(3,671,809)	(3,664,495)
(b) Weighted average number of shares used as denominator				
			2016	2015
			Number	Number
Weighted average number of shares (Basic)			64,641,148	64,641,148 ^[1]
Weighted average number of ordinary and potential ordinary shares (Diluted)			65,162,582	65,162,582 ^[1]

^[1] Weight average number of shares has been adjusted for the impact of the stock splits referred to above.

30. Events occurring after the balance sheet date

(a) Galaxy Group – IPO of associate

The Group holds an investment in a previously unlisted entity, **Galaxy Group LA, LLC**, as detailed in Note 24 which is accounted for as an associate and has a carrying value of nil at 31 December 2016. On 23 May 2017, Galaxy Group listed on the Canadian Stock Exchange as LottoGopher Holdings Inc. The fair value of the Group's investment in LottoGopher as at the date of this financial report is \$2,556,100 (US\$1,840,775) for which the related securities are held in escrow and will be released in tranches between six to thirty-six months after the listing date. As a result of this listing, the Company will no longer have significant influence over LottoGopher and hence the entity

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will cease to be an associate of the Company, instead it will become an available-for-sale investment from the date of this listing. No adjustment has been recognised for this event at 31 December 2016.

31. Remuneration of auditors

The auditor of Engage BDR LLC is Ernst & Young Australia.

	2016 AUD \$	2015 AUD \$
Amounts received or due and receivable by Ernst & Young Australia for: An audit of the financial report	33,121	33,016

32. New Accounting Standards and Interpretations

(i) Changes to accounting policy and disclosures

The Group has adopted the following new and amended standards which were applicable as disclosed in the table below. Adoption of these new and amended standards and interpretations has not had a material impact on the Company.

Reference	Summary	Application date
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.	1 January 2016
Amendments to International Accounting Standards – Annual Improvements to IFRSs 2012-2014 Cycle	Amendments to International Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2012-2014 annual improvements cycle. Annual Improvements to IFRSs 2012–2014 Cycle addresses the following items <ul style="list-style-type: none"> IAS 19 Employee Benefits Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. 	1 January 2016
IAS 1 Disclosure Initiative – Amendments to IAS 1	The Standard makes amendments to IAS 1 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements.	1 January 2016

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

The following relevant Australian Accounting Standards have recently been issued or amended but are not yet effective and have not been early adopted by the Group. The Group expects to adopt these standards in accordance with the effective dates.

Reference	Summary	Application date
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	This Standard amends IAS 12 Income Taxes (July 2004) and IAS 12 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017 The Company does not expect this to have a material impact.
IFRS 9 Financial Instruments	IFRS 9 is a new standard which replaces IAS 39. IFRS 9 includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. <u>Classification and measurement</u>	1 January 2018 The Company has not yet assessed the potential

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IFRS 9 includes requirements for a simpler approach for classification and measurement of financial impact of this assets compared with the requirements of IAS 39. There are also some changes made in relation to change. financial liabilities.

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities be measured at fair value.

Impairment

IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting

IFRS 9 includes the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

IFRS 15 Revenue from Contracts with Customers	IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.	1 January 2018
	IFRS 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of IFRS 15 is that an entity recognises 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 those goods or services.	
IFRS 16 Leases	Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.	1 January 2019
		The Company has not yet assessed the potential impact of this change.

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Directors' Declaration

In accordance with a resolution of the directors of Engage

BDR LLC I state that: In the opinion of the directors:

- (a) the financial statements and notes of the Group:
 - (i) present fairly the Group's financial position as at 31 December 2016 and of its performance for the year ended on that date; and
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and
- (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Ted Dhanik
Director
Los Angeles
8 September 2017

Ted Dhanik

ENGAGE BDR

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Independent Auditor's Report to the Members of Engage BDR, LLC.

Opinion

We have audited the financial report of Engage BDR, LLC. (the Company) and its subsidiary (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 presents fairly in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance for the year ended on that date and complies with International Financial Reporting Standards.

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 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.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 2(c) in the financial report which describes matters relating to the Group's ability to continue as a going concern. These matters indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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 and fair presentation of the financial report in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

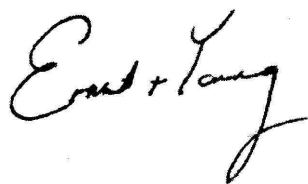
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- 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.
- 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.
- 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.



Ernst & Young
Melbourne
8 September 2017