

UPDATER, INC.

Financial Statements

With Independent Auditors' Report

Six Months Ended June 30, 2015,

Years Ended December 31, 2014 and 2013

Updater Inc.

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Independent Auditors' Report

Board of Directors and Stockholders,
Updater, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Updater, Inc., which comprise the balance sheets as of June 30, 2015, December 31, 2014 and 2013, and the related statements of operations, changes in stockholders' equity (deficit), and cash flows for the periods then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Updater Inc. as of June 30, 2014, December 31, 2014 and 2013, and the results of its operations and its cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations and negative cash flow from operations which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Withersmith & Brown, P.C.

October 8, 2015

Updater Inc.
Balance Sheets
June 30, 2015, and December 31, 2014 and 2013

Assets	June 30, 2015	December 31, 2014	December 31, 2013
Current assets			
Cash and cash equivalents	\$ 1,431,358	\$ 1,995,062	\$ 400,450
Restricted cash	100,075	25,013	25,007
Accounts receivable	24,543	10,172	5,935
Prepaid expenses	10,458	-	-
Total current assets	<u>1,566,434</u>	<u>2,030,247</u>	<u>431,392</u>
Property and equipment, net	30,684	56,522	51,366
Other assets	50,881	50,881	35,115
	<u>\$ 1,647,999</u>	<u>\$ 2,137,650</u>	<u>\$ 517,873</u>
Liabilities and Stockholders' Equity (Deficit)			
Current liabilities			
Accounts payable and accrued expenses	\$ 121,598	\$ 116,654	\$ 88,448
Deferred revenue	34,771	55,778	-
Line of credit	1,500,000	-	-
Total current liabilities	<u>1,656,369</u>	<u>172,432</u>	<u>88,448</u>
Long term liabilities			
Warrant liability	5,111	63,567	32,858
Deferred rent	12,768	10,989	9,096
Total long term liabilities	<u>17,879</u>	<u>74,556</u>	<u>41,954</u>
Stockholders' equity (deficit)			
Series A-1 convertible preferred stock, \$.001 par value, (Liquidation preference - \$4,999,992.47)	3,355	3,355	-
Series A convertible preferred stock, \$.001 par value, (Liquidation preference - \$2,999,999.66)	3,135	3,135	3,135
Common stock, \$.001 par value,	5,657	5,645	5,352
Additional paid in capital	10,058,254	10,004,745	4,863,452
Accumulated deficit	(10,096,650)	(8,126,218)	(4,484,468)
Total stockholders' equity (deficit)	<u>(26,249)</u>	<u>1,890,662</u>	<u>387,471</u>
	<u>\$ 1,647,999</u>	<u>\$ 2,137,650</u>	<u>\$ 517,873</u>

The Notes to Financial Statements are an integral part of these statements.

Updater Inc.

Statements of Operations

Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Revenue, net	\$ 101,536	\$ 109,712	\$ 31,628
Cost of revenue	<u>18,308</u>	<u>56,216</u>	<u>64,742</u>
Gross margin	83,228	53,496	(33,114)
Expenses			
Research and development expense	680,929	1,508,564	118,749
Sales and marketing expense	950,822	1,331,794	589,711
General and administrative expense	<u>457,244</u>	<u>826,291</u>	<u>1,871,064</u>
Total expenses	<u>2,088,995</u>	<u>3,666,649</u>	<u>2,579,524</u>
Loss from operations	(2,005,767)	(3,613,153)	(2,612,638)
Other income (expense)			
Interest expense	(23,208)	-	-
Interest income	87	1,273	1,093
Change in fair value of warrants	58,456	(30,709)	-
Other income	<u>-</u>	<u>839</u>	<u>-</u>
Total other income (expense)	<u>35,335</u>	<u>(28,597)</u>	<u>1,093</u>
Net loss	<u>\$ (1,970,432)</u>	<u>\$ (3,641,750)</u>	<u>\$ (2,611,545)</u>

The Notes to Financial Statements are an integral part of these statements.

Updater Inc.

Statements of Changes in Stockholders' Equity (Deficit)
Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013

	Series A-1				Series A				Common Stock				Total	
	Convertible Preferred Stock		Convertible Preferred Stock		Convertible Preferred Stock		Convertible Preferred Stock		Convertible Preferred Stock		Convertible Preferred Stock		Convertible Preferred Stock	
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	Paid in Capital	Accumulated Deficit
December 31, 2012	-	\$ -	-	-	3,135	\$ 3,135	5,321,888	\$ 5,322	4,769,404	\$ -	(1,872,923)	\$ -	2,904,938	
Issuance of common stock for cash	-	-	-	-	-	-	30,000	30	17,764	-	-	-	17,794	
Stock based compensation expense	-	-	-	-	-	-	-	-	76,284	-	-	-	76,284	
Net loss	-	-	-	-	-	-	-	-	-	-	(2,611,545)	-	(2,611,545)	
December 31, 2013	-	-	-	-	3,135	\$ 3,135	5,351,888	5,352	4,863,452	-	(4,484,468)	-	387,471	
Issuance of preferred stock for cash, net	3,354,799	3,355	-	-	-	-	-	-	4,949,687	-	-	-	4,953,042	
Issuance of common stock for cash	-	-	-	-	-	-	193,024	193	23,067	-	-	-	23,260	
Exercise of warrants	-	-	-	-	-	-	100,000	100	88,370	-	-	-	88,470	
Stock based compensation expense	-	-	-	-	-	-	-	-	80,169	-	-	-	80,169	
Net loss	-	-	-	-	-	-	-	-	-	-	(3,641,750)	-	(3,641,750)	
December 31, 2014	3,354,799	3,355	3,135,451	3,135	5,644,912	5,645	10,004,745	10,004,745	10,004,745	10,004,745	(8,126,218)	-	1,890,662	
Issuance of common stock for cash	-	-	-	-	-	-	12,500	12	3,363	-	-	-	3,375	
Stock based compensation expense	-	-	-	-	-	-	-	-	50,146	-	-	-	50,146	
Net loss	-	-	-	-	-	-	-	-	-	-	(1,970,432)	-	(1,970,432)	
June 30, 2015	3,354,799	\$ 3,355	3,135,451	\$ 3,135	5,657,412	5,657	\$ 10,058,254	\$ 10,058,254	\$ 10,058,254	\$ 10,058,254	(10,096,650)	\$ -	(26,249)	

The Notes to Financial Statements are an integral part of these statements.

Updater Inc.
Statements of Cash Flows
Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cash flows from operating activities			
Net loss	\$ (1,970,432)	\$ (3,641,750)	\$ (2,611,545)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation expense	28,053	23,834	12,840
Change in fair value of warrants	(58,456)	30,709	-
Warrants issued for marketing services	-	-	32,858
Stock based compensation expense	50,146	80,169	76,284
Changes in operating assets and liabilities:			
Accounts receivable	(14,370)	(4,236)	(5,936)
Prepaid expenses	(10,458)	-	8,779
Deferred rent	1,779	1,893	9,096
Deferred revenue	(21,007)	55,778	-
Accounts payable and accrued expenses	4,943	28,205	60,329
Net cash used by operating activities	<u>(1,989,802)</u>	<u>(3,425,398)</u>	<u>(2,417,295)</u>
Cash flows from investing activities			
Purchases of property and equipment	(2,215)	(28,990)	(56,926)
Increase in restricted cash	(75,062)	(6)	-
Increase in security deposit	-	(15,766)	-
Net cash used by investing activities	<u>(77,277)</u>	<u>(44,762)</u>	<u>(56,926)</u>
Cash flows from financing activities			
Proceeds from issuance of common stock	3,375	23,260	17,794
Proceeds from issuance of series A-1 convertible preferred stock, net	-	4,953,042	-
Proceeds from exercise of warrants	-	88,470	-
Proceeds from line of credit	1,500,000	-	-
Net cash provided by financing activities	<u>1,503,375</u>	<u>5,064,772</u>	<u>17,794</u>
Net (decrease) increase in cash and cash equivalents	(563,704)	1,594,612	(2,456,427)
Cash and cash equivalents			
Beginning of period	1,995,062	400,450	2,856,877
End of period	<u>\$ 1,431,358</u>	<u>\$ 1,995,062</u>	<u>\$ 400,450</u>
Supplemental disclosure of cash flow information			
Cash paid for interest	<u>\$ 23,208</u>	<u>\$ -</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

Updater Inc.

Notes to Financial Statements

Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013

1. Summary of Significant Accounting Policies

Nature of Business

Updater Inc. (the "Company"), a Delaware C-Corporation, develops and markets tools for consumers to complete their move-related tasks. The Company partners with companies in the relocation services industry like real estate agents and brokers, property managers, moving companies, and title insurance companies to provide a co-branded version of its product to consumers. The Company serves clients throughout the United States.

Going Concern

The Company's financial statements have been prepared assuming that the Company will continue as a going concern. However, since inception, the Company has generated net losses of approximately \$10,000,000 and has had negative cash flows from operations. These factors raise doubt about the Company's ability to continue as a going concern.

To address the aforementioned factors, the Company intends to raise additional capital through debt and equity financing from new and existing investors. As discussed in footnote 11, subsequent to June 30, 2015, the Company raised approximately \$4,500,000 through a sale of common stock and intends to continue to raise funds over the next twelve months to support its operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Significant estimates include stock based compensation expense, warrant expense, and revenue recognition.

Cash and Cash Equivalents

The Company considers cash equivalents to be only those investments which are highly liquid, readily convertible to cash and have a maturity date within ninety days from the date of purchase.

Accounts Receivable and Credit Policies

Accounts receivable are uncollateralized, non-interest bearing customer obligations due under normal trade terms, usually within 30 days of services provided. Customer account balances with invoices dated over 90 days are considered delinquent.

The Company applies collections of accounts receivable to specific invoices in accordance with customer specifications, or if unspecified, to the oldest outstanding invoices.

Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management may also utilize the direct write off method for specific balances that are deemed uncollectible between financial reporting periods. Management determined that no allowance for doubtful accounts was required as of June 30, 2015, and December 31, 2014 and 2013.

Revenue Recognition

Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

The Company typically enters into fixed fee contracts with enterprise and small business clients which dictate both revenue recognition and billings to customers. These contracts are typically for a 1-year

Updater Inc.**Notes to Financial Statements****Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013**

initial term, with annual renewals thereafter. Fees are due under the contracts in varying terms either monthly or annually. Revenue is recognized upon delivery of the service. The Company occasionally receives payment in advance of service, this payment is deferred and recognized into revenue upon delivery of the service.

The Company enters into annual fixed fee contracts with individual real estate agents. All fees are due under the contracts in advance of the annual term. Payments received upon the inception of the contract are deferred and recognized into revenue upon delivery of the service.

In 2013 and early 2014, the Company charged consumers in advance for one-time use of its product. Revenue from these sales were recognized at the time of receipt. The Company discontinued sales of its direct-to-consumer product in 2014 and has no further obligations to perform resulting from these sales.

The Company occasionally enters into fee-sharing agreements with its enterprise and small business clients or other referral sources. The total amount paid out pursuant to these agreements has, to date, been de-minimus.

Property and Equipment

Property and equipment are carried at cost less depreciation. Depreciation of property and equipment are provided using the straight-line method at the following rates:

<u>Description</u>	<u>Estimated Life (Years)</u>
Computer equipment	5
Furniture and other equipment	5

Expenditures for major renewals and betterments that extend the useful lives of equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Concentration of Credit Risk

The Company periodically maintains cash balances in excess of the FDIC insurance limit of its financial institutions. The Company has had no losses related to these financial institutions.

Research and Development

Costs incurred for research and product development, which primarily comprise salaries, taxes, and benefits, are expensed as incurred. In addition, the Company recognizes research and development expenses in the period in which it becomes obligated to incur such costs.

Advertising

The Company expenses the cost of advertising and marketing as incurred. Total advertising costs were approximately \$500 for the six months ended June 30, 2015, \$130,000 the year ended December 31, 2014, and \$361,000 for year ended December 31, 2013.

Cost of Revenue

Cost of revenue consists primarily of payments for data authentication and outside services.

Sales and Marketing

Sales and marketing consists primarily of advertising expense, salaries, taxes and benefits, and travel, meals and entertainment.

General and Administrative

General and administrative consists primarily of salaries, taxes and benefits, facilities costs, depreciation and amortization, professional services, and other general overhead.

Updater Inc.

Notes to Financial Statements

Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013

Stock-Based Compensation

Share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense, net of estimated pre-vesting forfeitures, ratably over the vesting period of the award. Calculating share-based compensation expense requires the input of highly subjective assumptions, including the expected term of the share-based awards, volatility, dividend yield, risk free rates and pre-vesting forfeitures. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change and the Company uses different assumptions, its share-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected pre-vesting forfeiture rate and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from its estimate, share-based compensation expense could be significantly different from what the Company has recorded in the current period.

Income Taxes

The Company accounts for its income taxes using the asset and liability method. Under the asset and liability method, deferred taxes are determined for differences between the carrying values of assets and liabilities for financial and tax reporting purposes. Deferred income taxes are recognized as assets for net operating loss carry forwards that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company is required to file tax returns in the U.S. federal jurisdiction and various states/cities. The Company has no open years prior to December 31, 2012.

The Company had no uncertain tax positions at any of its balance sheet dates. In addition, the Company has no material income tax related penalties or interest for the periods reported in these financial statements.

The Company follows the accounting pronouncement dealing with uncertain tax positions. The pronouncement clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Fair Value Measurements

The carrying amounts of the Company's cash and cash equivalents, accounts payable, accrued expenses, and its line of credit approximate fair value due to the short-term nature of these instruments. The Company presents its warrant liability at fair value in accordance with the accounting pronouncement dealing with fair value measurements.

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3 - Significant unobservable inputs that cannot be corroborated by market data.

The assets or liability's fair value measurement within the fair value hierarchy is based upon the lowest

Updater Inc.**Notes to Financial Statements****Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013**

level of any input that is significant to the fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transactions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. The Company uses the Black Scholes pricing model to value Level 3 financial liabilities at inception and on subsequent valuation dates. This simulation incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, and volatility. The inputs utilized by management are highly subjective, changes to the inputs could result in a material change to the calculated value.

2. Restricted Cash

The restricted cash balance for June 30, 2015 and December 31, 2014 consists of a certificate of deposit which collateralizes the Company credit card-as-required by the banking institution. The restricted cash balance for December 31, 2013 consists of a money market account which also collateralized the Company's credit card as discussed above.

3. Property and Equipment

Property and equipment consists of the following at:

	June 30, 2015	December 31, 2014	December 31, 2013
Computer equipment	\$ 74,230	\$ 72,015	\$ 49,007
Furniture	22,153	22,153	16,171
Subtotal	96,383	94,168	65,178
Accumulated depreciation	(65,699)	(37,646)	(13,812)
Property and equipment, net	<u>\$ 30,684</u>	<u>\$ 56,522</u>	<u>\$ 51,366</u>
Depreciation expense charged to operations	<u>\$ 28,053</u>	<u>\$ 23,834</u>	<u>\$ 12,840</u>

4. Income Taxes

A summary of the Company's deferred income taxes are as follows:

	June 30, 2015	December 31, 2014	December 31, 2013
Net operating loss carryforward	\$ 4,417,441	\$ 3,407,037	\$1,620,185
Other	(1,141)	21,429	9,182
Total deferred tax assets, net	4,416,300	3,428,466	1,629,367
Valuation allowance	(4,416,300)	(3,428,466)	(1,629,367)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Deferred tax assets consist primarily of net operating loss carryforwards. The Company has provided for a 100% valuation allowance for all periods presented as the realization of sufficient future taxable income during the expiration period of the net operating loss carryforwards is uncertain. As of June 30, 2015, the Company has approximately \$8.7 million in federal, state and city net operating loss carryforwards available to offset future taxable income. The majority of the federal and state net operating loss

Updater Inc.

Notes to Financial Statements

Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013

carryforwards will begin to expire in 2032. The Company's effective income tax rate differs from the federal and state statutory rates for all periods presented due to the valuation allowance recorded against the deferred tax assets.

5. Line of Credit

In January 2015 the Company entered into an agreement for a secured credit line facility with Silicon Valley Bank ("SVB") that provides for borrowings of up to \$1,500,000, which can be drawn down in increments of at least \$500,000 during the draw period, which ends on January 13, 2016. The line is secured by a first perfected security interest in all assets, excluding intellectual property. Commencing on March 1, 2015, the Company pays interest only monthly through January 13, 2016 and principal and interest through the maturity date. The loan is due in full on June 20, 2019. At June 30, 2015 there was \$1,500,000 in outstanding borrowings. Interest is charged at 1.25% above the Prime Rate, or 4.50% as of June 30, 2015. The Company issued 22,000 common stock warrants with an exercise price of \$0.47 per share and a term of 10 years in connection with this loan. The value of the warrants was determined to be immaterial and no value was ascribed to them. As of June 30, 2015, all of the aforementioned warrants remained outstanding. Subsequent to June 30, 2015, the Company repaid this facility in full and terminated the agreement (see note 11).

6. Commitments

The Company has office space in New York City under a non-cancellable lease which expires January 2017. For the period ended June 30, 2015, and the years ended December 31, 2014 and 2013, rent expense amounted to \$70,567, \$154,684, and \$97,040, respectively.

The future minimum rental payments due under the lease agreement is as follows:

12 months ending June 30:

2016	\$ 122,105
2017	72,361
	<u>\$ 194,466</u>

7. Concentrations

The Company periodically maintains cash balances in excess of the FDIC insurance limit of \$250,000 in its financial institutions. The Company has had no losses related to these financial institutions.

During the year ended December 31, 2014, the Company had sales to one customer approximating 12% of total revenue.

8. Stockholders' Equity (Deficit)

At June 30, 2015, the authorized capital of the Company consists of 18,000,000 common shares and 6,490,250 preferred shares. Of the preferred shares, 3,135,451 are designated Series A Preferred Stock and 3,354,799 are designated Series A-1 Preferred Stock. All preferred stock was issued and outstanding and 5,657,412 shares of common stock were issued and outstanding.

At December 31, 2014, the authorized capital of the Company consisted of 18,000,000 common shares and 6,490,250 preferred shares. Of the preferred shares, 3,135,451 are designated Series A Preferred Stock and 3,354,799 are designated Series A-1 Preferred Stock. All preferred stock was issued and outstanding and 5,644,912 shares of common stock were issued and outstanding.

Updater Inc.

Notes to Financial Statements

Six Months Ended June 30, 2015, Years Ended December 31, 2014 and 2013

At December 31, 2013, the authorized capital of the Company consisted of 13,150,000 common shares and 3,135,451 preferred shares. The preferred shares are all designated Series A Preferred Stock. All preferred stock was issued and outstanding and 5,351,888 shares of common stock were issued and outstanding.

On February 7, 2014, the Company issued 3,354,799 shares of Series A-1 Preferred Stock for cash totaling \$4,953,042.

During the six months ended June 30, 2015 and the years ended December 31, 2014 and December 31, 2013, 12,500, 189,899, and 30,000 shares, respectively of common stock were issued upon the exercise of stock options for cash totaling \$3,376, \$22,413, and \$17,794, respectively.

During the year ended December 31, 2013, 100,000 shares of common stock were issued upon the exercise of warrants for cash totaling \$88,470.

The following provisions are the rights and privileges of the preferred shareholders according to the Company's Certificate of Incorporation.

Voting

Preferred shareholders are entitled to one vote for each share of common stock into which such preferred stock could then be converted and shall have voting rights and powers equal to the voting rights of the common stock. The holders of the Common Stock are entitled to one vote for each share of Common Stock held at all meetings of stockholders (and written actions in lieu of meetings); There shall be no cumulative voting.

Dividends

The holders of Preferred Stock shall be entitled to receive, a non-cumulative dividend on each outstanding share of Preferred Stock (the "Preferred Dividends") at the rate of 8% per annum of the Original Issue Price (as defined below), when and if declared by the Board of the Directors out of the assets of the Company that are by law available. The "Series A Original Issue Price" shall mean \$0.9568 per share, and the "Series A-1 Original Issue Price" shall mean \$1.4904 per share. All preferred shares are subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Preferred Stock. The Company will not declare, pay, or set aside any dividends on Common Stock of the Company unless any and all such dividends or distributions in excess of the Preferred Dividends are distributed among all holders of Common Stock and Preferred Stock in proportion to the number of shares of Common Stock that would be held by each such holder if all shares of Preferred Stock were converted to Common Stock at the then effective conversion rate.

Liquidation

In the event of any closing of the sale, lease, transfer or other disposition of all or substantially all of the Company's assets or merger or consolidation of the Company with or into another entity, the grant to a single entity of an exclusive, irrevocable license to the Company's intellectual property that is used to generate substantially all of the Company's revenues, or a liquidation, dissolution or winding up of the Company, the holders of shares of Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share equal to (i) the Original Issue Price, plus any Preferred Dividends declared but unpaid thereon, or (ii) such amount per share as would have been payable had all shares of the relevant series of Preferred Stock been converted into Common Stock immediately prior to such liquidation, dissolution, winding up or liquidation event.

If upon any such liquidation, dissolution or winding up of the Company or liquidation event, the assets of the Company available for distribution to its stockholders shall be insufficient to pay the holders of shares

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of Preferred Stock the full applicable liquidation amount to which they shall be entitled, the holders of shares of Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective applicable liquidation amounts that would otherwise be payable in respect of the shares of Preferred Stock held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or liquidation event, after the payment in full of the applicable liquidation amounts to be paid to the holders of shares of Preferred Stock, the remaining assets of the Company available for distribution to its stockholders shall be distributed among the holders of shares of Common Stock, pro rata based on the number of shares held by each such holder.

Anti-Dilution

If the Company issues additional stock (as defined in the articles of incorporation) without consideration or for consideration per share less than the conversion price applicable to the series A preferred stock or series A-1 preferred stock, the conversion price for said series A and A-1 preferred stock shall be adjusted. The adjusted price will be determined by multiplying the conversion price by a fraction, the numerator of which shall be the number of shares of common stock outstanding immediately prior to such issuance plus the number of shares of common stock that the aggregate consideration received by the Company for such issuance would purchase at such conversion price. The denominator of which shall be the number shares of common stock outstanding (as defined in the articles of incorporation) immediately prior to such issuance plus the number of shares of such additional stock.

Conversion

Each share of Preferred Stock is convertible, at the option of the holder, at any time after the date of issuance of such share, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the applicable Original Issue Price for such series by the applicable Conversion Price (as defined below) for such series (the conversion rate for a series of Preferred Stock into Common Stock is referred to herein as the "Conversion Rate" for such series), determined on the date the certificate is surrendered for conversion. The initial Conversion Price per share for each series of Preferred Stock is the Original Issue Price applicable to such series; provided, however, that the Conversion Price for each series of Preferred Stock is subject to adjustment. As of the Series A-1 Original Issue Date, the Conversion Rate for the Series A Preferred Stock is 1.016899007.

Each share of Series A Preferred Stock shall automatically be converted into shares of Common Stock at the applicable Conversion Rate then in effect for such series of Preferred Stock immediately upon the earlier of (i) this corporation's sale of its Common Stock in a public offering with aggregate gross proceeds of at least \$50,000,000 (a "Qualifying IPO"), or (ii) the date specified by written consent or agreement of the holders of a majority of the then outstanding shares of Series A Preferred Stock.

Each share of Series A-1 Preferred Stock shall automatically be converted into shares of Common Stock at the applicable Conversion Rate then in effect for such series of Preferred Stock immediately upon the earlier of (i) a Qualifying IPO, or (ii) the date specified by written consent or agreement of the holders of at least 66 2/3% of the then outstanding shares of Series A-1 Preferred Stock.

Redemption

In the event of a liquidation event (as defined in the articles of incorporation), if the Company does not effect a dissolution of this corporation under the General Corporation Law within ninety (90) days after such liquidation event, then (i) the Company shall send a written notice to each holder of Preferred Stock no later than the 90th day after the liquidation event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause (ii) to require the redemption of such shares of Preferred Stock, and (iii) if the holders of at least a majority of the then outstanding shares of Preferred Stock so request in a written instrument delivered to this corporation not later than 120 days after such Liquidation Event, the Company shall use the consideration received by the Company for such Liquidation Event (net of any retained liabilities associated with the assets sold or

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technology licensed, as determined in good faith by the Board of Directors of this corporation), together with any other assets of this corporation available for distribution to its stockholders, all to the extent permitted by Delaware law governing distributions to stockholders (the "Available Proceeds"), on the 150th day after such Liquidation Event, to redeem all outstanding shares of Preferred Stock at a price per share equal to, with respect to the Series A Preferred Stock, the Series A Liquidation Amount and, with respect to the Series A-1 Preferred Stock, the Series A-1 Liquidation Amount. Notwithstanding the foregoing, in the event of a redemption pursuant to the preceding sentence, if the Available Proceeds are not sufficient to redeem all outstanding shares of Preferred Stock, the Company shall redeem a pro rata portion of each holder's shares of Preferred Stock to the fullest extent of such Available Proceeds, and shall redeem the remaining shares to have been redeemed as soon as practicable after this corporation has funds legally available. Prior to the distribution or redemption, the Company shall not expend or dissipate the consideration received for such Liquidation Event, except to discharge expenses incurred in connection with such Liquidation Event or in the ordinary course of business.

Protective Provisions

So long as at least 649,000 shares of Preferred Stock remain outstanding (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalizations or the like), the Company shall not take any of the following actions without the vote or written consent of the holders of a majority of the then outstanding shares of Preferred Stock: (i) consummate a liquidation event, (ii) amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of the Company in a manner that adversely affects the powers, preferences or rights of the Preferred Stock, (iii) authorize or issue, or obligate itself to issue, any equity security (including any other security convertible into or exercisable for any such equity security) having a preference over, or being on a parity with, the Series A Preferred Stock or Series A-1 Preferred Stock with respect to dividends, liquidation or redemption, other than the issuance of any authorized but unissued shares of Preferred Stock designated in the Certificate of Incorporation (including any security convertible into or exercisable for such shares of Preferred Stock), (iv) redeem, purchase or otherwise acquire (or pay into or set aside for a sinking fund for such purpose) any share or shares of Preferred Stock or Common Stock; provided, however, that this restriction shall not apply to the repurchase by the Company of shares of Common Stock at cost from employees, officers, directors, consultants or other persons performing services for this corporation or any subsidiary pursuant to agreements under which the Company has the option to repurchase such shares upon the occurrence of certain events, such as the termination of employment or service, or pursuant to a right of first refusal, (v) declare or pay any dividends on or declare or make any other distribution on account of any class of stock prior to the Series A Preferred Stock or the Series A-1 Preferred Stock other than dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock, (vi) change the authorized number of directors of the Company, or (vii) create, or hold capital stock in, any subsidiary that is not wholly owned (either directly or through one or more other subsidiaries) by the Company.

So long as at least 313,545 shares of Series A Preferred Stock (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalizations or the like with respect to the Series A Preferred Stock) remains outstanding, this corporation shall not (by amendment, merger, consolidation or otherwise), without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock, amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of this corporation in a manner that adversely affects the powers, preferences or rights of the Series A Preferred Stock.

So long as at least 335,480 shares of Series A-1 Preferred Stock (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalizations or the like with respect to the Series A-1 Preferred Stock) remains outstanding, this corporation shall not (by amendment, merger, consolidation or otherwise), without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least 66 2/3% of the then outstanding shares of Series A-1 Preferred Stock, amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of this corporation in a manner that adversely affects the powers, preferences or rights of the Series A-1 Preferred Stock.

On August 28, 2015, the Company completed a recapitalization of its stock, whereby all of the existing

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preferred stockholders converted their shares into common stock and the Company repurchased 4,641,494 shares of common stock for cash totaling \$1,000,000. See note 11 for additional details. As of October 8, 2015, the authorized capital of the Company consists of 55,000,000 common shares, with 12,651,987 of such shares issued and outstanding.

Liquidation Preference

In the event of a sale of the Company or all or substantially all of its assets, a merger or consolidation of the Company (except a merger or consolidation in which the holders of capital stock of the Company immediately prior to such merger or consolidation continue to hold at least 50% of the voting power of the capital stock of the Company or the surviving or acquiring entity), or either a voluntary or involuntary liquidation, dissolution, or winding up of the Company, the Company is obligated to pay a group of investors (the "Preferred Stockholders") who formerly held preferred stock the aggregate amount of \$7,199,991.94 less (y) any proceeds received by the Preferred Stockholders from the sale of common stock, and less (z) any proceeds to be paid to the Preferred Stockholders from a sale or liquidation of the Company by virtue of its common stock ownership (after giving effect to any amounts received by the Preferred Stockholders paid pursuant to true-up warrants necessary to keep each of the Preferred Stockholder's ownership of Company common stock under 4.99% of the voting stock).

Unwinding

In the event the Company does not complete a listing on the Australian Securities Exchange prior to August 29, 2016, the transactions undertaken pursuant to the Company's recent recapitalization may be unwound at the option of the stockholders who owned preferred stock prior to the recapitalization. If the transactions were unwound as of the opinion date of these financial statements, the authorized capital of the Company would consist of approximately the number of common shares prior to the recapitalization plus the number of common shares sold to investors after the recapitalization. The number of preferred shares authorized, issued, and outstanding would be equal to the amounts of each prior to the recapitalization. All voting, dividend, liquidation, anti-dilution, conversion, redemption and protective rights would revert to what was in place prior to the recapitalization.

9. Stock-Based Compensation Plan

The Company has a stock-based compensation plan for certain employees and officers. The Plan provides for the granting of options at the discretion of the Board to both employees and officers. The option price is determined by the Board at the date of grant. Under the Plan, the total number of shares that may be optioned as of June 30, 2015 is 3,099,768 shares of Common Stock. On August 28, 2015, the Plan expanded the pool of shares that may be optioned to 6,374,728 shares of Common Stock. Option terms are generally 10 years, with options generally becoming exercisable between two and four years from the date of grant. The fair value of each option award is estimated on the date of the grant using the Black-Scholes option valuation model based on the assumptions noted in the following table. The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding. The risk-free interest rate for periods related to the expected life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility is based on historical volatilities noted within the Company's industry. The expected dividend yield is zero, as the Company does not anticipate paying dividends in the near future.

Stock-based compensation expense recognized during the six months ended June 30, 2015 was \$50,146, during the year ended December 31, 2014 was \$80,169, and during the year ended December 31, 2013 was \$76,284. As of June 30, 2015, the total unrecognized stock-based compensation balance for unvested options was \$134,196, which is expected to be recognized ratably through December 2017.

The weighted average grant date fair value of options granted during the period from January 1, 2013 to June 30, 2015 was \$0.39 per share.

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The following assumptions were used to determine stock-based compensation:

	Six Months Ended June 30, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Expected term (in years)	7.00	6.92	6.86
Volatility	40.30%	40.30%	45.00%
Risk-free interest rate	1.00%	1.00%	1.00%
Dividend yield	0.00%	0.00%	0.00%

The following describes changes in the outstanding stock-based compensation for the 12-months ended December 31, 2014 and the six months ended June 30, 2015:

	Options Outstanding	Weighted Average Option Price
Balance at December 31, 2013	1,174,900	\$0.58
Options granted	824,000	\$0.47
Options forfeited	(504,376)	\$0.29
Options exercised	<u>(193,024)</u>	\$0.12
Balance at December 31, 2014	<u>1,301,500</u>	\$0.67
Exercisable at December 31, 2014	<u>362,392</u>	\$1.10
	Options Outstanding	Weighted Average Option Price
Balance at December 31, 2014	1,301,500	\$0.67
Options granted	60,000	\$0.47
Options forfeited	(402,500)	\$1.07
Options exercised	<u>(12,500)</u>	\$0.27
Balance at June 30, 2015	<u>946,500</u>	\$0.50
Exercisable at June 30, 2015	<u>233,576</u>	\$0.59

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The following table summarizes the information about options outstanding at June 30, 2015:

<u>Options Outstanding</u>			<u>Options Exercisable</u>	
<u>Number Outstanding</u>	<u>Average Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable at Jun 30, 2015</u>	<u>Weighted Average Exercise Price</u>
2,500	5.14 Years	\$0.0100	2,500	\$0.0100
65,000	7.65 Years	\$0.2700	44,896	\$0.2700
330,000	8.67 Years	\$0.4600	96,250	\$0.4600
504,000	8.54 Years	\$0.4700	50,764	\$0.4700
<u>45,000</u>	6.58 Years	\$1.4908	<u>39,166</u>	\$1.4908
<u>946,500</u>			<u>233,576</u>	

The aggregate intrinsic value of stock options outstanding at June 30, 2015 is \$1,675. A stock option has intrinsic value, at any given time, if and to the extent that the exercise price of such stock option is less than the market price of the underlying common stock at such time. The weighted-average remaining contractual life of options vested or expected to vest is 8.4 years.

10. Warrants

During the year ended December 31, 2013, the Company issued 212,750 warrants with an exercise price of \$0.27 per share in exchange for participation in a mentorship and marketing program (the NAR REach program). On the date of issuance, the warrants were fully vested, exercisable at the option of the holder, in whole or in part, and expire 10 years from the date of issuance. The fair value of the warrants upon issuance was \$32,858 and was recorded as a sales and marketing expense and a liability on the accompanying balance sheets. The warrant contains a contingent put provision that could allow the holder to require the Company to settle the warrant in cash. The Company determined that the warrant qualified as a derivative instrument. Accordingly, this instrument has been classified as a liability on the accompanying balance sheets. The warrant liability is recorded at fair value, using the Black-Scholes Pricing Model, at each balance sheet date, with the change in fair value being recorded in the statements of operations.

The following assumptions were used to determine the warrant liability:

	<u>Six Months Ended June 30, 2015</u>	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>
Expected term (in years)	8	9	10
Volatility	35.00%	40.30%	45.00%
Risk-free interest rate	2.35%	2.17%	2.07%
Dividend yield	0.00%	0.00%	0.00%

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The following table presents the Company's liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (all Level 3) at June 30, 2015.

	Six Months Ended June 30, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Liability:			
Warrants at fair value	<u>\$ 5,111</u>	<u>\$ 63,567</u>	<u>\$ 32,858</u>
Fair value of warrants – beginning balance	\$ 63,567	\$ 32,858	\$ -
Change in fair value included in results of operations	(58,456)	30,709	-
Issuance of warrants	<u>-</u>	<u>-</u>	<u>32,858</u>
Fair value of warrants – ending balance	<u>\$ 5,111</u>	<u>\$ 63,567</u>	<u>\$ 32,858</u>

11. Subsequent Events

The Company has evaluated subsequent events through October 8, 2015, which is the date these financial statements were available to be issued, and has determined that the following events have occurred requiring recognition or disclosure in these financial statements.

Grants of Common Stock

On August 28, 2015, 3,274,960 shares of restricted common stock were issued to existing employees and directors in exchange for services. The vesting of these shares is contingent upon the listing of the Company on the Australian Stock Exchange.

Recapitalization

As described in note 8 above, on August 28, 2015, the Company completed a recapitalization of its stock, whereby all of the existing preferred stockholders converted their shares into common stock and the Company repurchased 4,641,494 shares of common stock for cash totaling \$1,000,000. As of October 8, 2015, the authorized capital of the Company consists of 55,000,000 common shares and 12,651,987 of such shares were issued and outstanding. As described in note 8, if the Company does not complete a listing on the Australian Securities Exchange prior to August 29, 2016, the recapitalization may be unwound.

Repayment of Line of Credit

As described in note 5, on September 11, 2015, the Company repaid the line of credit facility in full and terminated the agreement.

Sales of Common Stock

On September 15, 2015, the Company sold 113,902 shares of common stock to existing stockholders for cash totaling \$333,333, 227,804 shares of common stock to certain Company officers in exchange for two stock subscription receivables totaling \$666,667, and 1,476,167 shares of common stock to new stockholders for cash totaling \$4,290,979. The terms of the stock subscription receivables are described below.

Stock Subscription Receivables

In connection with the sale of common stock described above, the Company issued two stock subscription

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receivables, each on the same terms. Each receivable is in the amount of \$333,333 and is secured by a pledge of the shares purchased from the Company. Each receivable matures on the earlier of September 15, 2018 and the date on which the borrower receives payment in cash in exchange for their sale of all of shares secured by the stock subscription receivable. Interest on each receivable accrues at 5% per year. No interest payments are due during the term of the receivables.