APPLYDIRECT LIMITED

Independent Expert's Report and Financial Services Guide

13 FEBRUARY 2019

FINANCIAL SERVICES GUIDE

Dated: 13 February 2019

This Financial Services Guide (‘**FSG**’) helps you decide whether to use any of the financial services offered by BDO Corporate Finance (East Coast) Pty Ltd (‘**BDOCF**’, **‘we’**, **‘us’**, **‘our’**).

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 247420
- Remuneration that we and/or our staff and any associates receive in connection with the financial services
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

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Any general advice we provide is provided on our own behalf, as a financial services licensee.

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When we receive a complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

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BDO Corporate Finance is a member of AFCA (Member Number 11843).

Further details about AFCA are available at the AFCA website www.afca.org.au or by contacting them directly via the details set out below.

Australian Financial Complaints Authority
GPO Box 3
MELBOURNE VIC 3001
Toll free: 1800 931 678
Email: info@afca.org

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CONTACT DETAILS

You may provide us with instructions using the details set out at the top of this FSG or by emailing - cf.ecp@bdo.com.au

CONTENTS

Financial Services Guide i

PART I: ASSESSMENT OF THE PROPOSED TRANSACTION 1

1.0 Introduction 1

2.0 Assessment of the Proposed Transaction 2

2.1 Basis of Evaluation 2
2.2 Basis of Assessment 2
2.3 Summary of Opinion 3

3.0 Important Information 7

3.1 Read this Report, and other documentation, in full 7
3.2 Shareholders' individual circumstances 7
3.3 Scope 7
3.4 Current Market Conditions 8
3.5 Reliance on Information 8
3.6 Glossary 9
3.7 APES 225 *Valuation Services* 9
3.8 Qualifications 9

PART II: INFORMATION SUPPORTING OUR OPINION ON THE PROPOSED TRANSACTION 10

4.0 Overview of the Proposed Transaction 10

4.1 Summary of the Proposed Transaction 10
4.2 Description of the Key Parties involved in the Proposed Transaction 10
4.3 Key Conditions of the Proposed Transaction 10
4.4 Strategic Rationale for the Proposed Transactions 11

5.0 Background of ApplyDirect 12

5.1 Overview 12
5.2 Business model 12
5.3 Customers 13
5.4 Key strategic collaborations 13
5.5 Directors and Management 13
5.6 Equity structure 14
5.7 Share Trading of AD1 16
5.8 Historical Financial Information 18
5.9 December 2018 half year financial results 20
5.10 Forecast financial information 21

6.0 Background of Utility Software Services Pty Ltd 22

6.1 Overview 22
6.2 Business operations 22
6.3 Intellectual property and technology overview 21
6.4 Register of shareholders 21
6.5 Historical financial information 22

7.0 Profile of Enlarged AD1 25

7.1 Overview 25
7.2 Strategic rationale 25
7.3 Key risks 25
7.4 Ownership structure 25
7.5 Directors and key management 25

8.0 Industry Overview 26

8.1 Online Recruitment Services 26
8.2 Computer System Design Services 27

9.0	**Valuation Methodologies**	**29**
9.1	Fairness assessment overview	29
9.2	Valuation methods	29
9.3	Valuation methods for AD1 and USS before the Proposed Transaction	29
9.4	Valuation method for AD1 after the Proposed Transactions	30
9.5	Other valuation considerations	30
9.5.1	Future events	30
9.5.2	Synergies	30
9.5.3	Premium for control	30
9.5.4	Surplus assets and liabilities	31
9.5.5	Search for comparable trading companies and comparable transactions	31
9.5.6	Valuation in accordance with APES 255	32
10.0	**Valuation of AD1 before the Proposed Transaction**	**33**
10.1	Maintainable revenue	33
10.2	Revenue multiple	33
10.3	Net debt/cash and surplus assets/liabilities	34
10.4	Value summary	34
10.5	Cross check	35
11.0	**Valuation of USS**	**36**
11.1	Maintainable revenue	36
11.2	Revenue multiple	36
11.3	Net debt/cash and surplus assets/liabilities	37
11.4	Value summary	37
11.5	Cross check	37
12.0	**Valuation of the Enlarged AD1**	**39**
12.1	Valuation Summary	39
12.2	Cross check	39
13.0	**Assessment of Fairness**	**40**
13.1	Fairness Assessment	40
14.0	**Assessment of Reasonableness**	**41**
14.1	Advantages	41
14.2	Disadvantages	41
14.3	Other Considerations	42
14.4	Conclusion on Reasonableness	43
APPENDIX A: Sources of Information		**44**
APPENDIX B: Common Valuation Methodologies		**45**
	Discounted Cash Flow	45
	Capitalisation Approach	45
	Asset Based Valuations	45
	Quoted Market Prices	46
APPENDIX C: Control Premium Analysis		**47**
APPENDIX D: Comparable Companies and Comparable Transactions Analysis		**49**
	Comparable Companies	49
	Comparable Transactions	52
APPENDIX E: Glossary		**55**

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PART I: ASSESSMENT OF THE PROPOSED TRANSACTION

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Australia

13 February 2019

Dear Directors

1.0 Introduction

BDO Corporate Finance (East Coast) Pty Ltd ('BDOCF', 'we', 'us' or 'our') has been engaged to provide an independent expert's report ('this Report') to the non-associated shareholders ('the Shareholders') of ApplyDirect Limited ('AD1' or 'the Company') in relation to the proposed acquisition of 100% of the issued share capital in Utility Software Services Pty Ltd ('USS') for all-scrip consideration ('Proposed Acquisition') and a placement of fully paid ordinary shares. The Proposed Acquisition and the Proposed Placement (collectively, the 'Proposed Transactions') will be completed concurrently, subject to approval by the AD1 Shareholders.

USS is an entity that is controlled by Mr Michael Norster, who is also a Director of AD1. Potentate Investments Pty Ltd ('Potentate'), an investment entity controlled by Mr Norster, is currently the largest Shareholder in AD1 owning 11.51% of issued shares. Associates of Potentate ('Associates') include Mr Christopher Kuperman (a shareholder of USS) and Mr Andrew Henderson (a director of USS). Collectively, Potentate and Associates currently own 12.18% of AD1's shares.

The share purchase agreement dated 3 January 2019 ('SPA') in relation to the Proposed Acquisition provides the following commercial terms:

- Total consideration with a notional value of $3.588 million, payable entirely by way of issuing 132.9 million new fully paid ordinary shares ('Scrip Consideration') in AD1 at an assumed value of $0.027 per share; and
- Retained cash of $850,000 to fund working capital (which includes a one-off tax liability).

The Proposed Placement involves the issue of 36.7 million fully paid ordinary shares to Potentate and Associates at an issue price of $0.027 per share, raising total proceeds of $990,000.

Following implementation of the Proposed Transactions, Potentate's shareholding in AD1 will increase to 32.12%, while Potentate and Associates will collectively hold a relevant interest of 40.46% of AD1 shares post-transaction.

In this Report we provide our opinion on whether the Proposed Transactions are fair and reasonable to the non-associated shareholders of AD1.

This Report, including Part I, Part II and the appendices, should be read in full along with all other documentation provided to the shareholders including the Notice of Meeting and additional documents prepared by AD1.

2.0 Assessment of the Proposed Transaction

2.1 Basis of Evaluation

The Directors have engaged BDO to prepare a Report in relation to the Proposed Transactions to satisfy the following requirements:

- Section 611, item 7 of the Corporations Act 2001 (Cth) ('the Act').
- Chapter 2E of the Act – Related Party Transactions.
- ASX Listing Rule 10.1.

In preparing our IER, we have considered the requirements of the following regulatory guides issued by the Australian Securities and Investments Commission ('ASIC'):

- Regulatory Guide 111: Content of expert reports ('RG 111');
- Regulatory Guide 112: Independence of experts ('RG 112'); and
- Regulatory Guide 74: Acquisition approved by members ('RG 74').

RG 111 establishes guidelines in respect of independent expert reports under the Corporations Act. This regulatory guide provides guidance as to what matters an independent expert should consider to assist shareholders to make informed decisions about transactions. RG 74 explains the disclosure requirements for seeking approval under item 7, section 611 of the Act.

RG 111 also states that there should be a separate assessment of fairness and reasonableness. Our assessment of the fairness and reasonableness of the Proposed Transactions are summarised below.

2.2 Basis of Assessment

2.2.1 Fairness

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

Based on our interpretation of RG111.11, we have compared:

- The fair market value ('FMV') of a share in AD1 on a controlling interest basis prior to the Proposed Transactions; and
- The FMV of a share in AD1 on a minority interest basis after the Proposed Transactions, which incorporates the value of USS, the proceeds of the Proposed Placement and the number of shares to be issued under the Proposed Transactions.

The Proposed Transactions will be fair if the FMV of a share in AD1 after the Proposed Transactions on a minority basis is higher than the FMV of a share in AD1 before the Proposed Transactions on a controlling basis.

2.2.2 Reasonableness

In accordance with paragraph 60 of RG 111, an offer is 'reasonable' if it is 'fair'. It might also be 'reasonable' if, despite being 'not fair', the expert believes there are sufficient reasons to accept the offer.

When deciding whether an offer is 'reasonable', factors an expert might consider include:

- the financial situation and solvency of the entity;
- the alternative options available to the entity;
- the entity's bargaining position;
- whether there is selective treatment of any shareholder; and
- any special value of the transaction to the purchaser.

2.3 Summary of Opinion

We have concluded that the Proposed Transactions are not fair, but reasonable to the AD1 Shareholders at the time of writing this report.

A summary of our analysis in forming the above opinion is provided below.

2.3.1 Fairness Conclusion

The result of our fairness analysis under the guidance provided by ASIC is summarised below.

Table 1: Fairness assessment

Per Share	Ref	Low	High
FMV of a share in AD1 before the Proposed Transactions (control basis)	Section 10.4	$0.0132	$0.0243
FMV of a share in AD1 after the Proposed Transactions (minority basis)	Section 12.1	$0.0118	$0.0194

Source: BDOCF Analysis

We have determined a range of values for a share in AD1 before and after the Proposed Transactions. In accordance with ASIC guidance, the fairness of the Proposed Transaction requires an assessment of the respective value ranges.

In general, where value ranges overlap and no point within the range is considered more appropriate than any other, this indicates that there is an equivalency of value at certain points within the valuation ranges. In such circumstances, an expert may opine that an offer is 'fair'.

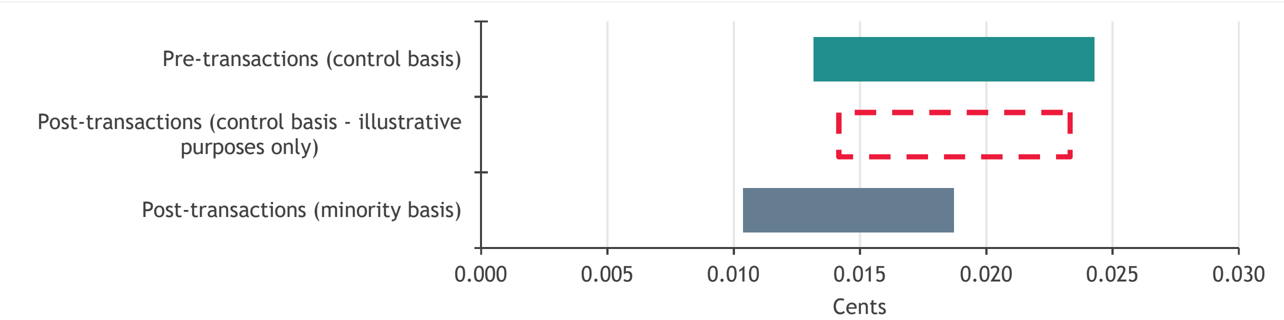
However, where the valuation ranges before and after the transactions have been determined on a consistent basis, and the post-transaction valuation of the securities merely incorporate valuation adjustments to reflect the transaction itself, then it may be appropriate to conclude on fairness based on the relative valuation ranges and the respective highs and lows, given they are directly comparable.

We have valued AD1 before and after the Proposed Transactions on a consistent basis. That is, we have valued both AD1 and USS using a revenue multiple approach, and our valuation of the Enlarged AD1 represents an aggregation of these values with adjustments for the Proposed Placement. Accordingly, we consider it appropriate to compare the value ranges, and the respective highs and lows, of AD1 before and after the Proposed Transactions.

On this basis, we note that there is a downward shift between the value of AD1 before the Proposed Transaction (on a control basis) and after the Proposed Transactions (on a minority basis). Accordingly, the Proposed Transactions are considered not fair to the Shareholders of AD1.

A comparison of our assessed values is illustrated below. For illustrative purposes only, we have shown the value of a share in AD1 after the Proposed Transactions on a control and a minority basis.

Figure 1: Summary of fairness assessment



Source: BDOCF Analysis

As shown above, the downward shift in value range largely occurs due to the inclusion of a control premium when valuing AD1 before the Proposed Transactions (in accordance with ASIC guidance). We also note that the price per AD1 share of $0.027 assumed for the Proposed Transactions was based on AD1's volume weighted average price ('VWAP') around the date AD1 entered into the SPA, and was not adjusted for a premium for control.

2.3.2 Reasonableness Conclusion

In accordance with RG 111, despite not being fair, the Proposed Transactions might be reasonable if there are sufficient reasons for Shareholders to approve the Proposed Transactions in the absence of a superior proposal.

On balance, despite not being fair, we consider the Proposed Transactions to be reasonable to the Shareholders of AD1.

In forming our view on reasonableness, we consider the following factors to be most relevant:

- Despite concluding that the Proposed Transactions are not fair, valuing early-stage technology companies like AD1 and USS is inherently difficult and requires significant judgement. This is reflected in the relatively wide valuation range for AD1 before and after the Proposed Transactions. Further, the decrease in our valuation range for AD1 is largely due to the requirement to value AD1 before the Proposed Transactions on a control basis and after the Proposed Transactions on a minority basis, rather than a change in the value of a share in AD1 on a minority basis. In these circumstances, greater emphasis should be given to reasonableness factors.
- For the same reason the fairness assessment is inherently subjective, in our view, it is not possible to quantify the advantages and disadvantages of the Proposed Transactions. However, the absence of any alternative proposals and the material uncertainty that exists in relation to AD1 being able to continue operating as a going concern are compelling reasons to vote in favour of the Proposed Transactions.
- The Proposed Transactions will not eliminate AD1's funding requirements, and the risk of successfully integrating the businesses and accelerating the Company's path to being breakeven remains high. However, in the absence of an alternative proposal or any alternative source of funding, the Proposed Transactions are in the best long term economic interests of shareholders.

We have set out below a summary of reasonableness factors we consider relevant in assisting the AD1 Shareholders in deciding whether or not to vote in favour of the Proposed Transactions.

Table 2: Summary of factors considered in the reasonableness assessment

Advantages	
Ability to continue operating as a going concern	AD1's FY18 annual report states that a material uncertainty existed that may cast doubt on the company's ability to continue as a going concern. The results of AD1's most recent share placement (in October 2018) left the Company requiring a further capital raising or an alternative transaction prior to 31 March 2019 in order to continue operating as a going concern. The proceeds from the Proposed Placement will be available to fund additional working capital requirements of the Enlarged AD1 for a period of time, as well as potential costs associated with the integration of the businesses
Potential synergies	The directors of AD1 believe that the transaction is underpinned by compelling strategic rationale, which include the following benefits: ▸ shared technical capability and the ability to reduce the overall cost base of combined operations; ▸ a diversified revenue stream, allowing AD1 to focus resources on higher yielding revenues, pruning the customer base where necessary to achieve this outcome; ▸ accelerate AD1's path to breakeven as a result of the above; ▸ time to integrate the businesses and achieve the synergies with the funding from the Proposed Placement; and ▸ better position the Company to undertake future capital raisings (as required) and continue operating as a going concern. The potential synergies do not form part of our fairness assessment. As such, notwithstanding the inherent uncertainty and risk of achieving potential synergies, there may be upside to our assessment of the post-transaction value of AD1 to the extent management is able to successfully integrate the businesses and unlock potential synergies.

Disadvantages	
The Proposed Transactions are not fair	In our view, the Proposed Transactions are not fair to the AD1 Shareholders. However, the downward shift in value range largely occurs to the inclusion of a control premium when valuing AD1 before the Proposed Transactions (in accordance with ASIC guidance), rather than a change in the value of a share in AD1 on a minority basis. We also note that valuing technology companies like AD1 and USS is inherently subjective, and Shareholders may not agree with our assessed values. In particular, we note that our valuation of a share in AD1 is lower than AD1's recent VWAPs. Had we valued AD1 based on the Company's VWAP, the value of the Scrip Consideration would increase and the downward shift in the valuation of AD1 before and after the Proposed Transactions would also increase. However, our opinion that the Proposed Transactions are not fair would remain unchanged
Dilution of shareholder interests	The non-associated AD1 shareholders will have their combined interest of 87.82% in AD1 diluted to 52.85% as a result of the Proposed Transactions, while Potentate and Associates will increase their interest in AD1 substantially to 40.46%. Non-associated USS shareholders (that is, not associated with Potentate) will have an interest of 6.69% in the Enlarged AD1. Consequently, the likelihood of undertaking an alternative control transaction and the ability of the non-associated AD1 shareholders to influence the strategic direction of AD1 will be significantly diminished.
Change of risk exposure	The Shareholders will be exposed to a different risk profile if the Proposed Transactions are implemented relative to their existing investment in AD1. In particular, the Company's focus will no longer be exclusively on recruitment platforms, and the scale of AD1's business will increase substantially if the Proposed Transactions are approved. Importantly, it is also noted that USS has also incurred operating losses since FY2016 (excluding the one-off sale of software to Alinta Energy in 2018), albeit of a much smaller scale compared to AD1's losses. Excluding the additional funding from the Proposed Placement, this may amplify the Enlarged AD1's dependency on further shareholder funding, in the absence of achieving transaction synergies and improved profitability.

Other Considerations	
No alternative proposals	The board of AD1 has advised there are currently no alternative transactions or recapitalisation proposals for AD1, and that it is unlikely an alternative transaction will emerge in the required timeframe.
Differences between AD1 and USS	AD1 and USS are both SaaS platform providers, with similar people and technology infrastructure. However, there are number of differences between each business, including size, profitability and market focus. Following the implementation of the Proposed Transactions, AD1 Shareholders will hold an interest in the Enlarged AD1. However, AD1 Shareholders may wish to maintain their current investment profile based on the risks specific to AD1.
Independent Directors' recommendation	The Independent Directors (being the Directors other than Michael Norster) have recommended that AD1's Shareholders vote in favour of the Proposed Transactions, in the absence of a superior proposal and subject to the opinion in this Report being fair and reasonable, or alternatively not fair but reasonable. Further, the Independent Directors that hold shares in AD1 have stated they intend to vote in favour of the Proposed Transactions.

Other Considerations	
Position of the Shareholders if the Proposed Transactions are not implemented	Whilst we have concluded the Proposed Transactions are not fair, the valuation and fairness assessment is only partly relevant and shareholders should carefully consider the implications for the Company if the Proposed Transactions are not approved (in the absence of an alternative proposal). The implications may include: ▸ Continued shareholding in AD1 - If the Proposed Transactions are not implemented, the Shareholders will continue to hold shares in AD1. The Shareholders will continue to be exposed to the risks and opportunities associated with the ownership of AD1 shares ▸ Material uncertainty relating to going concern – If the Proposed Transactions are not implemented, then the ability of AD1 to continue as a going concern and to fund its operating activities will continue to be dependent on securing urgent additional funding through share placements to new or existing investors or an entitlement issue with existing shareholders. Access to this additional funding may not be available within the relevant time frame (i.e. by 31 March 2019, based on AD1's cash balance as at 31 December 2018 and the level of recent operational deficits), and AD1 may not be able to continue operating as a going concern. In these circumstances, shareholders may not be able to realise any value. ▸ Share trading prices may be materially different – AD1's share price decreased by 34% in the two days of trading after the Proposed Acquisition was initially announced, and has since declined further. Share prices can be influenced by a variety of factors, and we note that there has been limited information regarding USS made available to the public since the announcement. Nevertheless, in our view, and having regard to AD1's overall circumstances, the share price is unlikely to rebound if the Proposed Transactions are not approved, in the absence of an alternative proposal. ▸ Non-recoverable costs - AD1 will incur costs in relation to the Proposed Transactions irrespective of whether or not the Proposed Transactions are approved and/or implemented.

3.0 Important Information

3.1 Read this Report, and other documentation, in full

This Report, including Part I, Part II and the appendices, should be read in full to obtain a comprehensive understanding of the purpose, scope, basis of evaluation, limitations, information relied upon, analysis, assumptions underpinning our work and our findings.

Other information provided to the Shareholders in conjunction with this Report should also be read in full, including the Notice of Meeting and additional documents prepared by AD1.

3.2 Shareholders' individual circumstances

Our analysis has been completed and our conclusions expressed at an aggregate level having regard to the Shareholders as a whole. BDOCF has not considered the impact of the Proposed Transactions on the particular circumstances of individual Shareholders. Individual Shareholders may place a different emphasis on certain elements of the Proposed Transactions relative to the emphasis placed in this Report. Accordingly, individual Shareholders may reach different conclusions as to whether or not the Proposed Transactions are fair and reasonable, and in the best interests, in their individual circumstances.

The decision of an individual Shareholder to vote in favour of or against the Proposed Transactions are likely to be influenced by their particular circumstances and accordingly, the Shareholders are advised to consider their own circumstances and seek their own independent advice.

Voting in favour of or against the Proposed Transactions are a matter for individual Shareholders based on their expectations as to the expected value and future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. The Shareholders should carefully consider the Notice of Meeting and additional documents prepared by AD1. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transactions should consult their professional adviser.

With respect to taxation implications of the Proposed Transactions, it is strongly recommended that the Shareholders obtain their own taxation advice, tailored to their own particular circumstances.

3.3 Scope

This Report has been prepared at the request of the Independent Directors for the sole benefit of Shareholders entitled to vote, to assist them in their decision to vote in favour of or against the Proposed Transactions. This Report is to accompany the Notice of Meeting and additional documents to be sent to Shareholders to consider the Proposed Transactions and was not prepared for any other purpose. Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the Independent Directors and Shareholders without our written consent. We accept no responsibility to any person other than the Independent Directors and Shareholders in relation to this Report.

This Report should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of this Report with the Notice of Meeting. Apart from this Report, we are not responsible for the contents of the Notice of Meeting prepared or any other document associated with the Proposed Transactions. We acknowledge that this Report may be lodged with regulatory authorities to obtain the relevant approvals prior to it being made available to Shareholders.

The scope of procedures we have undertaken has been limited to those procedures required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards. In preparing this Report we considered a range of matters, including the necessary legal requirements and guidance of the Corporations Act, ASIC regulatory guides and commercial practice.

In forming our opinion, we have made certain assumptions and outline these in this Report including:

- analysis on the basis that the conditions precedent to the Proposed Transactions between AD1 and USS are satisfied;
- That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;
- All information which is material to the Shareholders' decision on the Proposed Transactions has been provided and is complete, accurate and fairly presented in all material respects;
- ASX announcements and other publicly available information relied on by us are accurate, complete and not misleading;
- If the Proposed Transactions are implemented, that they will be implemented in accordance with the stated terms;
- The legal mechanism to implement the Proposed Transactions are correct and effective;
- There are no undue changes to the terms and conditions of the Proposed Transactions or complex issues unknown to us; and
- Other assumptions, as outlined in this Report.

AD1 has acknowledged that the Company's engagement of BDO is as an independent contractor and not in any other capacity including a fiduciary capacity.

The statements and opinions contained in this Report are given in good faith and are based upon our consideration and assessment of information provided by the Board, executives and management of all the entities.

3.4 Current Market Conditions

Our opinion and the analysis set out in this Report is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time and may have a material impact on the results presented in this Report and result in any valuation or other opinion becoming quickly outdated and in need of revision.

In circumstances where we become aware of and believe that a change in these conditions, results in a material statement in this Report becoming misleading, deceptive or resulting in a material change in valuation, we will provide supplementary disclosure to AD1. BDOCF is not responsible for updating this Report following the shareholders' meeting or in the event that a change in prevailing circumstance does not meet the above conditions.

3.5 Reliance on Information

AD1 recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDOCF, BDO East Coast Partnership or any of the partners, directors, agents or associates (together 'BDO'), will be using and relying on publicly available information and on data, material and other information furnished to BDO by AD1, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

Unless the information we are provided suggests the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether or not the Proposed Transactions are fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable and in the best interests is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. Where we have relied on publicly available information, we have considered the source of the information and completed our own analysis to assist us to determine the reliability of the information. However, in many cases, the information we have relied on is often not capable of external verification or validation and on that basis we provide no opinion or assurance on the information.

The Independent Directors represent and warrant to us, for the purpose of this Report, that all information and documents furnished by AD1 (either by management directly or through advisors) in connection or for use in the preparation of this Report do not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein. We have received representations from the Independent Directors in relation to the completeness and accuracy of the information provided to us for the purpose of this Report.

Under the terms of our engagement, AD1 has agreed to indemnify BDO against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

3.6 Glossary

Capitalised terms used in this Report have the meanings set out in the glossary. A glossary of terms used throughout this Report is set out in Appendix E at the end of this Report.

All dollar ('$') references in this Report are in Australian dollars unless otherwise stated.

3.7 APES 225 *Valuation Services*

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 *Valuation Services* ('APES 225'). A Valuation Engagement is defined by APES 225 as 'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

3.8 Qualifications

BDOCF has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDOCF holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDOCF and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Stephen Seear and Daniel Coote have prepared this Report with the assistance of staff members. Mr Seear, BCom, CA, and Mr Coote, BCom, CA, MAppFin are directors of BDO with extensive experience in corporate advice and the provision of professional services to a diverse range of clients. Both Mr Seear and Mr Coote are considered to have the appropriate experience and professional qualifications to provide the advice offered within this Report.

BDO Corporate Finance (East Coast) Pty Ltd

Stephen Seear **Director**	**Daniel Coote** **Director**

PART II: INFORMATION SUPPORTING OUR OPINION ON THE PROPOSED TRANSACTION

4.0 Overview of the Proposed Transaction

This section is a summary only and should not be treated as a complete description of the Proposed Transactions. The Shareholders should refer to the Notice of Meeting prepared by AD1 for detailed and additional information relating to the Proposed Transactions and the key parties involved.

4.1 Summary of the Proposed Transaction

On 26 November 2018, AD1 announced that it had signed a non-binding term sheet in relation to the proposed business combination with USS and that it was considering a capital raising by way of a placement of new fully paid ordinary shares. On 3 January 2019, AD1 announced that it had signed transaction documents for the Proposed Acquisition and that it had received binding commitments in relation to the Proposed Placement from Potentate and Associates.

The SPA in relation to the acquisition of USS provides the following commercial terms:

- Total consideration with a notional value of $3.588 million, payable entirely by way of issuing 132.9 million new fully paid ordinary shares ('Scrip Consideration') in AD1 at an assumed value of $0.027 per share; and
- Retained cash of $850,000 to fund working capital (which includes a one-off tax liability).

The Proposed Placement involves the issue of 36.7 million fully paid ordinary shares to Potentate and Associates at an issue price of $0.027 per share, raising total proceeds of $990,000. The Proposed Placement is conditional on completion of the Proposed Transactions.

Following implementation of the Proposed Transactions, Potentate's shareholding in AD1 will increase from 11.51% to 32.12%, while Potentate and Associates will collectively hold a relevant interest of 40.46% of AD1 shares post-transaction (their current relevant interest is 12.18% of AD1 shares).

Accordingly, the Proposed Transactions are subject to approval by AD1 Shareholders for the purposes of the Corporations Act.

4.2 Description of the Key Parties involved in the Proposed Transaction

4.2.1 ApplyDirect

AD1 is a developer of customer branded recruitment marketing platforms and related digital services that directly connect employers and candidates without the need for intermediaries, such as external recruiters and job boards.

Michael Norster, a non-executive director of AD1, controls his investment entity Potentate Investments Pty Ltd ('Potentate') which holds 11.51% of voting shares in AD1, making it the largest shareholder as at 21 December 2018.

Mr Christopher Kuperman, a shareholder of USS, and Mr Andrew Henderson, a Director of USS, are Associates of Potentate. Potentate and Associates collectively own 12.18% of AD1 Shares.

Potentate and Associates are also the majority shareholders of USS as detailed below.

4.2.2 Utility Software Services Pty Ltd

USS offers professional services to the energy retail market including: IT consulting, Business Process Outsourcing (BPO) and implementation of programming systems and business solutions.

Potentate and the Potentate Associates own over 78% of the total shares in USS.

4.3 Key Conditions of the Proposed Transaction

This section sets out key conditions precedent and other matters relevant to the Proposed Transactions. We recommend that Shareholders consider all requirements of the Proposed Transactions set out in the Notice of Meeting prepared by AD1.

4.3.1 Key Conditions Precedent

At the date of this Report, we understand the following conditions precedent to the Proposed Acquisition have been satisfied (or waived):

- The USS shareholders signing all relevant transaction documents, including a sale and purchase agreement;
- The Shareholders of USS waiving any pre-emptive or similar rights in relation to the Proposed Acquisition for the purpose of the shareholders' agreement of USS and all other purposes;
- Any other third party or regulatory approvals or consents required or desired to be obtained in connection with the Proposed Acquisition are obtained on terms satisfactory to AD1; and
- AD1 confirming to its satisfaction that USS owned and third party licensed intellectual property rights are appropriately protected and will not be impacted by the Proposed Acquisition.

Completion of the Proposed Transactions remains subject to the following conditions precedent:

- AD1 Shareholders being provided an Independent Expert Report concluding that the Proposed Transactions are 'fair and reasonable' to AD1's non-associated shareholders, or 'not fair, but reasonable';
- AD1 holding an extraordinary general meeting and its shareholders approving the Proposed Transactions; and
- There being no material breach of warranty and no material adverse change to the business of USS or any part of the business of USS prior to completion of the Proposed Transactions.

4.4 Strategic Rationale for the Proposed Transactions

AD1 has acknowledged that the ability of the Company to continue operating as a going concern is dependent on securing additional shareholder funding. At and since its initial public offering ('IPO') in June 2016, AD1 has raised equity funding of $13.59 million, which most recently included the completion of a $770,000 share placement at $0.03 per share on 4 October 2018.

Prevailing market volatility impacted AD1's placement in October 2018, and as such the Company was unable to raise the funds needed to take it to breakeven. This has resulted in the Company requiring a further capital raising or an alternative transaction prior to 31 March 2019.

AD1 subsequently appointed advisers to assist with undertaking a capital management options review, which has included consideration of the Company's ability to access alternative sources of funding, entering into a trade sale or potentially external administration in the absence of any viable alternatives.

In this context, AD1 received an offer from Potentate and has subsequently negotiated the terms of the Proposed Acquisition and the Proposed Placement.

The independent directors of AD1 believe the Proposed Transactions provide the clearest and most viable path for AD1 to ultimately become a sustainable business. Further, AD1 and USS are both SaaS platform providers, with similar people and technology infrastructure. As such, the directors of AD1 believe the Proposed Transactions will provide the following benefits:

- shared technical capability and the ability to reduce the overall cost base of combined operations;
- a diversified revenue stream, allowing AD1 to focus resources on higher yielding revenues, pruning the customer base where necessary to achieve this outcome;
- accelerate AD1's path to breakeven as a result of the above;
- time to integrate the businesses and achieve the synergies with the funding from the Proposed Placement; and
- better position the Company to undertake future capital raisings (as required) and continue operating as a going concern.

Each Independent Director of AD1 intends to vote in favour of the Proposed Transactions for the shares they hold, and the directors also recommend Shareholders vote in favour of the Proposed Transactions, in the absence of a superior proposal.

5.0 Background of ApplyDirect

5.1 Overview

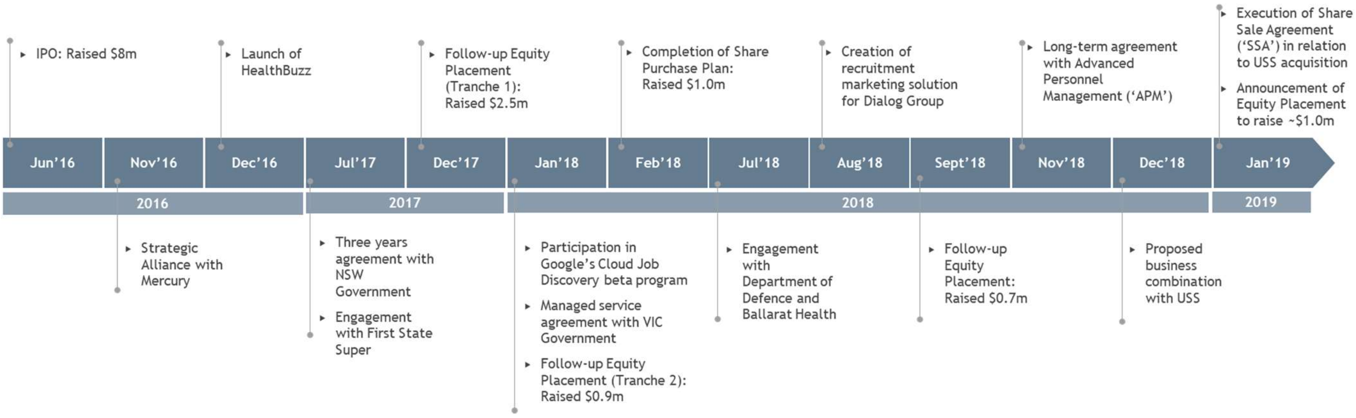
AD1 listed on the Australian Securities Exchange ("ASX") by way of an IPO in June 2016. At the time of the listing, the Company's focus was developing its own branded market-wide online database and search platform to link employers and job candidates directly to live job opportunities on the employer's website.

In the 18 months post-IPO and ASX listing the industry experienced profound changes, most notably the proliferation of job advertising on social media as well as the launch of Google Job Search and Google for Jobs. This changing landscape, combined with customer feedback, informed the company's strategic pivot to apply its intellectual property to the development of customer branded recruitment marketing platforms and the provision of related digital services.

AD1 has also recently retained advisors to assist with the review of capital management options and embarked on a cost management program.

Key chronological events of AD1 are illustrated below.

Figure 2: Chronological events



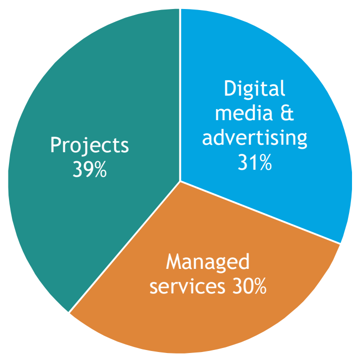
Source: ASX Announcements

5.2 Business model

AD1 generates revenue from multiple sources, including:

- **Managed Services** revenues, which include fees paid by employers for the hosting and maintenance of their AD1 powered recruitment marketing platforms and the provision of related digital marketing services. Managed Services continues to be a key focus area for AD1. In addition, AD1 is also in the process of converting legacy clients, with standalone digital marketing contracts, to the Managed Services model which is more consistent with the industry direction as noted above. Management have noted that project revenue contributes to higher managed services fees and creates greater reliance on AD1 from such customers.
- **Project** revenues, which relate to the initial development and implementation of recruitment marketing platforms (e.g. Careers.VIC), and subsequent functionality enhancements (e.g. development of the iworkfor.nsw mobile app) and new e-recruitment integrations (e.g. integration of VicRoads and Department of Education to the Careers.VIC portal). A significant portion of project revenues generated have proven to be recurring particularly in relation to new e-recruitment integrations.
- **Digital media & advertising** revenue, which includes fees for AD1 conducting marketing campaigns by generating visits to a customer's advertisements placed on AD1's platforms. AD1 generates visits organically via its own subscriber base and also drives traffic where required through paid advertising, e.g. Google AdSense. Consistent with its strategy, the Company will shift its focus from media advertising on ApplyDirect and HealthBuzz platforms to media advertising on the customer branded platforms.

Figure 2: FY18 revenue by segment



Source: FY18 management accounts

As part of AD1's strategy to focus its resources on high yielding revenue, the Company's contract with Dialog Pty Ltd has been terminated, and AD1 will continue to assess the economic sustainability of its customer base.

5.3 Customers

When AD1 listed, its growth strategy involved marketing AD1's platform broadly to employers (large and small, and including those that had previously had free access to the platform), governments and industry groups. The Company's principal focus was on building the size of the employee community using the platform and expanding the number of paying employer customers.

With the strategic pivot towards providing customer-branded recruitment marketing platforms, the Company's current target market includes any organisation that has a sufficient enough spend on recruitment services to justify building their own platform. AD1 categorises these into three target market segments: government, large enterprise and institutional corporates. The Company expects each contract from institutional corporate customers to yield annual revenue of approximately $0.5 million.

AD1's customer base has included: the NSW Government, VIC Government, APM, Ballarat Health, Cabrini, Hitachi, First State Super, Holcim, SunSuper, NAB, Transport Accident Commission and Monash University.

5.4 Key strategic collaborations

In 2016 AD1 entered into a strategic alliance with Mercury Group of Companies Pty Ltd ('Mercury'). Mercury is a HR technology company that is owned by Equifax Inc. It provides services in management software, online HR solutions and risk management in the healthcare sector. This includes integrated police clearance and credential checking products to ensure that the candidates are job ready.

In 2018, AD1 integrated Google's Cloud Job Discovery system into AD1 solutions, which has had an industry-wide impact and is expected to further enhance AD1's offering.

5.5 Directors and Management

The Directors and Key Management Personnel of AD1 are listed below.

Table 3: Board of Directors and Key Management

Name	Position	Brief resume
Lorcan Barden	Chief Executive Officer ('CEO')	Appointed CEO in September 12, 2016. Previously, Mr Barden served in global professional services (PwC and Accenture) for more than 15 years and as a CEO and Executive Director at EFM Logistics Services Group Pty Ltd. On 3 January 2019, it was announced that Mr Barden would step down from the role of CEO as at 1 March 2019.
Bryan Petereit	Founder, Chief Technical Officer ('CTO') & Executive Director ('ED')	Founder and Executive Director of AD1. Mr Petereit served as CEO before Mr Barden's appointment. His working career started with IBM Australia. Subsequently, he has also worked in the IT sector in management roles with Ferntree Computer Corporation and following its acquisition, with the IT division of GE Capital. On 3 January 2019 AD1 announced that Mr Petereit would be taking over from Mr Barden as the company's CEO as at 1 March 2019.
Prashant Chandra	Chief Financial Officer ('CFO') & Company Secretary	Appointed CFO & Company Secretary on 14 May 2018. Prior to this, Prashant Chandra led the finance function of AD1 and was its Financial Controller. Previously, he held finance leadership roles with EFM Logistics Services Group and Adecco Group.
Michael Norster	Non-Executive Director	Appointed Director on 29 May 2018. Mr Norster has formed a number of successful Australian start-ups, including Australian Energy group of companies and Green Generation group of private companies. Additionally, he is the controller of Potentate Investments Pty Ltd, which is AD1's largest single shareholder, and the majority shareholder of USS. Additionally, he is a Director of Blue NRG Pty Ltd, which is one of the largest clients of USS.
Michael Kay	Non-Executive Chairman	Mr. Kay is currently Chairman of City Chic Collective Limited (ASX:CCX), IMF Bentham Limited (ASX:IMF) and ApplyDirect Limited (ASX:AD1) and a Non-Executive Director of Royal Automobile Club Insurance (WA). He was previously a non-executive director of Quintis Ltd and Lovisa Holdings Limited. A qualified lawyer, Mr. Kay brings a broad range of commercial experience to the Board. Mr. Kay was Chief Executive Officer and Managing Director of McMillan Shakespeare Limited (ASX:MMS) for six years and previously held a number of senior executive roles at AAMI including Chief Executive Officer. He also spent 12 years in private legal practice specialising in commercial law during his executive career.

Source: Capital IQ, Company Website, Company Public Announcements

5.6 Equity structure

5.6.1 Capital raisings

In March 2016, the Company raised $1.35 million in the form of Convertible Notes, which was followed by an IPO on 22 June 2016. The IPO was followed by a number of additional share placements. The Company has also issued additional options, which were granted to and vested by Directors and other Key Management Personnel, as part of compensation. The details and results of the capital raises are presented in the table below.

Table 4: Issue of ordinary shares

Date	Event	Number of shares	Issue price	Amount raised
22-Jun-16	IPO	40,000,000	$0.200	$8,000,000
21-Dec-17	Tranche 1	28,432,546	$0.090	$2,558,929
29-Jan-18	Tranche 2	9,988,766	$0.090	$898,989
29-Jan-18	Share Purchase Plan	11,456,955	$0.090	$1,031,126
4-Oct-18	Follow-up placement	25,666,667	$0.030	$770,000
21-Dec-18	Directors' Placement	8,333,332	$0.030	$250,000
Pending	Proposed Placement to Potentate and Associates	36,667,667	$0.027	$990,000

Source: ASX Announcements

Table 5: Issue of options

Date	Event	Number of options	Exercise price	Amount	Expiration date
28-Apr-15	Issue of options under ESOP to employees & consultants	15,000,000	0.280	4,200,000	28-Apr-20
30-Apr-15	Issue of options under ESOP to employees & consultants	3,405,000	0.330	1,123,650	30-Apr-20
28-Sep-15	Issue of options under ESOP to employees & consultants	250,000	0.330	82,500	28-Sep-20
17-Jun-16	Issue of options on conversion of convertible notes	250,000	0.250	62,500	16-Jun-19
19-Aug-16	Issue of options on conversion of convertible notes	125,000	0.250	31,250	18-Aug-19
23-Aug-16	Issue of options on conversion of convertible notes	750,000	0.250	187,500	23-Aug-19
05-Sep-16	Issue of options on conversion of convertible notes	750,000	0.250	187,500	4-Sep-19
09-Sep-16	Issue of options on conversion of convertible notes	250,000	0.250	62,500	8-Sep-19
12-Sep-16	Issue of options under ESOP to employees & consultants	3,666,667	0.600	2,200,000	11-Sep-20
12-Sep-16	Issue of options under ESOP to employees & consultants	3,666,667	0.850	3,116,667	11-Sep-20
12-Sep-16	Issue of options under ESOP to employees & consultants	3,666,666	1.200	4,399,999	11-Sep-20
29-Sep-16	Issue of options on conversion of convertible notes	500,000	0.025	12,500	29-Sep-19
07-Oct-16	Issue of options on conversion of convertible notes	1,000,000	0.025	25,000	5-Oct-19
14-Oct-16	Issue of options on conversion of convertible notes	50,000	0.025	1,250	13-Oct-19
29-Nov-16	Issue of options on conversion of convertible notes	1,000,000	0.025	25,000	28-Nov-19
02-Dec-16	Issue of options on conversion of convertible notes	950,000	0.025	23,750	1-Dec-19
12-Dec-16	Issue of options on conversion of convertible notes	250,000	0.025	6,250	11-Dec-19
19-Dec-16	Issue of options on conversion of convertible notes	875,000	0.025	21,875	18-Dec-19
21-Dec-17	Capital Raise Options Issued - Tranche 1 - Dec 17	14,216,273	0.090	1,279,465	20-Dec-19
29-Jan-18	Capital Raise Options Issued - Tranche 2 - Jan 18	4,994,382	0.090	449,494	28-Jan-20
20-Feb-18	Capital Raise Options Issued - Tranche 2 - Jan 18	277,777	0.090	25,000	19-Feb-20
09-Mar-18	Issue of options under ESOP to employees	1,625,000	0.090	146,250	8-Mar-22
04-Oct-18	Follow-up Placement	8,555,547	0.060	513,333	4-Oct-21

Source: Annual Reports, ASX Announcements

The funds raised in the past were used in large part for the development of internal sales and marketing capabilities and the retention of external agencies to assist in the development of strategy.

The Company is aiming to explore further capital raising initiatives where this is in the best interests of shareholders and helps to preserve or enhance shareholder value. It is noted that the majority of the options are significantly out-of-the-money.

5.6.2 Ordinary Shares

As of 14 January 2019, AD1 had 256,299,656 fully paid ordinary shares on issue. The top 20 shareholders are set out in the table below.

Table 6: Shareholder structure

Top 20 shareholders	Securities Outstanding	% Ownership
Potentate investments Pty Ltd	29,489,383	11.51%
Werndex Pty Ltd	19,431,967	7.58%
Doveton kay Investments Pty Ltd	7,277,776	2.84%
G S Andrews Consulting Pty Ltd	6,413,332	2.50%
Paradyce Pty Ltd	6,370,151	2.49%
BT Portfolio Services Limited	5,941,166	2.32%
Vernbrook Pty Ltd	4,863,435	1.90%
Pragmatic Pty Ltd	4,663,641	1.82%
Sam Romek Gonn	4,396,823	1.72%
CS Fourth Nominees Pty Limited	4,225,801	1.65%
Joelisa Nominees Pty Ltd	3,942,852	1.54%
Peter John Rahilly & Pauline Denise Rahilly	3,750,003	1.46%
Dunclyn Investments Pty Ltd	3,750,003	1.46%
Asia Pac Technology Pty Ltd	3,616,666	1.41%
Intercontinental Pty Ltd	3,400,000	1.33%
Tamlett Pty Ltd	3,333,333	1.30%
Russell Howard Pty Ltd	3,200,000	1.25%
Ram Business Intelligence Pty Ltd	3,168,582	1.24%
Mr Christopher Dylan Judd & Mrs Rebecca Jane Judd	3,000,000	1.17%
Howard Trading Co Pty Ltd	3,000,000	1.17%
Sub-total	**127,234,914**	**49.64%**
Remaining shareholders	129,064,742	50.36%
Total	**256,299,656**	**100.00%**

Source: AD1 Management, Capital IQ, ASX announcements

Having regard to the information set out in the table above, we note:

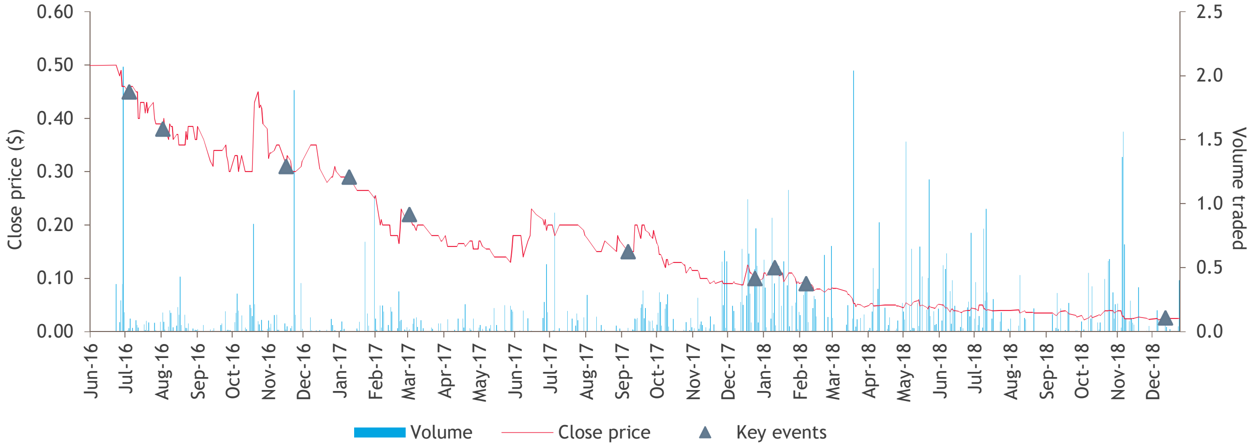
- The table above includes any shares held by trustees under employee share option plans, but does not consider the impact of any changes in shareholding as a result of the Proposed Transactions.
- The top 20 shareholders own approximately 49.64% of the equity interest in the Company.
- Substantial shareholders of the company include Potentate, which owns 11.51% of the issued shares, and Werndex Pty Ltd, which owns 7.58%.
- Management has advised that 22% of the issued shares are held by the Directors and management personnel, either directly or indirectly through investment vehicles, as at December 2018.
- Potentate is the largest shareholder and is controlled by AD1's non-execute director Michael Norster.
- Werndex is the second largest shareholder and is controlled by AD1 Director Bryan Petereit.

5.7 Share Trading of AD1

5.7.1 Share Price Performance

The figure below displays the daily volume weighted average price ('VWAP') and daily volume of AD1's shares traded on the ASX over the period from 23 June 2016 to 16 January 2019.

Figure 3: Daily closing Share price and Volume of AD1's shares from 23 June 2016 to 16 January 2019



Source: Capital IQ

Following a short-lived increase in July 2016, AD1's share price has generally declined since IPO.

ASX announcements that correspond to the significant share price movements (i.e. 'key events') are summarised below.

Table 7: Selected AD1 ASX Announcements from 23 June 2016 to 16 January 2019

Date	Announcement	Closing Share Price Following Announcement $ (Movement)			Closing Share Price Two Days After Announcement $ (Movement)		
4-Jul-16	AD1 announced the appointment of Lorcan Barden as the Company's new CEO.	0.37	3%	▲	0.370	0%	►
29-Jul-16	AD1 published a consolidated statement of cash flows, reporting an increase of cash from issues of shares and options. Additionally, the Company provided the business update on the placed order from Government Department and on the opened discussions with a State Government.	0.46	0%	►	0.450	-2%	▼
10-Nov-16	AD1 announce its Strategic Alliance with Mercury.	0.38	27%	▲	0.450	16%	▲
15-Dec-16	AD1 announced the launch of its healthcare talent search platform HealthBuzz	0.3	0%	►	0.310	3%	▲
27-Feb-17	AD1 released the H1 FY2017 report, announcing the 4.62% increase in revenue from continuing operating and 35.44% increase in loss for the period.	0.2	-17%	▼	0.200	0%	►
27-Jul-17	AD1 announced Q4 2018 report, highlighting the progress of its platform development and significant revenue growth over the previous quarter.	0.18	-5%	▼	0.200	10%	▲
18-Dec-17	AD1 announced that it received commitments from institutional and sophisticated investors in a two-tranche private placement to raise approximately $3.5 million at an issue price of $0.09 per share, with the grant of one option for every two shares taken up in the placement each with an exercise price of $0.09.	0.095	4%	▲	0.090	-6%	▼
9-Jan-18	AD1 announced that it was engaged by NSW Government to develop 'iwork.for.nsw' mobile app. Additionally, it announced the signing of a managed services agreement with the Victorian Government relating to its whole of Government careers portal.	0.125	9%	▲	0.110	-14%	▼

Date	Announcement	Closing Share Price Following Announcement $ (Movement)			Closing Share Price Two Days After Announcement $ (Movement)		
5-Feb-18	AD1 announced the successful completion of its share purchase plan, announced on 18 December 2017, and receiving over $1 million in applications. As a result, the Company announced 11,456,955 new ordinary shares to be issued at $0.09 per share.	0.105	-9%	▼	0.110	5%	▲
26-Nov-18	AD1 announced its proposed business combination with USS and its consideration of a capital raising to attain an accelerated breakeven position.	0.039	0%	►	0.029	-34%	▼
21-Dec-18	AD1 released an update in relation to the proposed acquisition of USS. Additionally, it released the Notice of change of interest of Potentate, which increased their holding to 11.51%.	0.023	-8%	▼	0.022	-5%	▼
3-Jan-19	AD1 announced the signing of the SPA with USS and binding capital raise commitments of approximately $1m by the placement of new fully paid ordinary shares to Potentate and Associates.	0.026	8%	▲	0.025	-4%	▼

Source: AD1 ASX Announcements

The table below sets out AD1's VWAP over various periods since listing up to 26 November 2018 (being the date AD1 publicly announced the Proposed Transaction).

Table 8: AD1 VWAP for the period from 23 June 2016 to 26 November 2018

Period to 26-Nov-2018	VWAP ($)	Cumulative volume (m)	% of issued capital
1 day	0.035	0.217	0.1%
1 week	0.037	0.837	0.3%
1 month	0.035	3.430	1.4%
3 months	0.035	5.456	2.3%
6 months	0.042	18.149	8.7%
12 months	0.069	44.538	20.6%
Since listing	0.158	74.759	38.5%

Source: Capital IQ

Note: The volume of shares traded above is based upon all shares outstanding. AD1 has two significant shareholders who collectively hold ~20%. CapitalIQ calculates AD1's free float as at 26 November 2018 at 48.7%. The volume of shares traded as a percentage of free float would be higher than those shown in the table above.

The table below sets out AD1's VWAP since the Proposed Acquisition was announced on 26 November 2018 (noting that details of the Proposed Placement were not announced until 3 January 2019). We note that AD1's share price decreased by 34% in the two days following the announcement of the Proposed Transactions.

Table 9: AD1 VWAP for the period from 26 November 2018 to 16 January 2019

	VWAP ($)	Cumulative value (m)	Cumulative volume (m)	% of issued capital
26-Nov-18 to 16-Jan-19	0.0269	0.1488	5.5266	2.16%

Source: Capital IQ

5.8 Historical Financial Information

This section sets out the historical financial information of AD1. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in the annual reports, including the full statements of profit or loss and other comprehensive income, statements of financial position and statements of cash flows.

In particular, we note that AD1's FY17 annual report flags the Company's going concern basis as a key audit matter, due to the high level of judgment required in evaluating the basis of the Company's going concern assessment. Further, AD1's FY18 annual report states that a material uncertainty existed that may cast doubt on the Company's ability to continue as a going concern.

5.8.1 Historical Statement of Profit & Loss and Other Comprehensive Income

Table 10: Summarised AD1 Historical Profit and Loss Statement

$AUD ('000)	FY15	FY16	FY17	FY18
Net revenue	**891**	**887**	**982**	**2,148**
Revenue from services & other income	676	635	694	1,724
R&D Tax Incentive	215	252	288	425
Revenue growth	*98.3%*	*-0.5%*	*10.8%*	*118.8%*
Total operating expenses	**(2,146)**	**(4,220)**	**(5,446)**	**(6,906)**
Employee benefits expense	(1,028)	(898)	(2,819)	(3,079)
Marketing expense	(465)	(1,353)	(1,397)	(1,461)
Professional fees	(81)	(1,154)	(423)	(1,168)
Travel expenses	(67)	(75)	(63)	(38)
Administration and other expenses	(127)	(249)	(312)	(426)
Software development	(378)	(492)	(432)	(735)
Operating profit	**(1,255)**	**(3,334)**	**(4,464)**	**(4,758)**
Net finance expense / (income)	(26)	(124)	(16)	10
Net income	**(1,281)**	**(3,458)**	**(4,480)**	**(4,748)**

Source: Annual Reports

Note: The financial statements for FY15 were audited by Daniel Allison & Associates Assurance, while FY16, FY17 and FY18 accounts were audited by Grant Thornton. BDOCF has not performed any audit or review of any type on the historical financial information of AD1 and we make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

With reference to the table above, we note the following:

- Revenue between FY15 and FY17 was flat, reflecting the investment required in sales & marketing, which became available in FY17 post-IPO.
- Following the Company's strategic pivot, FY18 revenue increased by 119% driven by project related revenue from the existing contract with the NSW Government and new contract wins from the VIC Government, among others. The growth was further supported by media related new contract wins including First State Super.
- R&D Tax Incentive constituted 28% of revenue in FY16, 29% in FY17, before decreasing in FY18 to 20% (notwithstanding the increase quantum to $425k in FY18).
- Salary and wages increased in FY17 in line with the investment in capability post-IPO, including a management structure established to deliver the company's strategic objectives. This included non-cash expenses ($311k in FY17 and $377k in FY18) relating to the provision of employee share plan options. Key management personnel salaries constituted more than 30% of total salaries in FY17 and FY18, but may decrease going forward with the recent announcement of the management restructure and potential synergies that may arise from the Proposed Transactions.
- Professional fees spiked in FY16, mainly driven by IPO-related professional, consulting and marketing expenses. The IPO was completed on 22 June 2016. Professional and consulting fees have increased in connection with upfront consulting services to assist with product design and provide technical oversight in line with the Company's strategic objectives. The Company expects to leverage this IP across future clients and projects. Investor relations cost for additional capital raisings over FY17 and FY18 also contributed to increasing professional fess over this time.

- Marketing costs remained stable throughout FY16-18, while decreasing as a percentage of total expenses from 32% to 21% over this period. These costs primarily relate to the ongoing need of the business to market its own platform, in addition to marketing for clients to facilitate the media sales solutions. Marketing expenses will decrease going forward with the Company's focus shifting away from subscription and digital marketing & media revenues from the AD1 branded platforms.
- Software and technology expenses are associated with the expenditure relating to hosting, maintenance and development of the Company's products and solutions.

5.8.2 Historical Statement of Financial Position

Table 11: Summarised AD1 Historical Statement of Financial Position

$AUD ('000)	FY15	FY16	FY17	FY18
ASSETS				
Current assets				
Cash & cash equivalents	78	7,384	3,210	2,729
Trade debtors/receivables	440	566	401	834
Total current assets	**519**	**7,950**	**3,611**	**3,563**
Non-current assets				
Property, plant and equipment	12	9	34	35
Other non-current assets	17	17	17	17
Total non-current assets	**28**	**25**	**50**	**51**
TOTAL ASSETS	**547**	**7,975**	**3,662**	**3,614**
LIABILITIES				
Current liabilities				
Short term interest bearing liabilities	250	1,214	-	-
Trade creditors/payables	278	909	574	479
Employee provisions	31	79	151	200
Unearned revenue	156	92	113	74
Total current liabilities	**714**	**2,293**	**838**	**753**
Non-current liabilities				
Employee provisions	25	48	2	6
Total non-current liabilities	**25**	**48**	**2**	**6**
Total liabilities	**739**	**2,341**	**841**	**759**
Net assets	**(192)**	**5,635**	**2,821**	**2,855**
Equity				
Issued capital	5,607	14,656	16,034	20,439
Reserves	1,312	1,548	1,836	1,429
Accumulated losses	(7,111)	(10,569)	(15,049)	(19,013)
Total equity	**(192)**	**5,635**	**2,821**	**2,855**

Source: AD1 FY15, FY16, FY17, FY18 Annual Reports

With reference to the table above, we note the following:

- AD1 ended FY16 with approximately $7.4 million in cash following the IPO by issuing 40 million shares at 20 cents on 22 June 2016 (less transaction costs). The Company has since undertaken further capital raisings to fund operations and working capital.
- AD1 does not capitalise development costs, and as such the majority of assets comprise cash and working capital.
- Short term interest bearing liabilities in FY15 consisted of a Director loan which was repaid in full in FY16. Following repayment of the loan, AD1 issued 1.35 million convertible notes at $1 each. All notes were converted into shares in December 2016.
- Accumulated losses were $19 million in FY18 (up from $7 million in FY15). The losses have been funded by shareholder capital.

5.8.3 Historical Statement of Cash Flows

Table 12: Summarised AD1 Cash Flow Statements

$AUD ('000)	FY15	FY16	FY17	FY18	Q1 FY19
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers	520	688	800	1,540	630
Payments to suppliers and employees	(1,636)	(3,544)	(5,311)	(6,690)	(1,810)
Interest and other costs of finance paid	(26)	(49)	(4)	(5)	(1)
Other income	27	6	70	14	-
R&D claim	141	215	252	287	-
Total	**(974)**	**(2,684)**	**(4,192)**	**(4,854)**	**(1,181)**
CASH FLOW FROM INVESTING ACTIVITES					
Payments for PP&E	(5)	(3)	(32)	(15)	(3)
Total	**(5)**	**(3)**	**(32)**	**(15)**	**(3)**
CASH FLOW FROM FINANCING ACTIVITIES					
Repayments of Borrowings	-	(250)	-	-	-
Proceeds from Borrowings	250	1,350	-	-	-
Proceeds from Issue of Shares	654	9,450	50	4,575	642
Capital Raising Costs	-	(557)	-	(187)	-
Total	**904**	**9,993**	**50**	**4,388**	**642**
Net change in cash	**(75)**	**7,306**	**(4,174)**	**(481)**	**(542)**
Cash opening balance	153	78	7,384	3,210	2,729
Cash closing balance	**78**	**7,384**	**3,210**	**2,729**	**2,187**

Source: AD1 FY15, FY16, FY17, FY18 Annual Reports

With reference to the table above, we note the following:

- Losses from operating activities have increased over the observed periods, as demonstrated by the year-on-year increase in negative cash flows from operating activities. This was predominately driven by increasing payroll expenses and payments to suppliers, reflecting the investment in capability post-IPO required to execute AD1's strategy.
- AD1 closing cash balance at the end of Q1FY19 was $2.187m, down from $2.729m in the previous quarter. Cash flows from financing activities (i.e. proceeds from issues of shares) for the quarter were $0.642m, while cash flows from operating activities were negative $1.181m. Consistent with this rate of cash burn, the Company will likely require additional funding in Q3 FY19.

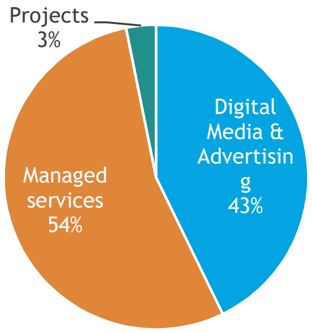
5.9 December 2018 half year financial results

AD1 has not announced the half year accounts for the six months ended 31 December 2018 at the date of this Report. However, we understand AD1 achieved revenue of approximately $0.5 million for the six-month period and AD1's cash balance as at 31 December 2018 was approximately $1.7 million, which includes receipt of approximately $0.4 million R&D tax refund for FY18.

We note the following in relation to YTD revenue:

- Management has advised that in part, the lower receipts for the December 2018 half year reflected execution of the capital management plan and the associated reduced focus on lower yielding revenue. In addition, some cash receipts expected in the December quarter were received in January 2019, whilst activity within the Government sector experienced a slowdown due to the Victorian State election.
- Managed Services revenue and revenue from Digital Media & Advertising have contributed 54% and 43% to FY19 (YTD) total revenue respectively.

Figure 4: FY19 (YTD) revenue by segment



Source: FY19 (YTD) management accounts

5.10 Forecast financial information

BDO has been provided with AD1's FY19 budget and the Company's current revenue pipeline. We have also considered AD1's performance against historical budgets.

However, this information has not previously been disclosed to the market and, in our view the prospective information does not meet the requirements of RG 170 for public disclosure. Accordingly, details have not been included in this IER.

The information provided to BDO details a strong pipeline and growth in revenues, primarily relating to Managed Services and also government project revenues. The FY19 budget has been refined including changes due to the capital management plan (including a review of the existing customer base), delay in project revenue and capital availability.

6.0 Background of Utility Software Services Pty Ltd

6.1 Overview

USS is a privately-owned company. Its services include IT consulting, Business Process Outsourcing (BPO) and implementation of programming systems and business solutions. USS' particular expertise is in developing and integrating enterprise cloud-based platforms for Australian energy retailers to automate their customer billing systems, sales and market operations.

The company has grown over the past four years as information technology in the energy industry required regular upgrades and enhancements, with energy providers outsourcing non-essential systems operations.

Due to complexity of business processes within the retail energy sector, it is not always possible for energy providers to enable their customers to manage and track their own consumption and billing. USS has developed a customer portal for its customers to use and continues to improve software that provides retailers, sales agents and customers with a customisable billing and energy consumption tracking platform.

6.2 Business operations

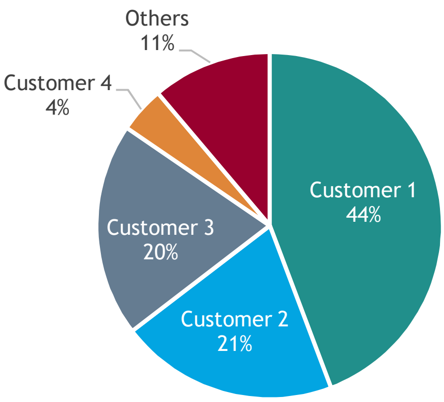
USS' core business operations include IT consulting and providing energy retailers with a complete cloud based solution that streamlines business operations, regulatory and market compliance.

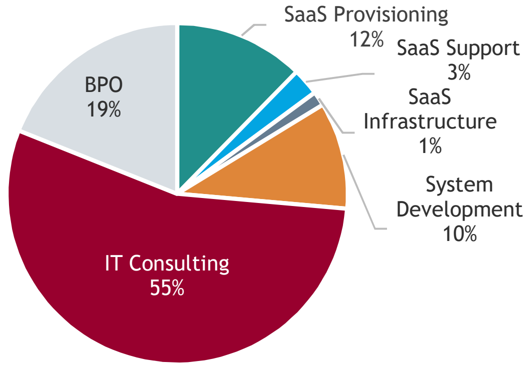
The company earns revenue from three main service offerings:

- IT systems consulting and support;
- Software-as-a-Service ('SaaS') for Billing, Sales, Price Comparison and Customer Portals (configuration, infrastructure, provisioning and support), and
- BPO Services which provide customers with an operational outsourcing arrangement eliminating the retailers need to manage customer billing and billing queries.

The charts below show the composition of FY18 revenue concentration by customer and service offering:

Figure 6: FY18 revenue by customer and service offering





Source: Sales General Ledger (Detail) FY18

USS' largest customer accounted for 44% of FY18 revenue, with the four largest customers representing approximately 89% of revenues. As such, USS has significant customer concentration risk. Approximately 55% of revenue was derived from IT consulting services, while the balance was derived from BPO and SaaS related services.

Energy retailers engage USS to provide a number of services under the service agreements, either based on consultants' hourly rates, fixed fee per active user account or project basis. USS' largest customer is contracted for five years plus a two-year option. The contract also provides for early termination fee payable to USS based on total subscription fees and agreed fixed fee.

The operating expenses of USS mainly consist of employee expenses. As at 30 November 2018, the company employs 20.7 people (full time equivalent) with separate teams supporting each of the above revenue streams. Approximately 51% of staff costs are allocated for delivery of customer service with 90% of staff in recoverable roles.

The scale of USS' operations is driven by business development and marketing of its software tools, as many of its existing contracts are relationship based. The short-to-medium term focus of the business is grow its IT consulting and BPO. IT consulting and development teams are currently operating at 100% capacity, whereas BPO revenue requires minimal incremental running costs.

6.3 Intellectual property and technology overview

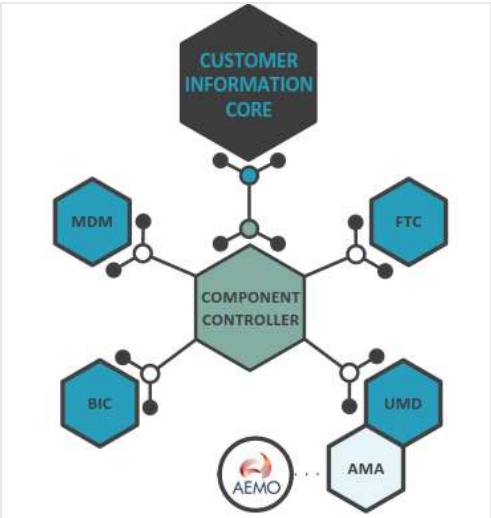
USS has designed a Customer Information Service ('CIS') billing application for use within the Australian energy retail market and intends to market it globally.

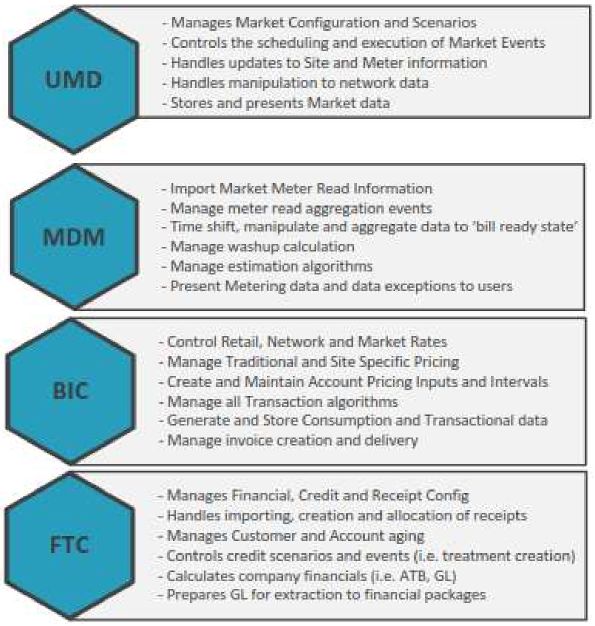
Energy retailers require a technology platform to interact with energy participants, process meter reads, generate transactions and produce invoices. The CIS application design allows USS to on-board energy retailers and manage their billing system requirements. The application consists of tiered solutions, with the following fundamental design elements:

- Partitioned module based framework for application components and processes;
- Cloud (hosted) based service-oriented delivery architecture with each component able to be integrated to other systems using APIs (Application Programmable Interfaces), and
- Sales through to fulfilment capability.

USS' technology design supports the 'milestone' enrichment approach, so that components can be integrated as they are built. The diagram below shows the application components and controller that manages component integration.

Figure 5: Modular architecture & core components





Source: *USS*
Notes: *1. UMD = Utility & Market Data*
2. MDM = Meter Data Management
3. BIC = Billing and Invoice
4. FTC = Financial Transaction and Credit
5. AMA = Market Operator

Employees of USS create software and other intellectual property ('IP') for the company as part of their normal employee undertakings under their employment contracts. Any IP created is specific to their development skill sets and remains the property of the company pursuant to those contracts.

6.4 Register of shareholders

6.4.1 Ordinary Shares

Table 13: Company shareholders

Shareholders as at 03 January 2019	Shares	%
Potentate Investments Pty Ltd	39,052	58.43%
Christopher Kuperman	13,467	20.15%
Nameblank Pty Ltd	2,380	3.56%
Hampton East Development Pty Ltd	4,991	7.47%
Bluebell Lodge Pty Ltd	3,321	4.97%
Stewart William Jackson & Michael Alexander Jackson	2,157	3.23%
Brantwood Capital Partners Pty Ltd	695	1.04%
James Christian Mitchell	778	1.16%
Total shares	**66,841**	**100.00%**

Source: *ASIC company statement, Register of members*

As shown above, USS had 66,841 ordinary shares as at 3 January 2019 and is controlled by Potentate via a 58.4% holding, which in turn is controlled by current non-executive director of AD1, Mr Michael Norster. We also note that Mr Michael Norster and Mr Christopher Kuperman (the second largest shareholder of USS) are both directors of USS's largest client, BlueNRG Pty Ltd.

USS recently undertook a return of capital to shareholders by way of share cancellation. The total reduction of capital was $1,700,000. This implies a 100% value of $3.6 million (on a pro-rata basis), which aligns with AD1's notional purchase price of USS of $3.588 million under the Proposed Transactions.

Prior to the share cancellation, shareholder transactions representing 20.8% of shares were undertaken during December 2018. Shares held by five former employees were acquired by other existing shareholders at a sale price of $23.70 per share for all transactions. The shareholder transactions were undertaken in accordance with USS' Shareholder Agreement, with the price reflecting a negotiated outcome and all amounts have been settled in cash.

A summary of the shareholder transactions is shown below.

Table 14: Transfer of USS shares prior the Proposed Transactions

USS Shareholder Transactions	
Shares transferred	26,320
% of total ordinary shares (at the time of the transfer)	20.8%
Total consideration	**623,784**

Source: Management

6.5 Historical financial information

USS has no statutory audit requirements. As such, we reviewed unaudited financial statements that were prepared in support of USS' tax returns, which include Statements of Profit and Loss, and Statement of Financial Position. The company does not prepare Cash Flow Statement, however we reviewed its weekly cash flow schedule between 3 July 2017 and 1 July 2018.

6.5.1 Historical Statement of Profit & Loss

The table below summarises the profit and loss statement of USS for the years ended 30 June 2015 to 2018, and for the four months ended 30 November 2018.

Table 15: Summarised USS Historical Profit and Loss Statement

$AUD ('000)	FY15	FY16	FY17	FY18	Nov-18 YTD
Total Revenue	**648**	**1,699**	**3,062**	**3,405**	**4,503**
Sale of Software IP					*3,041*
Revenue growth	N/A	162.1%	80.2%	11.2%	32.3%
Cost of goods sold (excl. D&A)	(12)	(24)	(62)	(139)	(59)
Gross profit	**636**	**1,676**	**3,000**	**3,266**	**4,444**
Salary & wages	(239)	(1,405)	(2,193)	(2,522)	(1,029)
Commissions	-	(24)	(46)	(257)	
Contractors	(187)	(306)	(595)	(562)	(344)
General & administrative (excl. D&A)	(42)	(175)	(360)	(296)	(141)
Director fees	-	-	-	(44)	(25)
Total operating expenses	(467)	(1,910)	(3,193)	(3,680)	(1,539)
EBITDA	**169**	**(235)**	**(193)**	**(414)**	**2,905**
EBITDA margin	26.1%	-13.8%	-6.3%	-12.2%	64.5%
Depreciation and amortisation	(4)	(21)	(37)	(16)	-
EBIT	**165**	**(256)**	**(230)**	**(431)**	**2,905**
EBIT margin	25.4%	0.0%	0.0%	0.0%	64.5%
Interest expense (net)	2	2	0	(8)	(21)
Pre-tax income	**167**	**(254)**	**(230)**	**(439)**	**2,884**
Effective taxes	(15)	-	-	-	-
Net income	**151**	**(254)**	**(230)**	**(439)**	**2,884**

Source: USS FY15, FY16, FY17, FY18 financial statements (unaudited)

With reference to the table above, we note the following:

- Revenue increased by over $1 million (up 162.1%) in FY16 marking the introduction of USS' enterprise cloud based platform for utility billing and operations. Sales continued growing at a high rate in FY17 (80.2%) driven by the two contracts signed with USS' largest clients (Customer 1 and Customer 2), which extended through to the next year. In FY18, USS secured its first contract with Customer 3 and its total revenue reached $3.4 million. Management now consider the business to be commercially ready, with focus shifting from platform-build R&D towards customers and long term contracts.
- November 2018 YTD results included the recent sale of USS's core software platform to Alinta Energy. Gross proceeds were $3.041 million, including $41,000 paid by USS for a perpetual licence of the software. As such, USS retains full use of the software (and source code) and received net sale proceeds of $3.0 million. The sale is considered non-recurring and is reflected in the November YTD figures.
- Cost of goods sold did not exceed 5% of total revenue in any of the years between FY15 and FY18, and primarily consisted of expenses for cloud computing and back office systems.
- Salary and wages were the largest expense category (on average 76% of revenue between FY16 and FY18), which included on-costs such as superannuation and payroll tax. USS' total headcount is 20.7 employees (FTE) with an average salary of $95,000.
- Commissions were bonuses paid to the salaried employees, totalling $155,358 in FY18.
- Contractor payments made up between 7% and 10% of total revenue. Contractors are paid mainly for system and architecture design.
- Administration expenses include payments for rent, legal fees and insurance.

6.5.2 Historical Statement of Financial Position

The table below summarises USS' statements of financial position as at 30 June 2015 to 2018.

Table 16: Summarised USS Historical Statement of Financial Position

$AUD ('000)	FY15	FY16	FY17	FY18	30 Nov 18
CURRENT ASSETS					
Cash	340	14	55	9	2,996
Trade debtors/receivables	86	-	-	-	77
Other debtors/receivables	-	0	118	68	68
Total current assets	**426**	**14**	**173**	**77**	**3,141**
NON-CURRENT ASSETS					
Property, plant and equipment	86	92	81	72	76
Intangible assets	400	400	400	400	400
Other non-current assets	-	220	-	-	41
Total non-current assets	**486**	**712**	**481**	**472**	**517**
LIABILITIES					
Short term interest bearing liabilities	-	-	50	220	-
Trade creditors/payables	16	8	17	58	56
Other creditors/payables	70	116	64	137	366
Provisions	13	36	186	237	154
Other short/long term liabilities	33	-	-	-	-
Total liabilities	**132**	**161**	**317**	**652**	**576**
NET ASSETS	**780**	**566**	**336**	**(103)**	**3,081**
EQUITY					
Issued capital	200	240	240	240	240
Convertible notes	-	-	-	-	300
Revaluation reserves	400	400	400	400	400
Retained earnings	180	(74)	(304)	(743)	2,141
Total equity	**780**	**566**	**336**	**(103)**	**3,081**

Source: USS FY15, FY16, FY17, FY18 financial statement (unaudited)

With reference to the table above, we note the following:

- USS's cash balances reduced from $339,566 as at 30 June 2015 to $9,262 as at 30 June 2018. USS did not use any overdraft facilities during FY18 and its cash balance was $2,995,890 as at 30 November 2018 (after the one-off software sale to Alinta Energy, and prior to the share cancellation).
- USS has historically maintained low levels of trade debtors and creditors, with provisions (which primarily comprise employee entitlements) resulting in the company carrying a negative working capital position. Management have noted that they expect greater certainty and line of sight on contracted revenues going forward.
- USS' property, plant and equipment primarily include software assets and computer equipment and historically did not exceed $100,000 on a net basis.
- Intangible assets represent a nominal value of IP held by USS, initially recognised in FY15. We have not been provided with details to support this carrying value of this asset.
- Other non-current assets in FY16 ($220,000) were unsecured loans extended to a related entity, which is now dormant.
- Short term interest bearing liabilities consist of shareholder loans for working capital purposes.
- Over 60% of USS' total liabilities in FY18 comprised of employee and tax obligations (superannuation, annual leave, GST and PAYGW).

6.5.3 Pro-forma Statement of Financial Position

The table below shows the USS assets and liabilities to be acquired by AD1 under the Proposed Transactions. An adjustment to the working capital and/or retained cash in the company will be made to the extent the balances at completion of the Proposed Acquisition result in a negative variance to the Target Working Capital amount of negative $350,000 and/or the retained cash of $850,000.

Table 17: Completion statement (pro-forma acquired assets and liabilities)

Acquired assets and liabilities of USS ($000's)	Target
Current assets	
Trade debtors/receivables	65
Total current assets	**65**
Current liabilities	
Trade creditors/payables	(85)
Payroll liabilities	(200)
GST liabilities	(130)
Total current liabilities	**(415)**
Target working capital	**(350)**
Target retained cash	**850**
Other assets and liabilities	
Property, plant and equipment	23
RPC (software asset)	51
Bank guarantee	68
Low value pool	16
Total other assets	**158**
CGT liability (to be reduced by available R&D offsets and carry forward tax losses)	(912)
Total other liabilities	**(912)**

Source: SPA

With reference to the table above, we note the following:

- The $500,000 difference between Target Working Capital of ($350,000) and $850,000 of Target Retained Cash is intended to fund the CGT liability associated with the recent sale of USS' software to Alinta Energy. The liability of $912,000 is calculated based on the gross proceeds of $3.041 million and an assumed tax rate of 30%. Management has advised that R&D tax offsets and tax losses may be available to reduce this liability by approximately $400,000, resulting in a net liability of approximately $500,000.

7.0 Profile of Enlarged AD1

7.1 Overview

We have been provided with pro-forma financial information in relation to the Enlarged AD1, as well as initial estimates of immediate cost savings and potential synergies. However, this information is not publicly available and, in our view, the prospective information does not meet the requirements of RG 170 for public disclosure. Accordingly, details have not been included in this IER.

7.2 Strategic rationale

A summary of AD1's strategic rationale for the Proposed Transaction is summarised in section 4.4, while further detail is set out in the Notice of Meeting.

7.3 Key risks

The key risks of the Proposed Acquisition include the following:

- Ability to continue as a going concern - If the Proposed Transactions are not implemented, then it is the view of the Independent Directors that the ability of AD1 to continue as a going concern and to fund its operating activities will continue to be dependent on securing urgent additional funding through share placements to new or existing investors or an entitlement issue with existing shareholders. Access to this additional funding may not be available within the relevant time frame, which could potentially lead to placing the Company into external administration if all other options have been exhausted.
- Ability to achieve synergies – there is uncertainty with regards to the quantum and timing of potential synergies. There may also be costs associated with the integration of the businesses to achieve these synergies, e.g. redundancy costs.
- Increased reliance on shareholder funding – excluding USS's one-off software sale to Alinta Energy in November 2018, USS has incurred losses from operations since FY16. USS has relied on shareholder loans to fund working capital during this time. Although the quantum of USS's losses is significantly smaller than AD1's losses, in the absence of achieving immediate synergies, the Enlarged AD1 is likely to continue to be reliant on shareholder funding, at least in the near term (all else equal).

7.4 Ownership structure

The shareholdings in the Enlarged AD1 (before and after the Proposed Transactions) are summarised below. Based on our analysis, the interest held by Potentate & Associates will increase from 12.18% to 40.46%, while the non-associated shareholders of AD1 (being those AD1 shareholders not associated with Potentate or any other USS shareholder) will be diluted from 87.82% to 52.85% on an aggregated basis, after the Proposed Transactions.

Table 18: Enlarged AD1 ownership structure

AD1 shareholdings	Current	Post-Acquisition	Post-Acquisition & Placement
Potentate and Associates	12.18%	34.85%	40.46%
AD1 non-associated shareholders	87.82%	57.83%	52.85%
Other USS shareholders	0.00%	7.32%	6.69%
Total	**100.00%**	**100.00%**	**100.00%**

7.5 Directors and key management

As announced in conjunction with the signing of the SPA, Mr Lorcan Barden will be stepping down as CEO from AD1, and Mr Bryan Petereit (AD1's founder and current CTO) will assume the role of CEO of the Enlarged AD1 effective 1 March 2019. AD1's chairman Mr Michael Kay will step down from his role (and as a Director of AD1) on completion of the Proposed Transaction. Andrew Henderson will be appointed Non-Executive Director of AD1 at this time.

No other changes had been announced at the date of this report.

8.0 Industry Overview

AD1 is a provider of customer branded recruitment marketing platforms and related digital services within the broader SaaS industry. USS also operates in a SaaS based industry with a particular focus on IT consulting and computer system design for energy retailers. This section sets out an overview of these industries.

The information presented in this section has been compiled from a range of publicly available sources, together with information taken from various databases to which we subscribe. BDO has not independently verified any of the information and we recommend that users of this Report refer to the original source of any information listed in this section. This section should be referred to as a broad guide only.

8.1 Online Recruitment Services[1]

8.1.1 Overview

The Online Recruitment Services industry primarily comprises of companies engaged in charging employers to list job openings. Companies in the industry maintain databases of resumes that employers can search for a fee. Additional sources of revenue can come from paid banner advertisements.

The industry is driven by demand from employment services. Recruitment and employment agencies use recruitment websites to advertise vacant positions. Increased advertising from employment services companies can positively affect industry revenue due to higher recruitment volumes. In Australia, SEEK dominates the traditional online recruitment services and is expected to account for 86.1% of the industry revenue.

We note that AD1's operations are distinguished from SEEK as their recruitment marketing platform reduces the reliance on intermediaries (such as recruitment agencies) and instead the recruitment process is controlled by employers, including screening and testing applicants and checking references.

8.1.2 Key External Drivers

Information on the key external drivers currently affecting the Online Recruitment Services industry is discussed in the following table.

Table 19: Key External Drivers in the Online Recruitment Services

Driver	Description
Demand from employment services	Recruitment and employment agencies use recruitment websites to advertise vacant positions. Increased advertising from employment services companies can positively affect industry revenue due to higher recruitment volumes.
Total labour force	The size of the total labour force influences demand for online recruitment services. As more people are employed across the economy, usage of online employment search tools tends to increase. This leads to greater demand for industry services.
Business confidence index	The business confidence index indicates how companies view the economy's current performance and outlook. Companies are more likely to hire new employees in periods of positive or high business confidence, which positively affects the industry.
National unemployment rate	The national unemployment rate indicates the number of people that are unemployed and looking for work as a percentage of the total labour force. As the unemployment rate increases, employers generally advertise fewer positions on recruitment websites.
Total part-time employees in the labour force	Part-time workers often use recruitment websites to search for full-time positions or additional work to supplement their income. Higher numbers of part-time employees in the labour force therefore increase demand for online recruitment services. With increased website visitor numbers, online recruitment companies can command a higher fee for their services, and boost advertising and click-through revenue.
Internet connections	As employers advertise a high proportion of vacant positions online, the number of internet connections in Australia affects the industry's reach. A greater number of internet connections allows more people to view job postings online.

Source: IBISWorld Report 'Online Recruitment Services in Australia', October 2018

[1] Information in this section has been obtained from IBISWorld Report 'Online Recruitment Services in Australia', October 2018

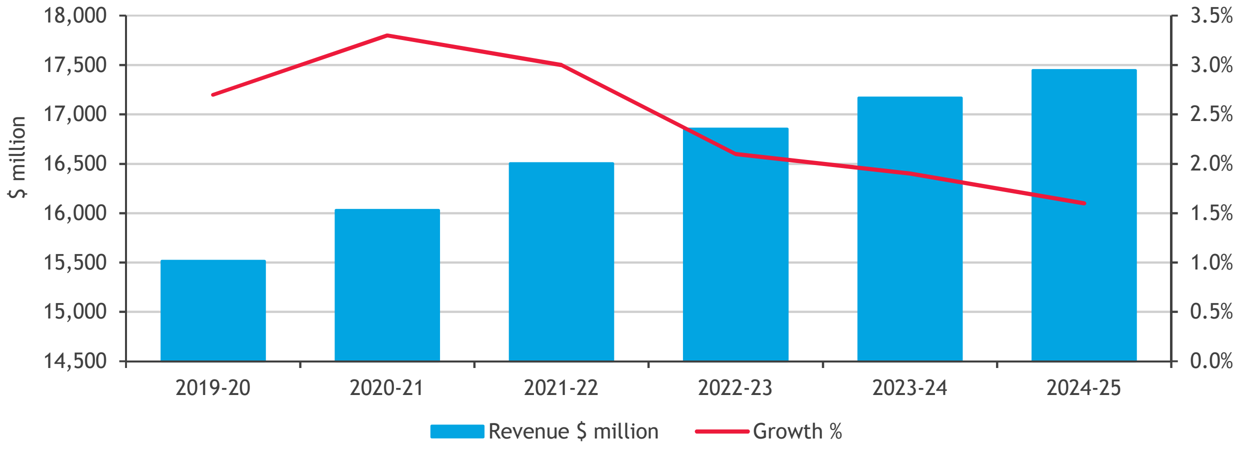
8.1.3 Expenditure on intermediaries

AD1 management estimates that ~$12 billion is currently spent on intermediaries, such as recruitment agencies and external job boards. AD1's current target market is any organisation that currently has a sufficiently large spend on recruitment intermediaries to justify building their own recruitment marketing platform. AD1 expects each contract in its targets markets to yield revenue run rate of approximately $0.5 million per year, and AD1 believes that this represents a fraction of the costs that can be saved on intermediaries. As such, AD1's addressable market represents a portion of the $12 billion spend.

The industry itself is undergoing disruption on the back of Google's push to improve online job search. The technology behind "Google for Jobs" includes a feature in search that uses collects and organises job postings from all over the web and uses AI powered algorithms to increasingly improve their discoverability. In January 2018, AD1 announced its collaboration with Google's Cloud Job Discovery to leverage its technology platform and drive increased traffic to their customers' websites.

Our research indicates that expenditure on recruitment intermediaries (employment placement and recruitment services) is forecast to continue growing towards $17.2 billion by 2025 (CAGR of 2.4%), as shown below.

Figure 6: Expenditure on intermediaries - Revenue Outlook (Australia), 2019 - 2025



Source: IBIS World "Employment Placement and Recruitment Services in Australia", September 2018

8.2 Computer System Design Services[2]

8.2.1 Overview

IT consulting firms primarily provide clients with IT expertise. Services within this industry include writing, modifying, testing or providing user support for software. Industry companies also plan and design computer systems that integrate computer hardware, software, cloud and telecommunications technologies. The industry does not include non-customised software publishing activities.

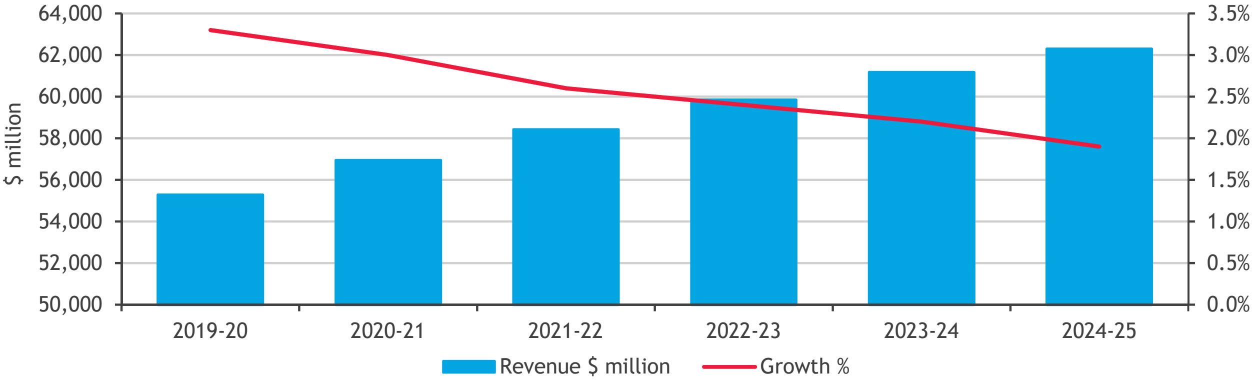
The industry comprises businesses that develop and implement programming systems and business solutions. The industry has steadily expanded over the past five years as computers and information technology in the workplace have required regular upgrades and enhancements, with many businesses outsourcing non-essential systems.

System upgrades linked to technology advances and increased cloud adoption are anticipated to drive growth in industry revenue. In particular, new infrastructure investment, the final stages of the NBN rollout, and improvements in cloud computing are likely to boost industry demand. Businesses, households and governments will seek to capitalise on these advances, turning to computer consultants for solutions. However, the ongoing trend toward outsourcing indicates that select industry services are likely to be provided from outside Australia, slowing growth in domestic industry revenue as the industry matures.

[2] Information in this section has been obtained from IBISWorld Report 'Computer System Design Services in Australia', August 2018

IBIS World estimates industry revenue to reach $62.1 billion by 2025 (see the figure below).

Figure 7: Computer Systems Design Services - Revenue Outlook (Australia), 2019 - 2025



Source: IBIS World "Computer System Design Services in Australia", August 2018

8.2.2 Key External Drivers

Information on the key external drivers currently affecting the Computer System Design Services industry is discussed in the following table.

Table 20: Key External Drivers in the Computer System Design Services

Driver	Description
Capital expenditure on computer software	As capital expenditure on computer software and equipment increases, so does demand for computer consultancy and design services. Additionally, the amount of funding allocated to IT consultancy and computer system design services can rise as the budget share of IT equipment is reduced. Over the past five years, capital expenditure on computer software has increased, providing the industry with an opportunity to expand.
Capital expenditure by the public sector	The public sector, which includes government departments and public companies, invests in computer systems through capital expenditure programs. An increase in capital expenditure can therefore positively affect demand for computer system design services, benefiting the industry.
Business confidence index	The business confidence index indicates businesses' willingness to invest in capital and expand operations. When businesses are more confident, they are more likely to increase expenditure and outsource internal IT functions to specialist companies.
IT and telecommunications adoption	The IT and telecommunications adoption index measures the use of computer, internet, mobile phone and business technologies. Increases in the IT and telecommunications adoption can potentially threaten the industry's growth.
Internet connections	Private and public demand for information technology (including internet connections) drives computer consultant demand. More businesses are increasingly relying on the internet, which has greatly benefited industry consultants.

Source: IBISWorld Report 'Computer System Design Services in Australia', August 2018

8.2.3 Cloud technology and Software as a Service

The emergence and rapid uptake of cloud computing has supported demand for IT consultants. Cloud computing refers to the practice of hosting computer applications on external servers, which are managed by third-party providers and accessed through the internet. Australian businesses have increasingly adopted cloud computing, and many systems and applications have migrated to the cloud enabling delivery of software as a service on a subscription basis.

SaaS is the capability provided to the consumer to use the provider's applications running on a cloud infrastructure. The software applications are accessible from various client devices through either a thin client interface, such as a web browser, or a program interface. The consumer does not manage or control the underlying cloud infrastructure including network, servers, operating systems, storage or even individual application capabilities, with the possible exception of limited user-specific application configuration settings. Accordingly, USS continues to capitalise on this opportunity by leveraging the service-oriented platform architecture of its existing software.

9.0 Valuation Methodologies

9.1 Fairness assessment overview

The Proposed Transactions are fair if the FMV of an AD1 share post transaction is equal to or greater than the FMV of an AD1 share (on a controlling interest basis) pre-transaction. As the Proposed Transactions are a scrip-for-scrip transaction, the fairness assessment requires a valuation of both AD1 and USS.

The valuation methods commonly used for the above analyses are considered below.

9.2 Valuation methods

Details of common methodologies for valuing businesses and assets are included at Appendix B. The principal methodologies which can be used are as follows:

- Income approaches, i.e. discounted cash flow (**"DCF"**)
- Capitalisation approaches (also known as 'relative' valuation approaches)
- Asset based methods, i.e. net asset value (**"NAV"**)
- Quoted market prices (**"QMP"**).

RG 111 does not prescribe which methodology should be used by the expert, but rather notes that the decision lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the securities or assets being valued.

Set out below is a discussion of the valuation methods we consider appropriate for the purposes of undertaking the required valuations for purposes of our fairness assessment.

9.3 Valuation methods for AD1 and USS before the Proposed Transaction

As summarised below, we consider a capitalisation approach (i.e. a multiple of revenue) to be the most appropriate valuation method for AD1 before the Proposed Transactions. We have cross-checked our valuation of AD1 using the QMP approach and we have also considered AD1's net tangible asset position.

We have also selected the capitalisation approach (i.e. a multiple of revenue) to value USS. We have cross-checked our valuation of USS by reference to the shareholder transactions that occurred in December 2018.

Table 21: Selected Valuation Methods for AD1 (pre-transaction) and USS

Methodology	Appropriate?	Explanation
Income Approach (DCF)	×	We have not been provided with detailed cash flow projections for AD1 or USS over a suitable period of time for use in a DCF valuation. We also note that developing long term projections for both companies would be subject to a high level of judgement and uncertainty. Accordingly, we do not consider the DCF to be an appropriate method to value either AD1 or USS.
Capitalisation Approach	✓	In the absence of other suitable methods, we consider the capitalisation approach to be the most appropriate method to value both AD1 and USS. The capitalisation approach typically involves applying a multiple to future maintainable earnings of the business. However, in practice, a relative value can be derived by applying a multiple to various measures, such as revenue (for early-stage, loss-making businesses) or assets. AD1 and USS both generate revenue, make losses and have limited tangible assets. Accordingly, we have applied a multiple of revenue to value both AD1 and USS. We note that the application of revenue multiples is not uncommon for early stage (pre-profit) technology companies, and in our view there is sufficient market evidence to select an appropriate multiple for both businesses.
Asset Based Valuation	Cross-check for AD1	Asset based methods generally provide the lowest possible value for a business and are relevant where a company is making sustained losses or profits at a level less than the required rate of return. However, asset based approaches are not typically applied to early-stage technology companies valued on a going concern basis (provided the future prospects for the business justify a value above its assets). Based on relevant ASIC guidance, we have taken into account AD1's funding requirements and going concern risk in our reasonableness assessment. However, we have also considered AD1's net tangible asset value ('NTAV') as a high level cross check.

Methodology	Appropriate?	Explanation
QMP Valuation	Cross-check for AD1	The QMP methodology is a relevant method for public companies, traded on a regulated and observable market (such as AD1). It requires analysis of the trading activity of the company's securities, including consideration of cumulative volume, cumulative percentage of traded capital and volume weighted average pricing over relevant periods (having regard to market sensitive announcements or other relevant company and industry developments). As shown in section 0, AD1's trading has generally displayed a relatively low level of liquidity since listing and only 4% of AD1's total issued capital was traded over the three-month period up to announcing the Proposed Transactions. However, we note that the issue price for previous capital raisings was set having regard to the prevailing VWAP, notwithstanding the level of liquidity. Overall, we consider the QMP method to be a suitable cross check for our valuation of AD1.
Other shareholder transactions	Cross-check for USS	For unlisted companies, other shareholder transactions in the equity of the target entity may be relevant. Such transactions should be representative of FMV and not be influenced by specific contractual terms in the shareholders' agreement. Based on the information provided to us, the USS shareholder transactions that occurred in December 2018 appear to have been undertaken between knowledgeable and willing parties, and we understand that the price was agreed on an arm's length basis. Accordingly, the transactions are considered a suitable cross-check for our valuation of USS.

9.4 Valuation method for AD1 after the Proposed Transactions

We have valued AD1 after the Proposed Transactions using a sum-of-the-parts approach, based on the standalone values of AD1 and USS, and taking into account the proceeds from the Proposed Placement and the shares to be issued under the Proposed Transactions.

We have cross-checked our post-transaction value of AD1 by reference to AD1's post-announcement trading prices. However, we note that AD1's post-announcement trading may reflect a number of factors other than the Proposed Transactions, and as such, this method is only considered a high level cross check.

We note that we were not provided with any pro-forma financial information for the merged entity. Accordingly, we do not consider any other methods to be appropriate as a cross check.

9.5 Other valuation considerations

9.5.1 Future events

The businesses of AD1 and USS that we have considered is that which existed as at the date the Proposed Transactions were announced. Growth potential, which may result from the integration of the businesses, new activities, business initiatives, acquisitions and the like (which are not capable of estimation), is not within the scope of our assessment.

9.5.2 Synergies

The level of synergies that can be derived from a takeover or merger is dependent on the nature of the respective businesses and their geographical and operational overlap.

In relation to the Proposed Transactions, potential synergies may be available across a range of areas, including:

- the restructure of the executive teams (beginning with the replacement of Mr Barden as AD1's CEO with Mr Petereit);
- other cost savings from eliminating duplicate back office functions and other overheads;
- expanded technological capability; and
- cross-selling, new products and business initiatives.

We have not considered special value in forming our opinion. We also note that there is significant uncertainty in relation to the quantum, timing and achievability of potential synergies from the Proposed Transactions. Accordingly, we have not attributed any value to the potential synergies listed above in our fairness assessment.

9.5.3 Premium for control

Undertaking the fairness assessment in accordance with relevant ASIC guidance requires that we compare the value of AD1 before the Proposed Transactions on a control basis with the value of AD1 after the Proposed Transactions on a minority basis.

In our assessment of an appropriate control premium for AD1, we have reviewed Australian public company acquisitions over the period 2012 to 2018. In particular, we have reviewed the average offer premium to the share price both one day before, and one month before the offer announcements. Further detail is shown in Appendix C.

Based on our analysis, we consider a control premium of 20% to be appropriate for AD1.

9.5.4 Surplus assets and liabilities

Companies may hold surplus assets or have surplus liabilities which are not part of the normal operating activities, and are not otherwise captured in the application of our primary valuation methodology. AD1's trading prices implicitly capture the value of any surplus assets. As such, no adjustment is required to the QMP analysis.

Both AD1 and USS hold minimal assets, and all cash held is required for funding working capital. We also note that further shareholder capital will likely be required, depending on the outcome of AD1's path to becoming breakeven.

However, the trading multiples for comparable companies are calculated on the basis that all cash is considered surplus (or offset against debt for companies that hold debt). Accordingly, the cash held has been included as a surplus asset for consistency with the calculation and application of the multiples when applying our primary valuation method.

9.5.5 Search for comparable trading companies and comparable transactions

To select an appropriate revenue multiple in our valuation of AD1 and USS, we have undertaken research relating to the following:

- Multiples derived from the trading of broadly comparable listed companies ('Comparable Companies'); and
- Multiples derived from sales transactions involving broadly comparable target companies ('Comparable Transactions').

We have sought to identify companies that operate in similar markets, have similar growth prospects (addressable markets) and are at similar stages of development relative to AD1 and USS.

AD1 and USS are both pre-profit SaaS platform providers, with similar people and technology infrastructure. AD1 specialises in customer branded recruitment marketing platforms, while USS provides broader IT consulting, development and implementation services, with particular expertise in supporting Australian energy retailers.

Accordingly, we have selected sets of Comparable Companies and Comparable Transactions that derive the majority of their revenue from IT services and software development, which fall into the following categories:

- HR Management and Talent Sourcing Software; and
- IT Consulting and Technology Solutions.

Business descriptions and further detail relating to the selected Comparable Companies and Comparable Transactions is contained in Appendix C, while a summary of the range of multiples for each set is shown below.

Table 22: HR Management and Talent Sourcing Software - Revenue Multiple (LTM) - minority basis

Historical Revenue Multiples (LTM) - minority basis	Comparable Companies	Comparable Transactions
Low	3.1x	0.9x
Average	7.6x	2.4x
Median	8.0x	1.4x
High	10.2x	7.0x

Source: Refer Appendix C

Table 23: IT Consulting and Technology Solutions - Revenue Multiples (LTM) - minority basis

Historical Revenue Multiples (LTM) - minority basis	Comparable Companies	Comparable Transactions
Low	0.2x	0.2x
Average	1.2x	0.4x
Median	1.2x	0.2x
High	2.5x	0.6x

Source: Refer Appendix C

In relation to the Comparable Companies and Comparable Transactions sets, we note that:

- The search process is limited by available information, and none of the identified Comparable Companies or Comparable Transactions are considered directly comparable to AD1 or USS.
- The set of Comparable Companies has been limited to Australian and New Zealand based entities. However, due to the limited number of transactions from Australia and New Zealand with publicly available transaction details, we have also included transactions from the US, Europe and developed Asian markets in the Comparable Transaction set.
- The trading and transaction multiples of both sets vary widely, reflecting the various stages of development, historical revenue and growth prospects of the selected companies and transactions. The trading multiples of the Comparable Companies are also generally higher than the Comparable Transaction multiples. In our view, this may reflect the speculative trading of small minority parcels of shares in the listed companies, whereas the transaction multiples typically reflect larger, controlling interests. Trading multiples are also influenced by the level of support from brokers and institutional investors, which varies for each company.
- The HR Management and Talent Sourcing Software developers generally trade and transact at higher revenue multiples compared to IT Consulting and Technology Solution providers, which in our view is largely due to perceptions regarding the scalability of the HR related software platforms, potential revenue opportunities and the existing level of competition and existing software in the market. AD1 strategy has shifted from developing and operating a market-wide recruitment platform with a subscription based revenue model to developing customer-branded recruitment platforms with project and ongoing managed service revenues. In our view, AD1's operations are now more aligned to the IT Consulting and Technology Solutions companies and transactions.
- Overall, there is no meaningful trend in the revenue multiples relative to size or profitability for the selected sets of companies and transactions. However, we note that larger companies typically trade are higher multiples than smaller companies, while conversely early-stage technology companies will often trade at higher multiples than larger, established competitors. In our view, this primarily reflects the relatively low revenue base and proportionately greater growth prospects for earlier stage companies, notwithstanding the greater level of risk. It also indicates that the perceived value of early stage technology companies is driven more by scalability and growth prospects rather than historical revenue and profitability. As such, the companies considered most comparable to AD1 and USS are those that are at a similar stage of development and have comparable products and addressable markets.
- The trading prices of a number of the selected companies are relatively volatile, and the revenue growth rates also vary widely. As such, the trading multiples change significantly when calculated at different dates. Further, the 16 Comparable Transactions were undertaken over a three-year period, with only five transactions being completed in 2018.
- The Comparable Company trading multiples reflect trades in minority interests, while the majority of the Comparable Transactions represent trades of controlling interests (which may include a premium for control and potential synergistic benefits).

Given the issues noted above, we note that selecting a revenue multiple for AD1 and USS requires a significant level of professional judgement. Our selected revenue multiples for AD1 and USS are set out in sections 10.2 and 11.2, respectively.

9.5.6 Valuation in accordance with APES 255

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.

10.0 Valuation of AD1 before the Proposed Transaction

In applying the capitalisation approach to AD1, we have undertaken the following:

- Estimated maintainable revenue;
- Selected a revenue multiple (on a minority basis);
- Made adjustments to the resultant enterprise value, in particular, for cash and surplus assets/liabilities;
- Applied of a premium for control; and
- Valuation cross-check.

10.1 Maintainable revenue

In estimating AD1's maintainable revenue, we have considered AD1's historical revenue (section 5.8.1), December 2018 YTD trading performance (section 5.9), AD1's current and past budgets (section 5.10) and the Company's growth prospects.

We note that estimating maintainable revenue for an early stage technology company is inherently subjective. It is also critical that the selection of revenue and the revenue multiple are considered holistically, noting that the comparable company and comparable transaction multiples are based on historical revenue, with differences in growth prospects, perceived risks and stage of development in the lifecycle of the company being reflected in the multiple.

Accordingly, we have estimated AD1's maintainable revenue based primarily on historical results, and in that regard we note the following:

- AD1's average revenue between FY15 and FY17 was $920k ($670k excluding R&D Tax Incentives), before increasing to $2.15 million in FY18 ($1.72 million excluding R&D Tax Incentives) as a result of an increase in contracted Project related revenues.
- We note that AD1 has historically obtained R&D Tax Incentives each year, and the comparable company and comparable transaction multiples have also been calculated inclusive of R&D Tax Incentive income. However, we note that such income would not attract the same multiple as core trading revenue.
- Revenue for the six months to December 2018 was approximately $0.5 million, with the slower run rate being attributed to timing of contracted Project revenues (FY18: 39% of total revenue; December 2018 YTD: 3% of total revenue).
- The sustainability of AD1's Media revenues (representing 31% of FY18 revenue and 43% of December 2018 YTD revenue) is currently under review, with management aiming to convert subscription based clients to ongoing managed service opportunities.

Having regard to the above, we have adopted maintainable revenue of $1.5 million to $2.0 million for purposes of our valuation of AD1.

10.2 Revenue multiple

As noted in section 9.5.5, none of the individual companies and transactions are considered directly relevant to AD1. Further, in our view, it is not possible to identify individual companies or transactions that are considered more relevant than any other.

Accordingly, we have selected a multiple based largely on our professional judgement, having regard to the overall ranges of multiples for the Comparable Company and Comparable Transaction sets.

In that regard, we note the following in relation to the overall Comparable Company and Comparable Transaction sets:

- Relative to the HR Management and Talent Sourcing Software sets, AD1's platform competes with a number of companies in this set, although AD1's primary target market is only organisations that have a sufficiently large recruitment spend to justify building their own platform. Further, AD1's current revenue model is focused towards project and ongoing managed service revenues, as opposed to subscription based revenues. As such, while AD1 has scalable technology, in our view it has relatively lower growth prospects compared to the overall HR Management and Talent Sourcing Software set of companies and transactions, and its value should therefore be based on a relatively lower multiple.
- Relative to the IT Consulting and Technology Solutions sets, AD1's current revenue model aligns more closely to a number of the entities within this set, albeit with a focus on recruitment platforms. AD1's narrower focus provides an enhanced ability to leverage the core platform technology compared to entities that provide a wider range of IT consulting services across various industries.

Overall, we consider a revenue multiple of 0.75x to 1.75x (on a minority basis) to be appropriate for our valuation of AD1.

10.3 Net debt/cash and surplus assets/liabilities

As noted in section 9.5.4, for consistency with the manner in which the benchmark multiples were calculated, all cash has been treated as a surplus asset for purposes of our valuation. AD1 had cash of $1.7 million as at 31 December 2018.

Based on our review, AD1 does not have any other surplus assets or liabilities.

10.4 Value summary

Our valuation of AD1 before the Proposed Transactions is summarised below.

Table 24: AD1 Valuation Summary

	Low	High
Maintainable revenue	1,500,000	2,000,000
Assessed multiple (minority basis)	0.75x	1.75x
Implied Enterprise Value (EV)	**1,125,000**	**3,500,000**
Add: Cash	1,685,577	1,685,577
Add: Other surplus or non-operating assets/(liabilities)	-	-
FMV of AD1 (minority basis)	**2,810,577**	**5,185,577**
Outstanding Shares	256,299,656	256,299,656
FMV per AD1 share (minority basis)	0.0110	0.0202
Add: Control Premium (20.0%)	20%	20%
FMV of AD1 (control basis)	**3,372,692**	**6,222,692**
FMV per share (control basis)	0.0132	0.0243

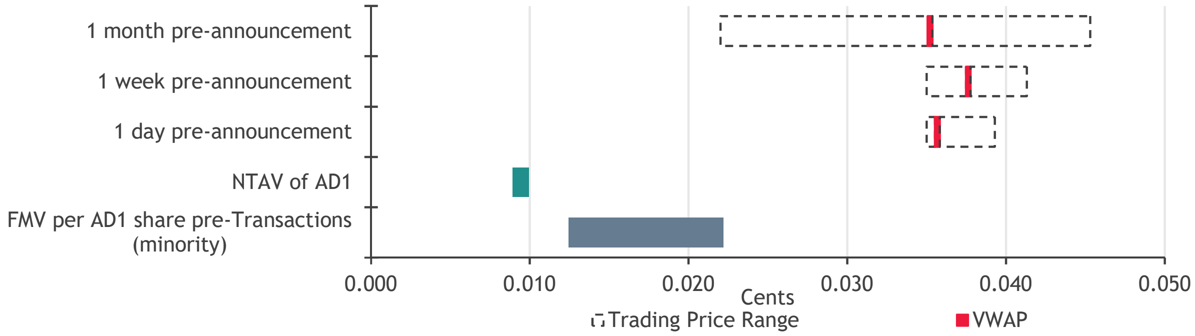
As shown above, we have estimated the FMV of a share in AD1 before the Proposed Transactions to fall between $0.011 and $0.020 on a minority basis, and between $0.013 and $0.024 on a controlling basis.

Whilst the valuation range is relatively wide, we consider this appropriate given AD1's current circumstances and the inherent difficulty in valuing loss-making technology companies. In our view, no point within this range is considered more appropriate than any other.

10.5 Cross check

The figure below compares our valuation of AD1 (on a minority basis) using the revenue multiple approach to AD1's VWAP in the month prior to the announcement of the Proposed Transactions, as well as AD1's NTAV as at 30 June 2018 adjusted for the net decrease in cash held in the six months to 31 December 2018.

Figure 8: Cross check of AD1 valuation



Source: BDOCF Analysis

Note: The value of AD1 is shown on a minority basis for consistency with the VWAP, which reflects trades of minority parcels of shares. The NTAV of AD1 represents a controlling value but is only shown for illustrative purposes, so a minority discount has not been applied.

In relation to the QMP cross-check, we consider the trading prices in the one-month period pre-announcement to be the most relevant. This post-dates the Company's most recent capital raising, and in our view the trading prices of earlier periods are not sufficiently current having regard to the changes in the Company's circumstances and industry conditions.

Nevertheless, we note that only 1.4% of shares were traded in the one-month period prior to announcing the Proposed Transactions, and the pre-announcement trading did not reflect the slow-down in AD1's revenue in the six months to 31 December 2018 (as noted in section 5.10), which was not publicly known.

In relation to the QMP comparison, the high end of our valuation range for AD1 falls well below the Company's VWAP in the month prior to the announcement of the Proposed Transactions, and slightly below the low end of trading prices during this period. Overall, we do not consider this to be unreasonable, noting the low volume of shares traded during this period and the recent slow-down in AD1's revenues.

AD1's NTAV falls slightly below the low end of our range. We do not consider this unreasonable, noting that we have valued AD1 on a going concern basis (and the going concern risk is taken into account in the reasonableness assessment), and the NTAV does not ascribe any value to AD1's core technology platform or capability.

11.0 Valuation of USS

In applying the capitalisation approach to USS, we have undertaken the following:

- Estimated maintainable revenue;
- Selected a revenue multiple (on a minority basis);
- Made adjustments to the resultant enterprise value, in particular, for cash and surplus assets/liabilities; and
- Valued USS on a minority basis, as the value of USS is to form part of the post-transaction value of AD1 on a minority basis.

11.1 Maintainable revenue

As per our valuation of AD1, we have estimated USS's maintainable revenue based primarily on historical results, and in that regard we note the following:

- USS' average revenue between FY17 and FY18 was $3.2 million.
- Revenue for the six months to December 2018 was $1.2 million (excluding the one-off software sale to Alinta Energy).
- USS' largest customer (representing 44% of FY18 revenue) is contracted for five years, with a two-year option.
- We have also reviewed USS' FY19 forecast and its performance against budget (which has not been disclosed in this Report).

Having regard to the above, we have adopted maintainable revenue of $3.5 million for purposes of our valuation of USS. An appropriate valuation range has been taken into account in our selected multiple.

11.2 Revenue multiple

The selected multiple for USS has been based on the IT Consulting and Technology Solutions set of Comparable Companies and Comparable Transactions. However, similarly to AD1, none of the individual companies and transactions are considered directly relevant to USS, and in our view, it is not possible to identify individual companies or transactions that are considered more relevant than any other for our valuation of USS.

Accordingly, we have selected a multiple range based largely on our professional judgement, having regard to the overall IT Consulting and Technology Solutions data.

In that regard, we note that:

- Relative to the IT Consulting and Technology Solutions sets, USS' revenue model aligns with a number of the entities within this set, albeit with a sector specialisation and revenue concentration with energy retailers. Whilst USS' technical capability would have wider application, this is yet to be proven. It is also noted that USS' largest customer is an associate of Mr Norster and Mr Kuperman (USS' largest shareholders).

Overall, we consider a revenue multiple of 0.25x to 0.50x (on a minority basis) to be appropriate for our valuation of USS.

This is lower than the multiple range applied in our valuation of AD1, which we consider appropriate for the following reasons:

- AD1's multiple is applied to a lower revenue base;
- Although both companies have technical capability, in our view, AD1's recruitment platform can be leveraged across a range of industries and is therefore more scalable, whereas USS' platform and its expertise is focused towards the energy retail sector; and
- The multiples in the HR Management and Talent Sourcing Software sets (which have some relevance to AD1) are significantly higher than the multiples in the IT Consulting and Technology Solutions sets (which we consider relevant for both AD1 and USS).

11.3 Net debt/cash and surplus assets/liabilities

As noted in section 9.5.4, for consistency with the manner in which the benchmark multiples were calculated, all cash has been treated as a surplus asset for purposes of our valuation. USS will have retained cash of $850k as part of the Proposed Acquisition. The company does not have any other surplus assets that form part of the Proposed Transactions.

We note that part of the Retained Cash will be used to fund the one-off CGT liability associated with USS's sale of software to Alinta Energy. Management is relying on the assumption that the CGT liability can be reduced from approximately $0.9 million to $0.5 million by partially offsetting the gain with FY18 R&D Tax Incentives and carry forward tax losses. Based our discussions with management and high level tax advice provided by BDO East Coast Partnership, we do not consider management's assumptions regarding the CGT liability to be unreasonable.

Accordingly, we have adopted a surplus liability of $0.5 million in relation to the CGT liability.

11.4 Value summary

Our valuation of USS is summarised below.

Table 25: USS Valuation Summary

	Low	High
Historical revenue (FY18)	3,500,000	3,500,000
Assessed multiple (minority basis)	0.25x	0.50x
Implied Enterprise Value (EV)	**875,000**	**1,750,000**
Add: Cash	850,000	850,000
Add: Other surplus or non-operating assets/(liabilities)	(500,000)	(500,000)
FMV of USS (minority basis)	**1,225,000**	**2,100,000**

Source: BDO analysis

As shown above, we have estimated the FMV of USS to be between $1.2 million and $2.1 million on a minority basis.

Whilst the valuation range is relatively wide, we consider this appropriate given USS' circumstances and the inherent difficulty in valuing early-stage, loss-making technology companies. In our view, no point within this range is considered more appropriate than any other.

11.5 Cross check

We have cross-checked our valuation of USS to the implied value from USS' shareholder transaction in December 2018, as shown below.

Table 26: Implied value of USS based on shareholder transactions

USS Shareholder Transactions	
Shares transferred	26,320
% of total ordinary shares (at the time of the transfer)	20.8%
Total consideration	623,784
Pro-rata implied 100% value (pre buyback / cancellation)	**3,001,487**
Less: share buyback / cancellation amount	(1,700,000)
Implied value of USS post buyback / cancellation	**1,301,487**

Source: BDO analysis

The shareholder transactions occurred after the one-off sale of software to Alinta Energy, but before USS' $1.7 million share buyback and cancellation. As such, it is necessary to adjust the purchase price for the amount of the share buyback (which reduced the amount of cash held by USS) for purposes of comparison against our value of USS.

Whilst the terms of the Proposed Transactions were not finalised until 3 January 2019 and some shares were sold by former employees, we have assumed the shareholder transactions were between knowledgeable and willing parties acting at arm's length.

However, we also note the following:

- The shareholder transactions were all settled in cash, whereas the remaining shareholders will receive Scrip Consideration under the Proposed Acquisition. While AD1 is an ASX-listed entity, the level of trading has historically been relatively low. As such, the shareholder transactions may have implicitly taken into account an illiquidity premium.
- USS required unanimous shareholder approval for the Proposed Acquisition under the terms of its shareholder agreement. As such, the transaction price may have reflected a premium for 'negative control'.

As shown above, the implied value of USS at the time of the shareholder transactions was $3.0 million (without any adjustment for liquidity or control). After adjusting for the share buyback, the implied value of USS is $1.3 million. This aligns with the low end of our valuation range for USS and is slightly below our assessed value of the Scrip Consideration (being $1.6 million to $2.6 million, which is based on the 132.9 million shares to be issued and the value of the Enlarged AD1 after the Proposed Transactions, as set out in section 12.1).

We do not consider this to be unreasonable having regard to the inherent difficulty assessing the value of the Scrip Consideration and the certainty associated with the cash offer in the shareholder transactions.

12.0 Valuation of the Enlarged AD1

12.1 Valuation Summary

As summarised below, we have valued AD1 after the Proposed Transactions on a sum-of-the-parts basis, using the standalone values of AD1 and USS before the Proposed Transactions, and taking into account the proceeds from the Proposed Placement and the shares to be issued under the Proposed Transactions.

Table 27: Enlarged AD1 Valuation Summary

	Low	High
FMV of AD1 (minority basis)	2,810,577	5,185,577
FMV of USS (minority basis)	1,225,000	2,100,000
FMV of AD1 post-acquisition (minority basis)	**4,035,577**	**7,285,577**
Shares in AD1 post-acquisition	389,197,806	389,197,806
FMV per AD1 share post-acquisition (minority basis)	**0.0104**	**0.0187**
Placement Proceeds	990,000	990,000
FMV of AD1 after Acquisition and Placement	5,025,577	8,275,577
Shares in AD1 after Acquisition & Placement	425,864,473	425,864,473
FMV per AD1 share post-transactions (minority basis)	**0.0118**	**0.0194**

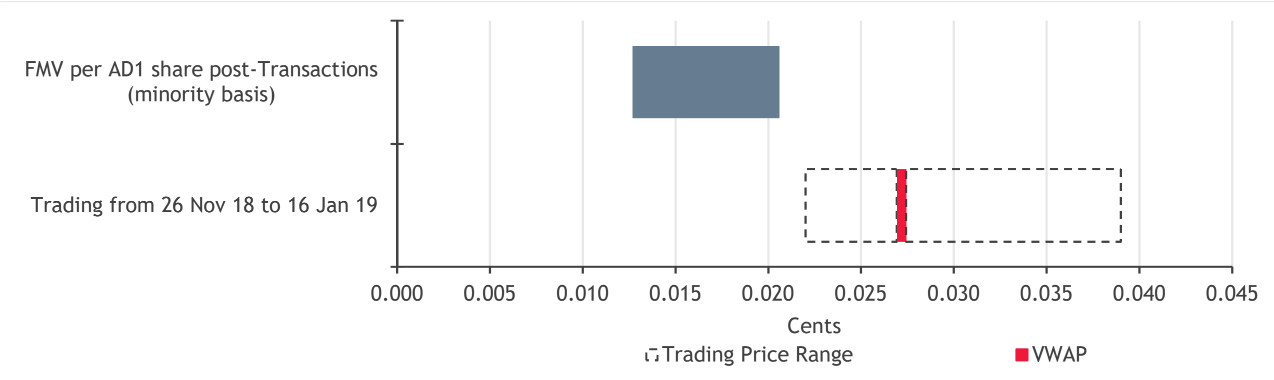
Source: BDOCF Analysis

As shown above, we have estimated the FMV of a share in AD1 after the Proposed Transactions to fall between $0.0118 and $0.0194 on a minority basis. In our view, no point within this range is considered more appropriate than any other.

12.2 Cross check

The figure below compares our valuation of AD1 after the Proposed Transactions (on a minority basis) to the post-announcement VWAP and market trading prices of AD1.

Figure 9: Cross check of AD1 valuation post-Transactions



Source: BDOCF Analysis

AD1's share price declined by 34% in the two-day period following the initial announcement of the Proposed Transactions. The share price also declined by 4% in the two-day period after the updated and final terms of the Proposed Transaction were announced on 3 January 2019. We also note that 2.16% of AD1's shares have traded since the Proposed Transactions were initially announced.

Nevertheless, our valuation of a share in AD1 after the Proposed Transactions falls below AD1's post-announcement VWAP and the trading price range during the same period. As per our QMP cross-check for our valuation of AD1 before the Proposed Transaction (Section 9.3), we do not consider this to be unreasonable, noting the relatively low volume of shares traded during this period and the recent slow-down in AD1's revenues which was not publicly known during this period of trade.

13.0 Assessment of Fairness

13.1 Fairness Assessment

The result of our fairness analysis under the guidance provided by ASIC is summarised below.

Table 28: Fairness assessment

Per Share	Ref	Low	High
FMV of a share in AD1 before the Proposed Transactions (control basis)	Section 10.4	$0.0132	$0.0243
FMV of a share in AD1 after the Proposed Transactions (minority basis)	Section 12.1	$0.0118	$0.0194

Source: BDOCF Analysis

We have determined a range of values for a share in AD1 before and after the Proposed Transactions. In accordance with ASIC guidance, the fairness of the Proposed Transaction requires an assessment of the respective value ranges.

In general, where value ranges overlap and no point within the range is considered more appropriate than any other, this indicates that there is an equivalency of value at certain points within the valuation ranges. In such circumstances, an expert may opine that an offer is 'fair'.

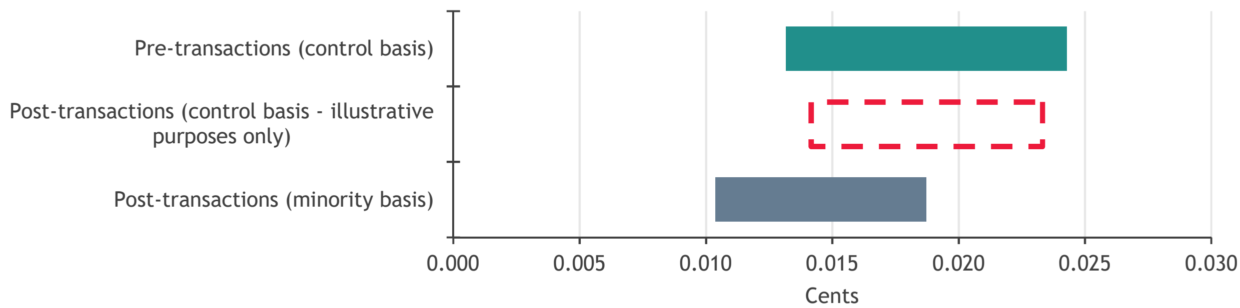
However, where the valuation ranges before and after the transactions have been determined on a consistent basis, and the post-transaction valuation of the securities merely incorporate valuation adjustments to reflect the transaction itself, then it may be appropriate to conclude on fairness based on the relative valuation ranges and the respective highs and lows, given they are directly comparable.

We have valued AD1 before and after the Proposed Transactions on a consistent basis. That is, we have valued both AD1 and USS using a revenue multiple approach, and our valuation of the Enlarged AD1 represents an aggregation of these values with adjustments for the Proposed Placement. Accordingly, we consider it appropriate to compare the value ranges, and the respective highs and lows, of AD1 before and after the Proposed Transactions.

On this basis, we note that there is a downward shift between the value of AD1 before the Proposed Transaction (on a control basis) and after the Proposed Transactions (on a minority basis). Accordingly, the Proposed Transactions are considered not fair to the Shareholders of AD1.

A comparison of our assessed values is illustrated below. For illustrative purposes only, we have shown the value of a share in AD1 after the Proposed Transactions on a control and a minority basis.

Figure 10: Summary of fairness assessment



Source: BDOCF Analysis

As shown above, the downward shift in value range largely occurs due to the inclusion of a control premium when valuing AD1 before the Proposed Transactions (in accordance with ASIC guidance). We also note that the price per AD1 share of $0.027 assumed for the Proposed Transactions was based on AD1's VWAP, and was not adjusted for a premium for control.

Whilst our assessed value of USS is significantly lower than the notional value of $3.588 million ascribed to USS as part of the Proposed Transactions, this is largely offset by our valuation of AD1 being lower than the price per AD1 share of $0.027 assumed for the Proposed Transactions.

14.0 Assessment of Reasonableness

In accordance with RG 111, despite not being fair, the Proposed Transactions might be reasonable if there are sufficient reasons for Shareholders to approve the Proposed Transactions in the absence of a superior proposal.

14.1 Advantages

14.1.1 Ability to continue operating as a going concern

The Retained Cash is likely to be required for funding USS' working capital requirements (including the one-off acquired CGT liability). However, the proceeds from the Proposed Placement will be available to fund additional working capital requirements of the Enlarged AD1 for a period of time, as well as potential costs associated with the integration of the businesses.

14.1.2 Potential synergies

The directors of AD1 believe that the transaction is underpinned by compelling strategic rationale, which include the following benefits:

- shared technical capability and the ability to reduce the overall cost base of combined operations;
- a diversified revenue stream, allowing AD1 to focus resources on higher yielding revenues, pruning the customer base where necessary to achieve this outcome;
- accelerate AD1's path to breakeven as a result of the above;
- time to integrate the businesses and achieve the synergies with the funding from the Proposed Placement; and
- better position the Company to undertake future capital raisings (as required) and continue operating as a going concern.

Immediate synergies include the restructure of the executive team, with Mr Barden to be replaced by current CTO and founder, Mr Petereit. Mr Kay will also step down as Chairman of AD1. Further synergies have been identified by management and will be evaluated further alongside the integration of the businesses.

The potential synergies do not form part of our fairness assessment.

As such, notwithstanding the inherent uncertainty and risk of achieving potential synergies, there may be upside to our assessment of the post-transaction value of AD1 to the extent management is able to successfully integrate the businesses and unlock potential synergies.

14.2 Disadvantages

14.2.1 The Proposed Transactions are not fair

As set out in section 13.1, in our view the Proposed Transactions are not fair to the AD1 Shareholders. However, the downward shift in value range largely occurs to the inclusion of a control premium when valuing AD1 before the Proposed Transactions (in accordance with ASIC guidance), rather than a change in the value of a share in AD1 on a minority basis.

We also note that valuing technology companies like AD1 and USS is inherently subjective, and Shareholders may not agree with our assessed values. In particular, we note that our valuation of a share in AD1 is lower than AD1's recent VWAPs.

Had we valued AD1 based on the Company's VWAP, the value of the Scrip Consideration would increase and the downward shift in the valuation of AD1 before and after the Proposed Transactions would also increase. However, our opinion that the Proposed Transactions are not fair would remain unchanged.

14.2.2 Dilution of shareholder interests

The non-associated shareholders of AD1 who are not associated with Potentate or any other USS shareholders will have their combined interest of 87.82% in AD1 diluted to 52.85% as a result of the Proposed Transactions, while Potentate and Associates will increase their interest in AD1 substantially to 40.46%. Non-associated USS shareholders (that is, USS shareholders not associated with Potentate) will have an interest of 6.69% in the Enlarged AD1.

Consequently, the likelihood of undertaking an alternative control transaction and the ability of the non-associated AD1 shareholders to influence the strategic direction of AD1 will be significantly diminished.

14.2.3 Change of risk exposure

The Shareholders will be exposed to a different risk profile if the Proposed Transactions are implemented relative to their existing investment in AD1. In particular, the Company's focus will no longer be exclusively on recruitment platforms, and the scale of AD1's business will increase substantially if the Proposed Transactions are approved.

Importantly, it is also noted that USS has also incurred operating losses since FY2016 (excluding the one-off sale of software to Alinta Energy), albeit of a much smaller scale compared to AD1's losses. Excluding the additional funding from the Proposed Placement, this may amplify the Enlarged AD1's dependency on further shareholder funding, in the absence of achieving transaction synergies and improved profitability.

14.3 Other Considerations

14.3.1 No alternative proposals

The board of AD1 has advised there are currently no alternative transactions or recapitalisation proposals for AD1, and that it is unlikely an alternative transaction will emerge in the required timeframe.

14.3.2 Differences between AD1 and USS

Following the implementation of the Proposed Transactions, AD1 Shareholders will hold an interest in the Enlarged AD1. However, AD1 Shareholders may wish to maintain their current investment profile based on the risks specific to AD1.

There are a number of differences between the businesses of AD1 and USS, as summarised below:

Table 29: Comparison of AD1 and USS

Characteristic	AD1	USS
Operations	AD1 is a provider of customer branded recruitment marketing platforms and related digital services, including system functionality enhancement and integrations, for the three market segments: governments, large enterprises and institutional/ corporates.	USS is a provider of SaaS, BPO and Consulting services with particular expertise in developing and integrating enterprise cloud-based platforms for Australian energy retailers to automate their customer billing systems and market operations.
Size	AD1 had revenue of $2.1 million in FY18.	USS had revenue of $3.4 million in FY2018.
Growth and margins	AD1's loss in FY18 was $4.7 million. Revenue more than doubled in FY18 following substantial investment in the business since FY16, but has since slowed in YTD FY19 results.	USS' loss was $431k in FY18. Revenue growth was 80.2% in FY17, 11.2% in FY18 and then appears to be stable (on a run rate basis) in YTD FY19 results.

14.3.3 Independent Directors' recommendation

The Independent Directors have recommended that AD1's Shareholders vote in favour of the Proposed Transactions, in the absence of a superior proposal and subject to the opinion in this Report being fair and reasonable, or alternatively not fair but reasonable. Further, the Independent Directors that hold shares in AD1 have stated they intend to vote in favour of the Proposed Transactions.

14.3.4 Position of the Shareholders if the Proposed Transactions are not implemented

Whilst we have concluded the Proposed Transactions are not fair, the valuation and fairness assessment is only partly relevant and shareholders should carefully consider the implications for the Company if the Proposed Transactions are not approved (in the absence of an alternative proposal).

Table 2.6 below outlines the possible position of the Shareholders in the event that the Proposed Transactions are not implemented.

Table 30: Position of Shareholders if the Proposed Transactions are Not Implemented

Position of Shareholders	Explanation
Continued shareholding in AD1	If the Proposed Transactions are not implemented, the Shareholders will continue to hold shares in AD1. The Shareholders will continue to be exposed to the risks and opportunities associated with the ownership of AD1 shares.
Material uncertainty relating to going concern for AD1	AD1's FY17 annual report flags the company's going concern basis as a key audit matter, due to the high level of judgment required in evaluating the basis of the company's going concern assessment. AD1's FY18 annual report states that a material uncertainty existed that may cast doubt on the company's ability to continue as a going concern. If the Proposed Transactions are not implemented, then it is the view of the Independent Directors that the ability of AD1 to continue as a going concern and to fund its operating activities will continue to be dependent on securing urgent additional funding through share placements to new or existing investors or an entitlement issue with existing shareholders. Access to this additional funding may not be available within the relevant time frame (i.e. by 31 March 2019, based on AD1's cash balance as at 31 December 2018 and the level of recent operational deficits), and AD1 may not be able to continue operating as a going concern. In these circumstances, shareholders may not be able to realise any value.
Share trading price may be materially different to recent trading prices	AD1's share price decreased by 34% in the two days of trading after the Proposed Acquisition was initially announced. There was limited publicly available information regarding USS at the time of the announcement, suggesting the negative market reaction was driven by sentiment rather than the perceived value of USS. In our view, and having regard to AD1's overall circumstances, whilst share prices can be influenced by a variety of factors, the share price is unlikely to rebound if the Proposed Transactions are not approved, in the absence of an alternative proposal.
Non-recoverable costs	AD1 will incur costs in relation to the Proposed Transactions irrespective of whether or not the Proposed Transactions are approved and/or implemented.

14.4 Conclusion on Reasonableness

On balance, despite not being fair, we consider the Proposed Transactions to be reasonable to the non-associated Shareholders of AD1.

We have not taken into account the Shareholders' individual circumstances in forming our opinion. Accordingly, we recommend Shareholders carefully consider the advantages, disadvantages and other considerations in deciding whether or not to vote in favour of the Proposed Transactions.

In forming our view on reasonableness, we consider the following factors to be most relevant:

- Despite concluding that the Proposed Transactions are not fair, valuing early-stage technology companies like AD1 and USS is inherently difficult and requires significant judgement. This is reflected in the relatively wide valuation range for AD1 before and after the Proposed Transactions. Further, the decrease in our valuation range for AD1 is largely due to the requirement to value AD1 before the Proposed Transactions on a control basis and after the Proposed Transactions on a minority basis, rather than a change in the value of a share in AD1 on a minority basis. In these circumstances, greater emphasis should be given to reasonableness factors.

- For the same reason the fairness assessment is inherently subjective, in our view, it is not possible to quantify the advantages and disadvantages of the Proposed Transactions. However, the absence of any alternative proposals and the material uncertainty that exists in relation to AD1 being able to continue operating as a going concern are compelling reasons to vote in favour of the Proposed Transactions.

- The Proposed Transactions will not eliminate AD1's funding requirements, and the risk of successfully integrating the businesses and accelerating the Company's path to being breakeven remains high. However, in the absence of an alternative proposal or any alternative source of funding, the Proposed Transactions are in the best long term economic interests of shareholders.

APPENDIX A: Sources of Information

This Report has been prepared using information obtained from sources including the following:

- AD1 Minutes of the Board meetings for FY17, FY18, FY19 YTD
- AD1 Investor Presentations and Prospectus for IPO as at 02.12.2015
- AD1 Organisation structure and staff listing as at 30 November 2018
- AD1 Management accounts for FY16, FY17, FY18, FY19 YTD
- AD1 Annual reports for FY14, FY15, FY16, FY17, FY18
- 333 Capital reports, including: Preliminary findings and initial recommendations of 333 Capital as at 26 October 2018 and the Feedback from initial buyer approaches and transaction alternatives as to November 2018
- AD1, USS and Combined entities cash flow forecasts as at 9 January 2018
- Report on USS financial and commercial due diligence as for December 2018
- AD1 ASX Announcements
- Shareholder register as at 04 December 2018
- AD1 Budget for FY19 as at June 2018
- Share Purchase Agreement for shares in USS as at 03 January 2019
- USS documents provided in the virtual data room, which included financial statements, financial budget for FY19, board meeting minutes, customer contracts, organisation charts and architecture documentation
- Capital IQ
- IBISWorld
- Other research publications and publicly available data as sourced throughout this Report
- Discussions and correspondence with AD1, management and their advisers

APPENDIX B: Common Valuation Methodologies

Discounted Cash Flow

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

Capitalisation Approach

The capitalisation approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the capitalisation approach calculation to calculate the total entity value. For early stage technology business that are not yet profitable but are forecast to be, a capitalisation approach can be applied to revenues, in place of earnings.

A capitalisation approach can be applied by assessing multiples with reference to market evidence as to multiples of comparable companies for a number of measures, including: earnings, revenues, assets and various other operating metrics, etc.

Adjustments are made to the applicable measure for any non-commercial, abnormal or extraordinary items.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the calculation of the applicable measure. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The capitalisation approach has broad application (e.g. for profitable and loss-making companies) and is usually considered appropriate when relevant comparable information is available.

Asset Based Valuations

An ABV (also knowns as Net Asset Value) is used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets. However, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

Quoted Market Prices

An QMP methodology determines a value for an entity by having regard to the value at which securities in the entity have recently been purchased. This approach is particularly relevant to:

- Entities whose shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where a sufficient volume of shares is traded and the shares are traded over a sufficiently long period of time; and/or
- Entities for which it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

For listed entities, the range of share prices observed may constitute the market value of the shares in circumstances where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

APPENDIX C: Control Premium Analysis

Investment fundamentals dictate that the value of 100% of an entity is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings. The difference between the value of 100% of a company and the total value of minority share holdings is referred to as a "premium for control" taking into account control and synergistic benefits for the acquirer.

Control of a company by a shareholder gives that shareholder rights to which minority shareholders are not entitled, including control of the company's policies and strategies, and use of cash flows of the company.

A premium for control is applicable when an acquisition would give rise to benefits such as:

- the ability to realise synergistic benefits;
- access to cash flows;
- access to tax benefits; and
- control of the board of directors of the company.

Therefore, a transaction premium would typically include a premium for control as well as potential buyer specific synergies.

The level of premium for control paid in a takeover bid will vary across industries and is dependent upon the specifics of the company being acquired. In arriving at an appropriate premium for control to apply, we note that buyers would generally assess the following considerations:

- Level of liquidity in the trade of the target's securities;
- Synergistic value;
- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited; and
- Ability to integrate the target into the acquirer's business.

In our assessment of an appropriate control premium for AD1, we have reviewed Australian public company acquisitions over the period 2012 to 2018. In particular, we have reviewed the average offer premium to the share price both one day before, and one month before the offer announcements. Displayed in the tables below are the average control premiums categorized by transaction size.

Table 31: Average Australian public company control premiums (transaction size less than $50 million)

Year	Number of Transactions	Average Deal Value (AUD $m)	Average control premium 1-Day before (%)	Average control premium 1-Month before (%)
2018	4	22	36%	55%
2017	1	45	36%	55%
2016	8	24	41%	60%
2015	7	29	51%	65%
2014	6	33	16%	33%
2013	16	23	43%	44%
2012	9	30	34%	31%
Mean		**31**	**37%**	**48%**
Median		**29**	**38%**	**49%**

Source: Mergermarket and BDO analysis

Table 32: Average Australian public company control premiums (transactions size less than $100 million)

Year	Number of Transactions	Average Deal Value (AUD $m)	Average control premium 1-Day before (%)	Average control premium 1-Month before (%)
2018	5	35	23%	28%
2017	4	78	15%	19%
2016	11	39	35%	48%
2015	11	49	52%	57%
2014	12	55	18%	32%
2013	18	29	39%	43%
2012	18	55	38%	37%
Mean		**48**	**32%**	**38%**
Median		**49**	**35%**	**37%**

Source: Mergermarket and BDOCF analysis

Table 33: Average Australian public company control premiums (all transaction sizes)

Year	Number of Transactions	Average Deal Value (AUD $m)	Average control premium 1-Day before (%)	Average control premium 1-Month before (%)
2018	22	1573	22%	25%
2017	14	1383	19%	19%
2016	35	740	28%	33%
2015	37	762	36%	38%
2014	35	673	22%	29%
2013	38	687	26%	32%
2012	43	302	30%	34%
Mean		**874**	**26%**	**30%**
Median		**740**	**26%**	**32%**

Source: Mergermarket and BDOCF analysis

Having considered the market evidence of transaction premiums, we note the following:

- 1-day prior average control premiums are generally in the range of 20% to 40%
- 1-month prior average control premiums vary more widely, generally between 20% to 60%
- Smaller transactions generally exhibit higher control premiums (transactions of deal value less than $50 million exhibited higher control premiums than transactions of deal value less than $100 million (albeit based on fewer transactions), which in turn exhibited higher control premiums than the entire transaction set).
- Fewer transactions occurred in 2017 and 2018 compared to prior years, which increases the susceptibility to bias by outliers. Therefore, the median values across a wider range of years is considered more meaningful.

Potentate and Associates will increase their interest in AD1 from 12.18% to 40.46% as a result of the Proposed Transactions. Whilst Potentate and Associates will not have majority control, the likelihood of undertaking an alternative control transaction and the ability of the non-associated AD1 shareholders to influence the strategic direction of AD1 will be significantly diminished. It is also noted that AD1 may require further shareholder capital in the near term, and subsequent capital raisings may result in Potentate and Associates obtaining majority control (subject to the relative participation of associated and non-associated shareholders and new investors)

Based on the above, we consider a control premium of 20% to be appropriate for AD1.

APPENDIX D: Comparable Companies and Comparable Transactions Analysis

Comparable Companies

Table 34: Broadly Comparable Trading Companies (multiples on a minority basis)

Company Name	Country	Latest Financial Year End	Market Cap as at 16/01/19 AUDm	EV as at 16/01/19 AUDm	Revenue LTM AUDm	EBITDA LTM AUDm	Revenue Multiple LTM Actual
Software & Services (HR Management and Talent Sourcing)							
REFFIND Ltd	Australia	30/06/2018	4	2.1	0.2	-1.5	10.2
Gooroo Ventures Limited	Australia	30/06/2018	5	3.9	0.5	-3.3	8.0
intelliHR Holdings Limited	Australia	30/06/2018	19	17.7	0.3	-3.6	68.0
Geo Limited	New Zealand	30/06/2018	11	12.4	3.9	-2.4	3.1
LiveHire Limited	Australia	30/06/2018	153	123.0	1.7	-7.8	74.5
Elmo Software Limited	Australia	30/06/2018	337	295.5	26.5	-2.5	11.1
SEEK Limited	Australia	30/06/2018	6,131	7,368.2	1,310.2	397.2	5.6
IT Consulting and Technology Solutions							
Nvoi Limited	Australia	30/06/2018	2	1.4	1.2	-3.1	1.1
Xped Limited	Australia	30/06/2018	4	1.8	3.8	-4.1	0.5
8common Limited	Australia	30/06/2018	5	4.0	2.6	-0.7	1.5
Invigor Group Limited	Australia	31/12/2017	10	19.6	7.9	-5.5	2.5
Cirrus Networks Holdings Limited	Australia	30/06/2018	16	11.5	76.1	0.5	0.2
ARQ Group Limited	Australia	31/12/2017	224	283.6	219.1	30.6	1.3
Combined - Adjusted Average (at 80% confidence level)							4.1
Combined - Adjusted Median (at 80% confidence level)							2.0
Software & Services - Adjusted Average (at 80% confidence level)							7.6
Software & Services - Adjusted Median (at 80% confidence level)							8.0
IT Consulting and Technology Solutions - Adjusted Average (at 80% confidence level)							1.2
IT Consulting and Technology Solutions - Adjusted Median (at 80% confidence level)							1.2

Source: Capital IQ and BDO analysis

Notes:

1. Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash.

2. Adjusted average and median are calculated excluding the data highlighted in grey, as they are outside the 80% confidence interval.

3. Control premium of 0% has been applied to market capitalisation to calculate the multiples above.

Table 35: HR Management and Talent Sourcing Companies - Comments on Comparability

Company Name	Business Description	BDO Comments
REFFIND Ltd	REFFIND Ltd develops cloud based software as a service solutions that enable companies to communicate with their employees in Australia and internationally.	▸ Product does not require any integration into the client's legacy systems ▸ Easy to use interface providing simple and fast interactivity with employees SaaS revenue model and scalable platform
Gooroo Ventures Limited	Gooroo Ventures Limited is building an online marketplace that directly connects employers with the world's tech talent, making it easier for hirers to identify prospective candidates for a job vacancy.	▸ Company's platform is designed as a global marketplace for IT professionals ▸ The technology also provides data analytics and insights around candidate's fit
intelliHR Holdings Limited	intelliHR Holdings Limited, together with its subsidiaries, operates a cloud based people management platform in Australia.	▸ Revenue generated on a SaaS model ▸ Platform is immediately available to customers without implementation expenses involved in a traditional software model ▸ Targeted at organisations of 20 to 5,000 staff members in both the public and private sectors across a broad range of industries
Geo Limited	Geo Limited develops and deploys cloud based mobile workforce productivity technologies in New Zealand and internationally.	▸ Productivity software for a mobile workforce ▸ Targeting sole traders and SME businesses with up to 200 field staff engaged in services and trades ▸ Revenue generated on a software-as-a-service (SaaS) basis ▸ The applications are available on both the desktop and mobile devices with ability to integrate with other third party software
LiveHire Limited	LiveHire Limited provides online talent acquisition software solutions to small and large enterprises in Australia.	▸ Global scalable SaaS platform that operates on both the desktop and mobile applications ▸ The platform and applications are able to service a wide range of business due to its user experience quality. Accordingly, the company's addressable market is considered very broad.
Elmo Software Limited	Elmo Software Limited provides software-as-a-service, cloud-based human resource (HR) and payroll solutions for organizations in Australia, New Zealand, and Singapore.	▸ Provides a full suite of talent management software solutions (including recruitment, on-boarding, performance management and succession planning) ▸ Technology is based on a multi-tenant infrastructure network with a single source code ▸ Products address the requirements of multiple industries and client base, including government and mid-market corporations
SEEK Limited	**SEEK Limited, together with its subsidiaries, provides online employment marketplace services in Australia and internationally.**	▸ **Large established technology company with proven technology** ▸ **Principal activities include online sourcing and placement of candidates into roles, provision of higher education courses and investing in early staged businesses and technologies** ▸ **Profitable business operations**

Table 36: IT Consulting and Technology Solutions Companies - Comments on Comparability

Company Name	Business Description	BDO Comment
Nvoi Limited	Nvoi Limited engages in the development and marketing of talent-on-demand cloud-based platform in Australia.	▸ Company's principal activity is the development of cloud-based platform for contingent workforce management ▸ The platform facilitates alternative work arrangements and assists freelancers to promote themselves to access assignments posted by employers
Xped Limited	Xped Limited engages in developing and operating an Internet of Things ('IoT') technology business that offers software and hardware solutions in Australia.	▸ Xped has developed the Auto-Discovery Remote Control Technology which it licences for integration into third party products ▸ Revenue sources include IP Licencing, technology development and communication solutions tailored for hospitals and aged care
8common Limited	8common Limited develops and distributes software solutions in Australia, Asia, and North America.	▸ The company develops applications that help companies, their employees and professionals control costs, improve productivity and generate sales leads ▸ Software products include expense management, corporate travel and electronic payment gateways ▸ The company has recently transitioned into fintech space
Invigor Group Limited	Invigor Group Limited, B2B data intelligence and solution company, provides data analytics solution to retail and service industries in Australia, Asia, and Germany.	▸ The company develops data intelligence solutions ▸ Current applications are tailored for retail and service industries
Cirrus Networks Holdings Limited	Cirrus Networks Holdings Limited, together with its subsidiaries, provides information technology (IT) services and related third-party products in Australia.	▸ Revenue sources include Professional and Managed Services, Software Licencing and Maintenance ▸ Current clients are primarily corporations and government agencies seeking to reduce operating costs, improve profits and services through better use of technology
ARQ Group Limited	**ARQ Group Limited, together with its subsidiaries, provides cloud-based technology solutions worldwide.**	▸ **Company's expertise spans mobile, data and analytics, cloud, security, design and digital marketing** ▸ **Blue chip customer base** ▸ **Recurrent revenues and repeatable project revenue**

Source: CapitalIQ, publicly available information and BDO analysis

Comparable Transactions

Table 37: Broadly Comparable Company Transaction Multiples

Acquirer	Target	Target Country	Date Announced	% Sought	Transaction Value (m)	Implied Enterprise Value (m)	Implied Equity Value (m)	Revenue Multiple	EBITDA Multiple
Online HR management & talent sourcing Transactions									
Recruit Holdings Co., Ltd.	Glassdoor, Inc.	USA	09-May-18	100%	1,627.3	1,609.0	1,609.0	7.0	NA
Apollo Global Management, LLC	CareerBuilder, LLC	USA	19-Jun-17	76%	595.4	825.6	825.6	0.9	NA
Elmo Software Limited	Pivot Software Limited	New Zealand	27-Feb-18	100%	11.2	11.2	8.8	2.5	NA
Elmo Software Limited	Quinntessential Marketing Consulting Pty Ltd.	Australia	02-Nov-17	100%	12.1	12.1	8.1	2.9	NA
Learning Technologies Group plc	PeopleFluent, Inc.	USA	24-Apr-18	100%	198.4	197.3	197.3	1.4	11.2
Hockliffe Limited; Bond US Inc.	6 Bond International Companies	UK	12-Sep-16	100%	37.3	36.7	36.7	1.3	NA
Private Investor	System Technology-i Co.,Ltd.	Japan	24-Mar-16	6%	1.1	10.0	17.0	0.9	NM
Saba Software, Inc	Halogen Software Inc.	Canada	23-Feb-17	100%	270.7	226.8	267.1	2.3	26.2
IT Consulting & Technology Solutions Transactions									
Accenture plc	PrimeQ Pty Ltd.	Australia	10-Dec-18	100%	31.0	31.0	31.0	1.1	NA
Mannai Corporation Q.P.S.C.	GFI Informatique SA	France	26-Sep-18	3%	37.4	1,649.6	1,131.9	0.9	11.4
AE Industrial Partners	CDI Corp.	USA	31-Jul-17	100%	215.8	193.3	197.4	0.2	NM
ASG Group Limited	SMS Management & Technology Limited	Australia	29-May-17	100%	132.1	127.7	116.4	0.4	14.4
Cirrus Networks Holdings Limited	NGage Technology Group Pty Ltd	Australia	27-Mar-17	100%	3.3	3.5	1.5	0.1	NA
Nomura Research Institute, Ltd.	ASG Group Limited	Australia	30-Sep-16	100%	360.6	342.5	328.9	1.8	14.3
Netcall plc	MatsSoft Ltd.	UK	07-Aug-17	100%	36.5	36.5	22.2	4.0	221.5
AWF Madison Group Limited	AbsoluteIT Limited	New Zealand	19-Oct-16	100%	14.3	14.3	10.4	0.2	NA
Online HR management & talent sourcing Transactions									
Average								**2.1**	**12.5**
Median								**1.4**	**11.2**
IT Consulting & Technology Solutions Transactions									
Average								**0.7**	**29.1**
Median								**0.2**	**0.0**

Source: Capital IQ

Table 38: Target Descriptions - Online HR and Talent Sourcing

Company Name	Business Description	BDO Comments
Glassdoor, Inc.	Glassdoor, Inc. operates an online jobs and career community. It offers job listings, as well as access to user-generated content. The company allows employers to post jobs and job seekers to find jobs in different areas.	Glassdoor is one of the largest job sites in the U.S. It recorded 59 million monthly unique visitors to their platform in calendar quarter Q1 2018. Glassdoor currently has rich data on more than 770,000 companies located in more than 190 countries, including company reviews, CEO approval ratings, salary information, interview questions, office photos and more. The company also provides recruiting solutions to more than 7,000 employers, including 40 percent of the Fortune 500.
CareerBuilder, LLC	CareerBuilder, LLC provides HR SaaS solutions that connect job seekers and employers in the Americas and Europe.	CareerBuilder is a global, end-to-end human capital solutions company focused on helping employers find, hire and manage great talent. The company combines advertising, software and services as part of its recruitment and employment screening solutions. It operates jobs sites in the United States, Europe, South America, Canada and Asia.
Pivot Software Limited	Pivot Software Limited provides SaaS based HR software solutions that enable organizations to improve remuneration and performance management.	Following the acquisition of Pivot Software, ELMO is able to provide its customers with a solution to manage salary increases, bonuses and complex LTI/STI issues. ELMO plans to offer its existing customer base a dedicated remuneration module which offers high quality reporting as part of a single integrated platform to automate HR and payroll functions.
Quinntessential Marketing Consulting Pty Ltd.	Quinntessential Marketing Consulting Pty Ltd designs and develops technology based online subscription products, including an online survey software and an online salary comparison portal.	The transaction included acquisition of two highly scalable software modules (PeoplePulse and LiveSalary) to accelerate ELMO's product development program. The acquisition represented complementary fit into ELMO's cloud based suite of products.
PeopleFluent, Inc.	PeopleFluent, Inc. provides SaaS talent management solutions. Its services include implementation, integration, customer education and product training, product support, release services, and account management services.	LTG acquired a business with revenues of around $100m of which $90m are recurring (often on multi-year contracts). Acquisition introduces new range of capabilities to LTG's portfolio of specialist digital learning businesses required for the modern workforce.
6 Bond International Companies	6 Bond International Companies engage in developing software solution for, and the provision of related services to, the recruitment and staffing sector.	Transaction involved the sale of Bond's recruitment software subsidiaries, including company's latest software offering AdaptUX which streamlines candidate screening and recruitment processes.
System Technology-i Co.,Ltd.	iStudy Co., Ltd. provides learning solutions, which include e-learning services for business and IT skills, a learning management system for collective training management, and a solution for the development of training, creation, and recruitment of the industrial technicians.	System Technology-i Co. Ltd. is a Japanese e-learning company covering three lines of business: an enterprise-grade learning management platform, technical certified training, and publishing of e-content and technical books. All of the company's products are branded with the iStudy name.
Halogen Software Inc.	**Halogen Software Inc. develops, markets, and sells SaaS based talent management software solutions worldwide, such as solution for employee feedback and performance, a tool for organizations to manage performance and a tool for 360-degree feedback for employee reviews.**	**Combined entity will extend Saba's position as a leading provider of end-to-end SaaS Talent Management solutions, serving more than 4,000 customers worldwide. Transaction also aims to scale the business and accelerate development of talent management solutions.**

Source: *Capital IQ, publicly available information and BDO analysis*

Table 31: Target Descriptions - IT Consulting and Technology Transactions

Company Name	Business Description	BDO Comment
PrimeQ Pty Ltd.	PrimeQ Pty Ltd. offers cloud based software consulting services.	Acquisition makes Accenture the largest Oracle Cloud Systems Integrator in Australia and New Zealand.
GFI Informatique SA	Gfi Informatique SA primarily provides software, SAP, and value-added IT services internationally. The company offers consulting, project management and project ownership assistance services. It also engages in the design and development, integration, testing, and maintenance of software applications.	Transaction is a buy-out offer followed by a squeeze-out for the remaining shares. Gfi Informatique is a major player in value-added IT services and software in Europe, and occupies a strategic position in its differentiated approach to global firms and niche entities.
CDI Corp.	CDI Corp. provides engineering, IT, and staffing solutions worldwide. It offers services in the following segments: Enterprise Talent segment, Specialty Talent and Technology Solutions segment, Engineering Solutions segment and Management Recruiters International segment.	CDI's business is comprised of four segments: Enterprise Talent, Specialty Talent & Technology Solutions, Engineering Solutions, and MRI. The company provides engineering, information technology and staffing solutions to clients in multiple industries, including aerospace, chemicals, energy, industrial equipment, infrastructure and technology, as well as municipal and state governments and the U.S. Department of Defence.
SMS Management & Technology Limited	SMS Management & Technology Limited provides consulting services. The company provides IT advisory solutions, such as digital business strategy, agile transformation, and information management strategy; and recruitment and contract labour services primarily in the IT sector.	The acquisition saw the creation of a 2000-person business with an expected $500 million in annual revenue. ASG expected it to drive increased capability for large-scale projects and services.
NGage Technology Group Pty Ltd	NGage Technology Group Pty Ltd provides IT solutions in Australia. It offers managed services, including managed service desk, managed core infrastructure, end user support, managed network, and managed end user devices, as well as managed security services and Outcome-as-a-Service; consulting, storage and infrastructure, network and security, and licensing services; and hardware and software.	Strategic acquisition to accelerate national expansion, grow market share and annuity based revenue. NGage was said to be a great brand fit with client base complementary to Cirrus.
ASG Group Limited	ASG Group Limited provides IT services in Australia. Its managed services include service and delivery management, services desk, and database administration; business solutions comprise Oracle business solutions and Oracle PeopelSoft services; SAP solutions consist of SAP Business One and ProSuite products, as well as iVend Retail, an integrated retail management suite; and enterprise analytics and performance solutions. The company's professional services include project and Microsoft professional services; specialist technical services; architecture consulting services; and IT service management solutions.	NRI plans to continue to grow ASG in Australia and is also looking to take its services into international markets. The acquisition allows the company to expand its offerings in terms of products, services and geography.
MatsSoft Ltd.	MatsSoft Ltd. provides SaaS business process management, workflow, customer, and communications solutions. It offers a number of the products, that include web-based software suites that enhances the way organizations communicate with their customers and stakeholders, a business tool to enhance the mortgage application processing environment; a Web-based service to ensure the smooth processing of personal loan applications with automated customer communication; and a Web-based service to ensure the smooth setting up and processing of transfers in and out of ISA accounts.	The acquisition increases Netcall's cloud presence and will give company access to the fast growing low-code market. MatsSoft recorded revenue for the year ended 31 December 2016 up 22% to £5.5m, which was up from £4.5m in 2015. Of that, recurring revenue was up 38% to £3.3m.
AbsoluteIT Limited	AbsoluteIT Limited specialises in the design, implementation and support of information technology solutions for all sizes of business. It has built, implemented and managed a wide range of IT business solutions, working directly with business owners or providing specialised assistance to IT departments.	The acquisition expands AWF Madison's presence in the fast-growing ICT recruitment market, adding to its existing operations in both blue- and white-collar recruitment.

Source: *Capital IQ, Publicly available information*

APPENDIX E: Glossary

Reference	Definition
AD1, the Company	ApplyDirect Limited
APES 225	APES 225 Valuation Services
ASIC	Australian Securities and Investments Commission
Associates	Associates to Potentate Investments Pty Ltd: Mr Christopher Kuperman and Mr Andrew Henderson
ASX	Australian Securities Exchange
$ or $AUD	Australian Dollar
BDO, BDOCF, we, us, our	BDO Corporate Finance (East Coast) Pty Ltd
CA	Capitalisation of Earnings
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIS	Customer Information Service
Comparable Companies	Broadly comparable listed companies
Comparable Transactions	Sales transactions involving broadly comparable target companies
CTO	Chief Technical Officer
DCF	Discounted Cash Flows
Dev Ops	Development and Operations
ED	Executive Director
FMV	Fair Market Value
FSG	Financial Services Guide
FTE	Full-time equivalent
FYXX	Financial Year ending XX
GST	Goods and Services Tax
Independent Directors	Michael Kay and Bryan Petereit, being those directors of AD1 that have no interest in the Proposed Transaction, other than as Shareholders
IP	Intellectual property
IoT	Internet of Things
IT	Information Technology
Key events	ASX announcements that correspond to the significant share price movements
Mercury	Mercury Group of Companies Pty Ltd
NAV	Net asset value
PAYGW	Pay as you go withholding
Potentate	Potentate Investments Pty Ltd

Reference	Definition
Proposed Placement	Proposed placement of $1.0 million via the issue of 35.74 million fully paid ordinary shares to Potentate and Associates
Proposed Transaction	Proposed acquisition of 100% of the issued share capital in USS for an all-scrip consideration
QMP	Quoted Market Prices
Reference	Definition
Report	Independent expert's report
RG111	Regulatory Guide 111: Content of expert reports
RG112	Regulatory Guide 112: Independence of experts
RG74	Regulatory Guide 74: Acquisition approved by members
SaaS	Software-as-a-Service
Scrip Consideration	Consideration with a notional value of $3.588 million, payable entirely by way of issuing 132.9 million new fully paid ordinary shares in AD1 at an assumed value of $0.027 per share
Shareholders	Non-associated shareholders of ApplyDirect Limited
SPA	Share purchase agreement dated 3 January 2019
the Act	Section 611, item 7 of the Corporations Act 2001 (Cth)
UI/UX Design	User Interface and User Experience Design
USS	Utilities Software Services Pty Ltd
VWAP	Volume weighted average price