

2017 Unaudited Financial Statements

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	Notes	2017 AUD \$	2016 AUD \$
Revenue	3	13,135,970	21,845,216
Cost of sales	4	(6,965,841)	(12,981,251)
Gross profit		6,170,129	8,863,965
Other income	5	118,285	108,965
Net Gain from available for sale investments	5	623,719	-
Gain on bargain purchase		-	76,759
Employee and contractor costs	6	(4,977,795)	(5,953,094)
Operations and administrative expense		(5,369,642)	(4,235,029)
Advertising and marketing expense		(214,831)	(317,526)
Finance costs		(680,354)	(743,007)
Other expenses		(139,308)	-
Share based payment expense (non-cash)	6	(3,437,070)	-
Depreciation and amortisation		(2,485,353)	(1,471,767)
(Loss) before income tax		(10,392,220)	(3,670,735)
Income tax (expense)		(1,044)	(1,075)
(Loss) after tax from continuing operations		(10,393,264)	(3,671,809)
 <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		729,202	(188,690)
Total Comprehensive (loss) for the year attributable to the owners		(9,664,062)	(3,860,499)

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

Loss per share for loss attributable to ordinary equity holders of the Group from:	2017 AUD \$	2016 AUD \$
Continuing operations:		
Basic earnings (loss) per share	(0.05)	(0.06)
Diluted earnings (loss) per share	(0.05)	(0.06)
Total operations		
Basic earnings (loss) per share	(0.05)	(0.06)
Diluted earnings (loss) per share	(0.05)	(0.06)

2017 Unaudited Financial Statements

Consolidated Statement of Financial Position at 31 December 2017

	Notes	2017 AUD \$	2016 AUD \$
ASSETS			
Current assets			
Prepaid expenses		558,789	442,944
Trade and other receivables		2,878,438	6,697,104
Cash and cash equivalents		7,274,894	986,603
Related party receivables		2,289,704	-
Available for sale financial asset		666,978	-
		13,668,803	8,126,651
Non-current assets			
Property, plant & equipment		735,405	1,354,117
Intangible assets		3,973,760	5,431,473
Related party receivables		-	2,812,334
		4,709,165	9,597,924
Total assets		18,377,968	17,724,575
EQUITY & LIABILITIES			
Current liabilities			
Lease liability		236,841	505,048
Trade and other payables		14,157,323	12,095,879
Employee liabilities		85,409	92,675
Borrowings		1,164,340	3,637,378
Other financial liability	7	-	7,533,155
		15,643,913	23,864,135
Non-current liabilities			
Borrowings		1,588,767	1,532,537
Trade and other payables		2,892	162,186
Embedded derivative		-	140,808
Lease liability		276,898	649,457
		1,868,557	2,484,988
Total liabilities		17,512,470	26,349,123
Net assets / (liabilities)		865,498	(8,624,548)
Equity			
Share capital	7	15,621,368	1,178
Accumulated losses		(18,544,958)	(8,151,694)
Share based reserve		3,533,918	-
Foreign currency translation reserve		255,170	(474,032)
Total equity		865,498	(8,624,548)

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

2017 Unaudited Financial Statements

Consolidated Statement of changes in equity for the year ended 31 December 2017

	Other reserves	Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Total
	<u>AUD \$</u>	<u>AUD \$</u>	<u>AUD \$</u>	<u>AUD \$</u>	<u>AUD \$</u>
At 01 January 2016	-	1,178	(4,479,885)	(285,342)	(4,764,049)
Comprehensive loss for the year	-	-	(3,671,809)	-	(3,671,809)
Movement in foreign currency translation reserve	-	-	-	(188,690)	(188,690)
At 31 December 2016	-	1,178	(8,151,694)	(474,032)	(8,624,548)
Comprehensive loss for the year	-	-	(10,393,264)	-	(10,393,264)
Movement in foreign currency translation reserve	-	-	-	729,202	729,202
Shares issued on completion of capital raise	-	15,620,190	-	-	15,620,190
Share based payment reserves	3,533,918	-	-	-	3,533,918
At 31 December 2017	3,533,918	15,621,368	(18,544,958)	255,170	865,498

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

2017 Unaudited Financial Statements

Consolidated Statement of Cash Flows for the year ended 31 December 2017

	Notes	2017 AUD \$	2016 AUD \$
Cash flows from operating activities			
Total comprehensive profit/(loss) for the year		(10,393,264)	(3,671,811)
- Finance costs		680,354	743,007
<i>Adjustments for non-cash income and expenses:</i>			
- Depreciation		523,508	502,890
- Amortisation		1,961,847	968,877
- Gain on bargain purchase		-	(57,078)
- Gain on de-recognition of investment in associate		(2,475,318)	-
- Impairment expense of investment		1,851,599	-
- Share based compensation		3,312,457	-
- Other non-cash items		(105,405)	-
<i>Changes in operating assets and liabilities:</i>			
- (Increase) / Decrease in trade and other receivables		3,818,666	5,039,822
- Decrease / (Increase) in prepayments		(115,845)	(76,280)
- Increase / (Decrease) in trade and other payables		3,383,626	(5,458,857)
- Increase / (Decrease) in factoring liability		(2,465,490)	109,998
Cash (used in) operations		(23,265)	(1,899,432)
Interest paid		(673,158)	(811,318)
Net cash from / (used in) operating activities		(696,422)	(2,710,750)
Cash flows from investing activities			
Purchases of property, plant & equipment		(872)	(40,437)
Capitalized software development		(909,663)	(1,401,592)
Loans to related parties		-	(113,084)
Related party loan repayments		-	107,625
Loans to shareholders		(419,584)	(2,887,691)
Shareholder loan repayments received		719,798	1,985,074
Acquisition of subsidiary – cash acquired		-	3,995,683
Net cash from/(used) in investing activities		(610,321)	1,645,578
Cash flows from financing activities			
Proceeds from capital raise		8,677,818	-
Proceeds from loans		-	534,611
Repayment of finance leases		(814,974)	(438,520)
Net cash from financing activities		7,862,844	96,091
Net increase / (decrease) in cash and cash equivalents		6,556,101	(969,081)
Cash and cash equivalents at beginning of year		986,603	1,870,597
Effects of currency translation		(267,810)	85,087
Cash and cash equivalents at end of year		7,274,894	986,603

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

2017 Unaudited Financial Statements

Notes to the Financial Statements For the year ended 31 December 2017

1. Corporate information

The unaudited preliminary final report covers Engage BDR Limited, the parent, and its subsidiary Engage BDR LLC (collectively referred to as 'the Group' or 'Engage BDR'). Engage BDR Limited is incorporated in Australia and publicly traded on the Australian Securities Exchange (ASX) under stock ticker EN1. The financial statements are for the year ended 31 December 2017 and are presented in Australian Dollars (AUD).

(a) Business reorganisation

Engage BDR Limited was incorporated on 17 August 2017. On 14 December 2017, Engage BDR Limited completed the acquisition of Engage BDR LLC via a share exchange, which resulted in Engage BDR Limited becoming the ultimate parent of Engage BDR LLC. Engage BDR Limited was incorporated to acquire all of the shares of Engage BDR LLC. Engage BDR Limited has not conducted any business other than to be the holding company of Engage BDR LLC, with the legal acquisition of Engage:BDR LLC being treated as a business reorganisation with the establishment of the new parent entity, Engage BDR Limited. Therefore the principles of business combination accounting and reverse accounting have not been applied, with the principle applied being that the Group is considered to be a continuation of Engage BDR LLC.

Engage BDR Limited's consolidated financial statements for the period ended 31 December 2017 and 31 December 2016 are presented as the continuation of Engage BDR LLC operations and business.

Engage BDR Limited is incorporated in Australia its registered office is:

Engage BDR Limited
Scottish House
Level 4, 90 William Street
Melbourne Victoria 3000
Australia

2. Summary of significant accounting policies

Except as described below, the principal accounting policies adopted in the preparation of these financial statements are the same as set out in the issued Prospectus for the year ended 31 December 2016. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

(i) Statement of Compliance

The unaudited preliminary final report of Engage BDR Limited as at and for the year ended 31 December 2017 comprises the Company and its controlled entities (together referred to as the 'Group'). The unaudited preliminary final report does not include all the information presented within the annual financial report and therefore cannot be expected to provide a full understanding of the financial performance and financial position of the Group. The unaudited preliminary final report has been prepared in accordance with the measurement and recognition requirements of Australian Accounting Standards ('AASB's) adopted by the Australian Accounting Standards Board.

This unaudited preliminary final report is presented in Australian dollars and is prepared on a historical cost basis except for loans and receivables that are measured at amortised cost that are stated at fair value.

(ii) Historical cost convention

This unaudited preliminary final report is presented in Australian dollars and is prepared on a historical cost basis.

2017 Unaudited Financial Statements

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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

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

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

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

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

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

(c) Going concern

The annual report has been prepared on a going concern basis which takes into account the net current liabilities of \$1,975,110 and net assets of \$865,498 at 31 December 2017 and a cash position of \$7,274,894.

During the period ended 31 December 2017, the company successfully raised \$10,000,000 excluding costs following the company's admission and listing to the Australian Securities Exchange (ASX). The funds received will be used to provide working capital funds and allow investment in developing technologies including the integration of the programmatic business.

The Directors' consider the going concern basis to be appropriate giving consideration to:

- Forecast operating cash flows anticipated to be generated, including the ability to exercise control over discretionary operational outflows;
- Achieving the group's forecast revenue through delivery of integrations customers to the Group's platforms;
- Active management of existing customers to maintain existing cash flows; and
- Repayment of outstanding related party loans due to be settled by 31 December 2018.

The company is forecasting to be cash generative within the future 12 month period.

2017 Unaudited Financial Statements

(d) Revenue recognition

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

Revenue is recognised for the major business activities as follows:

(i) Rendering of services

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

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

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

In recording revenue, the Group evaluates whether they are the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis). The Group report the sales of advertising revenues for advertising inventory on a gross basis, that is, the amounts billed to our customers are recorded as revenues, and amounts paid to suppliers are recorded as cost of sales. Where we are the principal, we control the advertising inventory before it is transferred to our customers. Our control is evidenced by our sole ability to monetise the advertising inventory before it is transferred to our customers, and is further supported by us being primarily responsible to our customers and having a level of discretion in establishing pricing.

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

(ii) Interest revenue

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

3. Revenue

	2017	2016
	AUD \$	AUD \$
Rendering of services	13,135,970	21,845,216

4. Cost of sales

	2017	2016
	AUD \$	AUD \$
Online media costs	6,916,723	12,552,263
Platform service fees ^[1]	46,785	406,465
Merchant banking fees	2,333	22,523
Total cost of sales	6,965,841	12,981,251

2017 Unaudited Financial Statements

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

5. Other income

	2017 AUD \$	2016 AUD \$
Gain from Available for Sale Investment	2,475,318	-
Impairment loss for Available for Sale Investment	(1,851,599)	-
Net gain from Available for Sale Investment ^[1]	623,719	-
Finance income	68,667	57,340
Other income	49,618	40,800
	118,285	98,140
Total other income	742,004	98,140

^[1]The Group's investment Lottogopher completed an IPO on the Canadian stock exchange on 23 May 2017. On IPO, the group exercised an option in a convertible note to receive equity in the listed Lottogopher group, which resulted in a gain of \$2,475,318 in the period. As at 31 December 2017, the fair value of the equity resulted in an impairment loss of \$1,851,599. An impairment loss was recognised due to the investment in Lottogopher having a greater than 20% decrease in share price from IPO date sustained over six consecutive months

6. Employee, contractor costs and share based payments

	2017 AUD \$	2016 AUD \$
Salary costs	4,736,152	5,568,829
Defined contribution plan (401(k))	-	124,868
Insurance costs (medical and worker's compensation)	241,643	259,397
	4,977,795	5,953,094
Share based compensation (non-cash) ^[1]	3,437,070	-
Total employee and contractor costs	8,414,865	5,953,094

^[1] 24,583,239 shares at \$0.13 were issued to employees on 26 August 2017 (AUD to USD exchange rate of 0.7943 at 26 August 2017). However, due to exchange rate differences, the amount presented above is higher (AUD to USD exchange rate was 0.7814 at 31 December 2017). This transaction was non-cash based.

2017 Unaudited Financial Statements

7. Share capital

	2017	2016
	AUD \$	AUD \$
At 01 January	1,178	1,178
Shares issued during the year	15,620,190	0
At 31 December	15,621,368	1,178
	# shares	# shares
<i>Issued shares</i>		
At 01 January	108,550,000	92,000
Stock splits ^[1]	-	99,908,000
Acquisition ^[2]	100	8,550,000
Shares issued to employees	24,583,239	-
Shares issued on completion of Initial Public Offering	50,000,000	-
Share conversion on acquisition of Engage BDR LLC	66,566,619	-
At 31 December	249,699,958	108,550,000

^[1] Refer to Note 30 of the 2016 Financial Statements for details of stock splits that occurred during the 2016 year.

^[2] The 100 shares were new shares issued following the incorporation of Engage BDR Limited in August 2017. The 2016 shares of 8,550,000 were issued to the sellers in relation to the Tiveo LLC acquisition and accordingly in the current period following the lapsing of the Put Right the previously recognised liability of \$7,533,155 (USD \$5,425,000) was recognised in equity.

8. Convertible loan notes

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

If, prior to maturity, the Group completes a financing or related financing of equity securities with aggregate gross proceeds of at least USD\$1,000,000 - a "Qualified Financing" ("QF") - not including through the conversion of these notes or similar convertible promissory notes, then, effective automatically upon the QF Closing Date, the entire unpaid portion of the Outstanding Amount as of the QF Closing Date shall be converted into that number of shares of capital stock issued by the Group in the Qualified Financing (the "Qualified Financing Stock"). Following completion of the Initial Public Offering on 14 December 2017, the Qualified Financing condition was achieved.

As at 31 December 2017, the conversion of the notes remained outstanding, with a current liability of \$543,051 recognised (2016: \$534,730).

On 27 February 2018, the Company completed the issuance of new shares to the convertible note holders, resulting in 2,745,721 new shares being issued. The shares were issued at \$0.20 which is an increase from the initial contractual arrangement price of \$0.16 with note holders.

9. Events after the balance sheet date

On 27 February 2018, the Company completed the issuance of new shares to the convertible note holders, resulting in 2,745,721 new shares being issued. The outstanding principal and accrued interest were converted to listed securities on this date at a price of \$0.20.