

Appendix 4D & Half Year Financial Statements

Reporting Period

Six month period ended:	Six month period ended:
30 June 2018	30 June 2017

Results for announcement to the market

Description	30 June 2018 US\$	30 June 2017 US\$	% change
US GAAP Revenue ¹ from ordinary activities	3,816,316	505,017	656%
US GAAP Deferred Revenue ²	1,446,117	122,138	1,100%
Recognized Revenue + Deferred Revenue on financial statements	5,262,433	627,155	739%
New Contractual Revenue ³	2,038,363	-	-
Total Revenue ⁴ from ordinary activities	7,300,796	627,115	1,064%
Profit (loss) after tax from ordinary activities attributable to members	(14,715,005)	(5,732,014)	(157%)
Net profit (loss) after tax from ordinary activities Attributable to members	(14,715,005)	(5,732,014)	(157%)

Commentary on results for the period

Updater Inc. (the “Company”) is pleased to report its strong financial position at 30 June 2018. The Company held US\$39,137,521 in total cash at 30 June 2018 (equivalent to approximately AU\$52,867,109 at 30 June 2018), well within the Company’s planned budget. The Company continues to remain debt-free.

¹ US GAAP Recognized net Revenue on income statement

² US GAAP Deferred Revenue added to balance sheet (i.e., change from 31 December 2017 Deferred Revenue of US\$361,722)

³ Non-GAAP Metric

⁴ Non-GAAP Metric

Updater Inc.
Results for Announcement to the Market
June 30, 2018 and 2017

The Company held assets totaling US\$63,922,973 at 30 June 2018 (equivalent to approximately AU\$86,347,390 at 30 June 2018).

The Company's 2018 half-year operating loss totaled US\$14,715,005, the majority of which related to personnel expenses. Over this period, the Company's average monthly cash burn from normal operations (which excludes non-recurring expenditures related to the Company's leasehold improvements for the NYC office) was approximately US\$1,589,318.

The Company made significant progress in selling its Business Products, deploying Paid Programs and further developing the Updater platform.

The Company is fortunate to have a strong cash position and can afford to continue its planned strategy of focusing significant resources on developing the Updater platform, which management believes will result in much greater revenue in the long-term, a more defensible industry position, and innovative integrations with Businesses that will deliver a superior experience for Movers.

The Company is pleased to report its half-year total revenue, which management believes most accurately reflects the progress and health of the business. The Company's 1H 2018 total revenue progress over 2H 2017 demonstrates the rapid adoption of Business Products and the successful deployment of Paid Programs. Management believes such progress is not entirely captured via GAAP metrics alone, particularly during the Company's initial deployment period.

Updater's 1H total revenue equaled US\$7,300,796 which was comprised of:

- 1H 2018 US GAAP net 'recognized' revenue on the income statement of US\$3,816,316
- 1H 2018 US GAAP 'deferred revenue' of US\$1,446,117 added to the balance sheet
- 1H 2018 'new contractual revenue' of US\$2,038,363

Non-GAAP Measures

Although management considers that 'total revenue', 'new contractual revenue', and other Non-GAAP measures provide useful information to shareholders, they should be considered as a supplement to and not replacement for the GAAP information contained in the Company's audited or reviewed financial statements. Because Non-GAAP measures do not have standard definitions, the way Updater calculates these measures may differ from similarly titled measures used by other companies.

Capitalised terms in this section have the meaning set forth in the Company's Half Year Report Announcement dated August 21, 2018 or other announcements released to ASX.

Shares of stock

Updater Inc.
Results for Announcement to the Market
June 30, 2018 and 2017

“Shares” refer to shares of common stock of the Company. The Company has CHES Depositary Interests (“CDIs”) over shares that are publicly traded on the Australian Securities Exchange (“ASX”).

25 CDIs are transferable for 1 share of common stock.

Dividends

The Company did not declare a dividend during the reporting period or the previous corresponding period.

Net Tangible Asset per share

	2018	2017
	Number	Number
Net tangible asset per share (US\$ cents per share)	196.14	147.04

Details of Entities Where Control has been Gained or Lost during the Period

N/A

Associates and Joint Ventures

The Company does not have any holdings in joint ventures or associates.

Accounting Standards

The reviewed consolidated financial statement has been prepared in accordance with accounting principles generally accepted in the United States (US GAAP).

Modified Opinion of Audit Report

N/A

UPDATER INC. AND SUBSIDIARIES

Consolidated Financial Statements

Six Months Ended June 30, 2018 and 2017

With Independent Auditors' Review Report

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors and Stockholders,
Updater Inc.:

We have reviewed the accompanying consolidated financial statements of Updater Inc. and Subsidiaries (the "Company") which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of operations, changes in stockholders' equity, and cash flows for the six months 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 the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information in accordance with accounting principles general accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to the review of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information in order for it to be in accordance with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

August 17, 2018

Updater Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2018 and 2017

	June 30, 2018	June 30, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 35,817,961	\$ 27,366,367
Restricted cash	3,319,560	100,703
Accounts receivable	578,534	138,676
Unbilled revenue	89,921	83,423
Prepaid expenses and other current assets	664,446	377,270
Total current assets	<u>40,470,422</u>	<u>28,066,439</u>
Property and equipment, net	1,980,355	804,524
Investments	50	-
Goodwill	16,321,817	-
Other intangible assets, net	5,000,975	-
Other assets	149,354	679,152
	<u>\$ 63,922,973</u>	<u>\$ 29,550,115</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 538,168	\$ 390,605
Purchase consideration payable	1,250,000	-
Deferred revenue	1,827,839	152,243
Total current liabilities	<u>3,616,007</u>	<u>542,848</u>
Long-term liabilities		
Deferred rent	645,869	203,310
Purchase consideration payable	750,000	-
Other long-term liabilities	923,077	-
Total long-term liabilities	<u>2,318,946</u>	<u>203,310</u>
Stockholders' equity		
Common stock, \$.001 par value	21,707	19,590
Additional paid-in capital	109,433,662	57,592,326
Accumulated deficit	(51,467,349)	(28,807,959)
Total stockholders' equity	<u>57,988,020</u>	<u>28,803,957</u>
	<u>\$ 63,922,973</u>	<u>\$ 29,550,115</u>

See Independent Auditors' Review Report.

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

Updater Inc. and Subsidiaries
Consolidated Statements of Operations
Six Months Ended June 30, 2018 and 2017

	June 30, 2018	June 30, 2017
Revenue, net	\$ 3,816,316	\$ 505,017
Cost of revenue	<u>408,727</u>	<u>27,688</u>
Gross margin	3,407,589	477,329
Operating expenses		
Research and development expense	4,393,264	1,345,709
Sales and marketing expense	3,003,766	2,002,853
General and administrative expense	9,165,952	1,912,517
Tax expense	48,599	38,515
Stock based compensation	1,817,629	1,026,691
Total operating expenses	<u>18,429,210</u>	<u>6,326,285</u>
Loss from operations	(15,021,621)	(5,848,956)
Other income		
Interest income	303,356	116,942
Other income	3,260	-
Total other income	<u>306,616</u>	<u>116,942</u>
Net loss	<u>\$ (14,715,005)</u>	<u>\$ (5,732,014)</u>

See Independent Auditors' Review Report.

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Updater Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2018 and 2017

	Common Stock		Additional	Accumulated	Total
	No. of Shares	Amount	Paid-In Capital	Deficit	Stockholders' Equity
December 31, 2016	19,556,778	\$ 19,557	\$ 56,479,524	\$ (23,075,945)	\$ 33,423,136
Exercise of stock options	17,500	17	28,933	-	28,950
Issuance of common stock to satisfy an accrued liability	15,563	16	57,178	-	57,194
Stock based compensation expense	-	-	1,026,691	-	1,026,691
Net loss	-	-	-	(5,732,014)	(5,732,014)
June 30, 2017	<u>19,589,841</u>	<u>\$ 19,590</u>	<u>\$ 57,592,326</u>	<u>\$ (28,807,959)</u>	<u>\$ 28,803,957</u>
	Common Stock		Additional	Accumulated	Total
	No. of Shares	Amount	Paid-In Capital	Deficit	Stockholders' Equity
December 31, 2017	21,564,698	\$ 21,565	\$ 107,214,068	\$ (36,752,344)	\$ 70,483,289
Exercise of stock options	142,266	142	401,965	-	402,107
Stock based compensation expense	-	-	1,817,629	-	1,817,629
Net loss	-	-	-	(14,715,005)	(14,715,005)
June 30, 2018	<u>21,706,964</u>	<u>\$ 21,707</u>	<u>\$ 109,433,662</u>	<u>\$ (51,467,349)</u>	<u>\$ 57,988,020</u>

See Independent Auditors' Review Report.

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

Updater Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2018 and 2017

	June 30, 2018	June 30, 2017
Cash flows from operating activities		
Net loss	\$ (14,715,005)	\$ (5,732,014)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	743,572	65,906
Stock based compensation	1,817,629	1,026,691
Changes in operating assets and liabilities		
Accounts receivable	(88,396)	(89,822)
Unbilled revenue	153,880	(83,423)
Prepaid expenses	(405,656)	(135,180)
Deferred rent	448,652	203,310
Deferred revenue	1,466,117	122,138
Other long-term assets	(7,801)	20,739
Accounts payable and accrued expenses	144,509	101,010
Other long-term liabilities	615,385	-
Net cash used in operating activities	<u>(9,827,114)</u>	<u>(4,500,645)</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,110,899)	(413,242)
Increase in restricted cash	(553,980)	(277)
Net cash used in investing activities	<u>(1,664,879)</u>	<u>(413,519)</u>
Cash flows from financing activities		
Proceeds from exercise of stock options	<u>402,107</u>	<u>28,950</u>
Net change in cash	(11,089,886)	(4,885,214)
Cash		
Beginning of period	46,907,847	32,251,581
End of period	<u>\$ 35,817,961</u>	<u>\$ 27,366,367</u>
Supplemental disclosure of cash flow information		
Issuance of common stock to satisfy an accrued liability	<u>\$ -</u>	<u>\$ 57,194</u>

See Independent Auditors' Review Report.

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

1. **Summary of Significant Accounting Policies**

Nature of Business

Updater Inc., a Delaware C-Corporation, including its subsidiaries (collectively, the “Company”), develops tools for relocating consumers to organize and complete their moving-related tasks. The Company partners with companies in the real estate industry such as real estate agents and brokers, property managers, and moving companies to provide a co-branded version of its product to clients/residents. The Company serves real estate partners throughout the United States.

Subsidiaries as of June 30, 2018:

<u>Name of Entity</u>	<u>State of Incorporation</u>
Move HQ Inc.	Delaware
Asset Controls, Inc.	Missouri
Intergrity Group Consulting, Inc.	Ohio
WIRG LLC	Missouri
MovingSoftware, LLC	Ohio
VerticalOne Inc.	Delaware

All subsidiaries were acquired or created, and subsequently operated as MoveHQ (See Note 3 – Business Combinations), with the exception of VerticalOne Inc., a subsidiary dedicated to distributing insurance products directly to Updater’s users, which was formed in September 2017. All subsidiaries are wholly-owned.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates include stock-based compensation expense, revenue recognition, intangible asset valuation, and depreciation expense. Actual results may differ from those estimates.

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. 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 also utilizes 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, 2018 and 2017.

Intangible Assets and Goodwill

Intangible assets that have finite lives are amortized over their useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During this review, the Company reevaluates the significant assumptions used in determining the original cost and estimated lives of long-lived assets. Although the assumptions may vary from asset to asset, they generally include operating results, changes in the use of the asset, cash flows and other indicators of value. Management then determines whether the remaining useful life continues to be appropriate or whether there has been an impairment of long-lived assets based primarily upon whether expected future undiscounted cash flows are sufficient to support the assets' recovery. If impairment exists, the Company would adjust the carrying value of the asset to fair value, generally determined by a discounted cash flow analysis.

Goodwill represents the excess of the purchase consideration over the net of the acquisition-date fair value of identifiable assets acquired, including identifiable intangible assets, and liabilities assumed in connection with business combinations. Goodwill is not amortized, but is assessed for impairment as of November 30 of each fiscal year.

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's revenue is derived from the following revenue streams:

Subscription Revenue

To access the Company's business platforms, the Company typically enters into fixed fee contracts with its customers which dictate both revenue recognition and billing terms. These contracts are typically for a one year 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 as revenue upon delivery of the service.

The Company generally performs its services in one period with the billing occurring in the prior, current or subsequent period, depending on the contractual arrangement. When applicable, the Company accrues unbilled revenue at the end of the period, provided that the other revenue criteria have been met.

'Business Products' - Platform Revenue

The Company has entered into arrangements with certain business partners to enable such partners to communicate with customers and prospective customers and/or initiate and complete transactions through the Company's platform. As a result of these arrangements revenue is derived from a) fee-sharing agreements whereby the Company earns performance fees when a certain number of users of the Updater platform initiates or complete a purchase of a business partner's product or service; and b) fees earned from business partners for providing access or advanced access to the platform.

The Company acts as an agent on behalf of certain businesses in transactions that generate performance fees revenue. Revenue is presented on a net basis as the amount received from the supplier of the underlying good or service. Revenue is presented on a net basis because the Company is acting as an agent for the ultimate supplier in those transactions.

Any fees received in advance of the Company meeting certain contractual deliverables are initially recorded as deferred revenue.

Technical Support Revenue

To provide technical support for the Company's business platforms, the Company typically enters into annual contracts with its customers, which dictate both revenue recognition and billing terms. Fees are due under the contracts typically thirty to sixty days in advance of the period. Revenue is recognized upon delivery of the service over the length of the contract.

Professional Services Revenue

The Company provides development and customization work for a limited number of customers through a statement of work. The statement of work typically describes the nature of the project, its duration and the timing of billing to its customers. Revenue is recognized as services are rendered.

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	5
Leasehold improvements	*

* Shorter of lease term or useful life.

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 cash balances.

The Company, may at times, have a concentration of their net accounts receivables with specific customers. One customer accounted for a total of 40% and two customers accounted for 49% of the Company's accounts receivable as of June 30, 2018 and 2017, respectively.

Research and Development

Research and development costs consist primarily of salaries and benefits paid to engineers and other members of the product development team. Costs incurred for research and development 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 as incurred. Total advertising costs for the six months ended June 30, 2018 and 2017 were approximately \$0 and \$38,759, respectively.

Cost of Revenue

Cost of revenue consists primarily of payments for data authentication, call center support, and other third-party services.

Sales and Marketing

Sales and marketing consists primarily of 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 overheads.

Stock-Based Compensation

Stock-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 stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-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 stock-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, stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

The Company elected to account for its graded vesting options on a straight-line basis over the requisite service period for the entire award. The pronouncement dealing with the stock-based compensation also requires additional accounting related to the income tax effects and disclosures regarding the cash flow effects resulting from stock-based payment arrangements.

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 carryforwards 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 follows the accounting pronouncement dealing with uncertain tax positions. The pronouncement clarifies the accounting for uncertainty in income taxes recognized in the Company's consolidated 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 Company had no uncertain tax positions at June 30, 2018 and 2017, respectively. In addition, the Company has no material income tax related penalties or interest for the periods reported in these consolidated financial statements.

The Company is required to file tax returns in the U.S. federal jurisdiction and various states/cities.

Reclassification

Certain amounts contained in the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation.

2. Restricted Cash

The restricted cash balance consists of amounts related to a certificate of deposit as collateral for the Company's credit card, a letter of credit issued in conjunction with the Company's lease for the New York office (See Note 7), and a holdback amount for the acquisition of MoveHQ (See Note 3), subject to certain conditions being satisfied post-acquisition. As of June 30, 2018 and 2017, \$3,319,560 and \$100,703, respectively, was maintained in restricted cash.

3. Business Combinations

During October 2017, the Company completed the purchases of the stock of Assets Controls, Inc. ("ACI") and Integrity Group Consulting, Inc. ("IGC"). The Company acquired ACI and IGC for combined initial consideration of \$21,000,000, of which \$14,800,000 was in exchange for cash and \$4,200,000, inclusive of expense of \$68,672, was in exchange for Updater common stock. Post-acquisition, both entities trade under the name MoveHQ and the Company has consolidated the operations of ACI and IGC into a newly formed legal entity, MoveHQ Inc., a Delaware corporation.

Costs in the amount of approximately \$477,000, consisting primarily of legal fees, were expensed in conjunction with the acquisition.

All of the assets acquired, and liabilities assumed in the transactions have been recognized at their estimated acquisition date fair values as of October 2, 2017.

The initial allocation of the purchase price for the acquisition is as follows:

Cash and cash equivalents	\$	319,000
Accounts receivable		467,152
Prepaid and other assets		136,817
Property and equipment		154,619
Intangible assets		5,883,500
Goodwill		16,321,817
Accounts payable and accrued expenses		(120,928)
Deferred tax liability		(2,161,977)
Net assets acquired	\$	<u>21,000,000</u>

The following are the identifiable intangible assets acquired and their respective useful lives:

	Amount	Useful Life (Years)
Trade names	\$ 104,300	5
Customer relationships	3,462,700	5
Developed technology	2,316,500	5
Total	<u>\$ 5,883,500</u>	

In performing the purchase price allocation, the Company considered, among other factors, its anticipated future use of the acquired assets, analysis of historical financial performance, and estimates of future cash flows from the acquired entities' products and services. The allocation resulted in acquired intangible assets of \$5,883,500. The acquired intangible assets consisted of developed technology, customer relationships and trade names and were valued using the cost, relief from royalty, and excess earnings approaches. Additionally, a non-compete agreement was identified, which is considered immaterial to the consolidated financial statements. The cash flows were based on estimates used to price the transaction, and the discount rates applied were benchmarked with reference to the implied rate of return from the transaction model as well as the weighted average cost of capital.

The estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation no later than one year from the acquisition date.

Included in the \$14,800,000 of cash consideration at the time of closing was \$2,705,000 related to holdbacks from the initial purchase consideration to be paid at a future date subject to certain terms and conditions being fulfilled related to indemnity obligations. During 2017, \$705,000 of this holdback was paid out once the holdback condition was met.

The purchase agreement also included a \$4,000,000 earn-out clause that is conditional based on future events as well as the recipient's continued employment, and as a result was not included in the purchase price, but will be recognized as compensation and expensed as it is earned. During 2018, the Company accrued approximately \$615,000 related to the earn-out clause, which is included in long-term liabilities.

Goodwill of \$16,321,817 represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets, and represents the expected synergistic benefits of the transaction, the knowledge and experience of MoveHQ's workforce in place, and the expectation that the combined company's complementary products will significantly broaden the Company's offerings, including being able to offer the Company's clients/residents full-service moves. The Company believes the combined company will benefit from a broader presence and, with the Company's direct sales force and marketing expertise, generate significant cross selling opportunities.

4. Property and Equipment

Property and equipment consists of the following at:

	June 30, 2018	June 30, 2017
Leasehold improvements	\$ 1,683,774	\$ 590,714
Computer equipment	479,219	231,269
Furniture	230,804	154,977
	<u>2,393,797</u>	<u>976,960</u>
Accumulated depreciation	(413,442)	(172,436)
Property and equipment, net	<u>\$ 1,980,355</u>	<u>\$ 804,524</u>

Depreciation expense charged to operations was \$155,222 and \$65,906 for the six months ended June 30, 2018 and 2017, respectively.

5. Intangible Assets

Intangible assets consist of the following at June 30, 2018:

Trade names	\$ 104,300
Customer relationships	3,462,700
Developed technology	2,316,500
Total	<u>5,883,500</u>
Accumulated amortization	(882,525)
Intangible assets, net	<u>\$ 5,000,975</u>

Amortization expense charged to operations was \$588,350 for the six months ended June 30, 2018.

6. Income Taxes

There were no current federal or state and local income taxes incurred for the six months ended June 30, 2018 and 2017. The main difference between the income tax benefit at the statutory rate and the Company's effective income tax expense for the period ended June 30, 2018 was primarily attributable to the increase the valuation allowance held against its U.S. deferred tax assets.

The Company's deferred income tax assets and liabilities consist of the following for the six month periods ended:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Net operating loss carryforwards	\$ 11,106,647	\$ 9,852,831
R&D credit	130,359	-
Other	559,716	212,442
Intangible assets	(1,227,390)	-
Total deferred tax assets, net	<u>10,569,332</u>	<u>10,065,273</u>
Valuation allowance	(10,569,332)	(10,065,273)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

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. The decrease in the carrying value of the deferred tax assets as a result of the reduction in the U.S. federal corporate income tax rate has been completely offset by a reduction in the valuation allowance against those deferred tax assets.

As of June 30, 2018, the Company had approximately \$42 million in federal, and \$53 million in state and city net operating loss carryforwards available to offset future taxable income. The majority of the federal and state net operating loss carryforwards will begin to expire in 2032.

7. Commitments

In March of 2016, the Company entered into a 10-year lease for new office space in New York City and in March of 2018, this lease was modified to include an additional floor and was extended through August 2029. Rental payments for the initial lease initiated upon move-in, in January of 2017, and are scheduled to include the additional space in December of 2018.

For the six months ended June 30, 2018 and 2017, rent expense amounted to \$782,341 and \$178,070, respectively.

The future minimum rental payments due under the lease agreements are as follows:

Twelve month periods ending June 30:

2019	\$ 1,317,333
2020	1,532,882
2021	1,545,473
2022	1,467,101
2023	1,493,261
Thereafter	10,510,763
	<u>\$ 17,866,813</u>

8. Stockholders' Equity

2018 Equity Overview

Authorized and Outstanding

At June 30, 2018, the authorized capital of the Company consisted of 55,000,000 shares of common stock and 55,000,000 shares of common prime stock. Furthermore, 21,706,964 shares of common stock were issued and outstanding and there were no shares of common prime stock issued and outstanding.

Sale of Stock

There were no sales of stock during the six month period ended June 30, 2018.

Exercise of Stock Options

During the six months ended June 30, 2018, 142,266 shares of common stock (equivalent to 3,556,650 CHES Depositary Interests) were issued for cash upon the exercise of stock options totaling \$402,107.

2017 Equity Overview

Authorized and Outstanding

At June 30, 2017, the authorized capital of the Company consists of 55,000,000 shares of common stock. In connection with the Company's listing on the ASX, the Company created a mechanism to enforce ASX Mandatory Restriction Deeds, whereby restricted shares of Common Stock automatically convert to shares of Common Prime Stock if an applicable Mandatory Restriction Deed is violated. Common Prime Stock will only exist upon a required conversion. As of June 30, 2017, 19,589,841 shares of common stock were issued and outstanding and there were no shares of common prime stock issued and outstanding.

Sale of Stock

There were no sales of stock during the six month period ended June 30, 2017.

Exercise of Stock Options

During the six months ended June 30, 2017, 17,500 shares of common stock were issued upon the exercise of stock options for cash totaling \$28,950. Additionally, during the six months ended June 30, 2017, 15,563 shares of common stock valued at \$57,194 were issued to satisfy an accrued liability.

Common Stock and Common Stock Prime Provisions

Voting

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 is no cumulative voting. The holders of common stock prime are not be entitled to any voting rights.

Dividends

The holders of common stock shall be entitled to receive dividends, when and if declared, out of the assets legally available. The holders of common stock prime shall not be entitled to share in any dividends or other distributions of the Company.

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, any assets of the Company available for distribution shall be distributed equally to the holders of the common stock and the common stock prime on a pro-rata basis.

Warrants

As of June 30, 2018 and 2017, the Company had an outstanding warrant for 212,750 shares of common stock with an exercise price of \$0.27 per share.

9. Stock-Based Compensation Plan

The Company has a stock-based compensation plan for certain employees, Board members and consultants (as amended and restated, the "Plan"). The Plan provides for the granting of options and restricted stock at the discretion of the Board to employees, Board members and consultants. The Board determines the strike price of options at the date of grant based on the fair value of the stock. Under the Plan, the total number of shares that may be optioned as of June 30, 2018 is 11,500,000 shares of common stock. Options with performance related vesting conditions generally become exercisable after achieving certain predetermined conditions that relate to company specific objectives. Options with service conditions become exercisable over terms ranging up to four years. Options with market-based conditions vest after the achieving of certain predetermined conditions related to the Company's share price on the Australian Securities Exchange ("ASX"). Option terms are generally 10 years. The fair value of market-based awards is estimated using a Monte Carlo simulation designed to calculate the probability of achieving the vesting condition. The fair value of options with performance or service conditions 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 ASX trading history and the expected dividend yield is zero, as the Company does not anticipate paying dividends in the near future.

Performance Based Options

On April 28, 2016, the Company issued certain employees of the Company an aggregate of 475,000 options at a strike price of \$3.50, which vest upon achievement of the following performance milestones:

- 75,000 vest upon the Company surpassing 5% Estimated Market Share in any month prior to December 31, 2016;
- 50,000 vest upon the Company surpassing 15% Estimated Market Share in any month prior to December 31, 2017;
- 150,000 vest upon the Company surpassing a discretionary performance milestone, to be determined by the Board of Directors, in any month prior to December 31, 2017; and
- 200,000 vest upon the Company surpassing a defined performance milestone, to be determined by the Board of Directors, in any month prior to December 31, 2018.

During 2017 and 2016, the Company announced that its Estimated Market Share of Monthly Moves Processed surpassed 5% and 15%, respectively, and therefore 75,000 and 50,000 shares were vested upon that date. In addition, the Board of Directors determined that half of the 2017 discretionary performance milestone had been satisfied, and 75,000 shares were vested accordingly. During the six months ended June 30, 2018 and 2017, the Company recognized \$0 and \$64,992, respectively, in stock-based compensation expense related to these options.

On November 21, 2017, the Company issued certain employees of the Company an aggregate of 172,500 options at a strike price ranging between of \$25.00-\$50.00, which vest upon achievement of the following performance milestones:

- 34,500 vest in January 2019 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2018;
- 43,125 vest in January 2020 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2019;
- 43,125 vest in January 2021 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2020; and
- 51,750 vest in January 2022 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2021.

During the six months ended June 30, 2018 the Company recognized \$555,098 in stock-based compensation expense related to these options.

Market Based Options

In connection with the Company's ASX listing, the Company issued certain Directors and officers of the Company an aggregate of 575,000 shares of options at a strike price of \$3.61, which vest upon achievement of certain market-based milestones. These options vest when the 20 day volume weighted average price ("VWAP") of the Company's CDIs quoted on the ASX equaling to or exceeding an amount that is two times the IPO offer price (AU\$0.20) at any time within 18 months of the date of the Company's listing on the ASX.

During 2016, the Company announced that the 20 Day VWAP of the CDIs surpassed AU\$0.40 per share and therefore all 575,000 shares were vested upon that date. During the six months ended June 30, 2018 and 2017, the Company recognized \$0 and \$137,361, respectively, in stock-based compensation expense related to these options.

Total stock-based compensation expense recognized during the six months ended June 30, 2018 and 2017 was \$1,817,629 and \$1,026,691, respectively. As of June 30, 2018, the total unrecognized stock-based compensation balance for unvested options was \$11,836,252 which is expected to be recognized ratably through December 2022.

The weighted average grant date fair value of options granted during the six months ended June 30, 2018 and 2017 was \$15.14 and \$5.63, respectively.

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Expected term (in years)	7	7
Volatility	74.91%	89.06%
Risk-free interest rate	1.99%	2.16% - 2.23%
Dividend yield	0.00%	0.00%

The following describes changes in the outstanding stock-based compensation for the six months ended June 30, 2018:

	Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2017	5,031,571	\$ 6.53
Options granted	344,000	\$ 22.44
Options forfeited	(17,600)	\$ 18.23
Options exercised	<u>(142,266)</u>	\$ 2.91
Balance at June 30, 2018	<u>5,215,705</u>	\$ 7.61
Exercisable at June 30, 2018	<u>3,442,070</u>	\$ 3.39

The following table summarizes the information about nonvested options for the six months ended June 30, 2018:

	Options	Weighted Average Fair Value
Balance at January 1, 2018	2,140,375	\$ 6.32
Options granted	344,000	\$ 15.12
Options forfeited	(17,600)	\$ 12.07
Options vested	<u>(703,640)</u>	\$ 2.61
Balance at June 30, 2018	<u>1,763,135</u>	\$ 9.45

The aggregate intrinsic value of stock options outstanding at June 30, 2018 is \$74,392,332. The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2018 was \$1,235,904. 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 outstanding is 7.74 years.

10. Subsequent Events

On August 15, 2018 the Company announced that it would seek shareholder approval to delist from the ASX, which could include a voluntary off-market buy-back of CDIs up to an aggregate cap of A\$10 million. It is not currently known if the shareholder vote will approve the delisting.

The Company has evaluated all known subsequent events through August 17, 2018, which is the date these consolidated financial statements were available to be issued, and has determined that, with the exception of the matter noted above, no events have occurred that would require recognition or disclosure in these consolidated financial statements.